NATIONAL RURAL HOUSING COALITION

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Statement of Peter Carey
Before the
Subcommittee on Housing and Community Opportunity
Committee on Financial Services
US House of Representatives
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Madame Chairwoman my name is Peter Carey, I am the Executive Director of Self Help Enterprises and I am also past president and current board member of the National Rural Housing Coalition.

Self-Help Enterprises is a nonprofit housing and community development organization serving California's vast San Joaquin Valley for over 4 decades. While the San Joaquin Valley is known as the nation's richest agricultural region, it has been referred to as the Appalachia of the West. Home to as many as half of California's farmworkers, the Valley is stigmatized by the low incomes, high poverty rates, substandard housing and unsafe drinking water often facing rural America.

And yet this Valley is also a region of potential and progress, where solutions to rural challenges become reality. In the past 42 years, Self-Help Enterprises has assisted over 5500 farmworkers and other low income families to work together to build homes for themselves and their children, we have added 1000 units of affordable rental housing, and we have assisted small rural communities to provide safe drinking water to over 10,000 households. These achievements are mirrored in the work of organizations and communities across rural America. While these efforts tap local initiative and resources, in the vast majority of cases, it is the United States Department of Agriculture which supplies critically needed and locally responsible funding that turn vision into reality. Unfortunately, despite progress, the needs of our communities far outstrip the resources available. As one small indicator, despite the fact that the mutual self-help housing program requires each family to contribute of 40 hours of labor to their group each week for 10 to 12 months, just last week, Self-Help Enterprises had 14,939 families on the list, waiting for the chance to build decent homes for themselves and their neighbors.

The National Rural Housing Coalition

The National Rural Housing Coalition (NRHC) is a national membership organization that advocates for federal policies which improve housing and community facilities in rural America. NHRC has stood for the principle that all rural people have the right to a decent place to live, safe drinking water, and basic community services. We have testified before this Committee previously and appreciate the opportunity to testify today on rural housing issues.

Rural Housing Need

America's rural communities continue to suffer from elevated poverty rates and substandard housing. According to the Economic Research Service, some 4 million rural families live in "housing poverty" which is a multidimensional indicator that combines measures of economic need, housing quality and neighborhood quality.

Rural households on average are poorer when compared to urban households. According to the 2000 Census, the poverty rate in rural America is 14.6 percent higher than the national rate. It is also higher when compared to the rate for big cities because rural households tend to pay more of their income for housing than their urban counterparts. The 2000 Census revealed that 5.5 million people, one-quarter of the non-metro population, face cost overburden and over 1.6 million non-metro housing units are either moderately or severely substandard.

The Budget

The lead federal agency for providing assistance to our nation's small towns and farming communities is the United States Department of Agriculture (USDA) through their rural development programs. Congress and the Administration have already made substantial cuts in federal rural development spending. Over the last 6 years, federal spending on rural housing loan and community development programs has been reduced by more than 20%. The Administration's Fiscal 2008 budget takes square aim at these programs which are critical to the survival of rural America.

Overall, the budget shifts federal rural development policy away from families and communities with greatest need. The budget proposes to replace the current mix of housing loans, grants and related assistance with unsubsidized guaranteed loans. For water-sewer, the budget proposes to reduce grants in favor of loan financing. This new configuration substantially reduces the ability of the Agriculture Department to increase the supply of affordable housing or improve community facilities in rural America.

The budget cuts spending for the rural housing by some 71% and eliminates over $1.3 billion in rural housing lending assistance targeted to low income families. The budget also cuts self-help housing grants, reduces farm labor housing financing by two-thirds, trims $100 million from water-waste water grants, and makes substantial reductions in budget authority for rural community facilities – including elimination of rural capacity building funding – and rural business grants.

This budget proposal will devastate our efforts and those of other organizations across the country to improve housing conditions for rural America.

For example, the budget proposes to eliminate the section 502 program. Section 502 is the only federal program targeting homeownership opportunities to low- and very-low income rural households, defined as between 50 and 80 percent of area median income (AMI) for low, and below 50 percent of AMI for very-low income. The annual average income of a direct borrower is 55 percent of area median income, and some 46 percent of Section 502 families have incomes at 40 percent of area median. The average income of households assisted under Section 502 is $18,500, and about 3 percent of participating households have annual incomes of less than $10,000.

Since its inception, Section 502 has provided loans to almost two million families at an extremely low cost to the federal government of less than $11,000 in budget authority per unit. Unfortunately, while there is unprecedented demand for Section 502, actual loans made to low-income people are decreasing in number. In fiscal year (FY) 2004 RHS provided 14,641 Section 502 loans and in FY 2005 12,315. The projected number falls to 10,500 loans in FY 2006 and FY 2007. In contrast, as of February 28, 2007 RHS had on hand over 35,000 loan requests totaling $3.4 billion.

The FY 08 budget eliminates the section 502 direct program in favor of the guaranteed loans for homeownership. There is substantial evidence that this approach will not provide assistance for the low and very low income homeowners who are helped by the direct program. The average annual income of the borrowers on section 502 direct is $18,500. The average annual income on guaranteed loans is almost $40,000.
NRHC is proposing funding for Section 502 at $1.25 billion.

The budget proposes to eliminate the Section 515 Rural Rental Housing Loan Program. Over 500,000 households in rural communities live in section 515 housing which sometimes is the only affordable option because the average annual income of a section 515 tenant is less than $10,000. It is an essential resource for elderly people, single-parent families, the disabled, and other less mobile residents.

Under Section 515, non-profit and for-profit entities can receive 1 percent loans for acquisition, rehabilitation or construction of rental housing and related facilities. While for much of the history of Section 515 the loan term was 50 years, the term of the loan was recently reduced to 30 years in a cost cutting move. Most Section 515 loans have gone to for-profit entities such as developers, who combine the subsidized loan with rental assistance and tax subsidies to finance housing. About 75 percent of these loans are further subsidized by the RHS Section 521 Rental Assistance program and The Department of Housing and Urban Development Section 8 program, both of which provide rent subsidies to ensure that tenants pay no more than 30 percent of their income toward rent.

Historically, Section 515 has been the key tool for improving the quality and quantity of rental housing in rural areas: at its peak in the early 1980s, the program created about 1,000 new properties a year. However, since the mid-1990s the program has faced severe budget cutbacks, limiting USDA's ability to finance much-needed rehabilitation of existing properties and the construction of new properties to serve the 900,000 rural renters who live in substandard housing.

The President's FY 2008 budget recommended the elimination of Section 515. This is the fourth consecutive year that USDA has not requested money for section 515.
NRHC supports Section 515 at a funding level of at least $100 million.

The budget proposes a 70% reduction in Section 523 Self Help Housing. Self-Help Housing makes homes affordable by enabling future homeowners to build their homes themselves. Section 523 Self-Help Technical Assistance Grants are provided to qualified nonprofit and local government organizations to provide technical assistance to low and very low-income families who are building homes in rural areas in conjunction with the Section 502 Mutual Self-Help Housing Loan Program. The grant funds are used to assist eligible families in applying for Section 502 loans, provide pre-purchase homebuyer education, and supervise construction of the housing by the families.

Currently 134 organizations in 36 states, Puerto Rico and the Marshall Islands participate in the Self-Help Housing program. These organizations support groups of eight to 12 self-help families who construct each others' homes, performing approximately 65 percent of the construction labor. By working in groups reminiscent of barn-raising, these families are building more than homes — they are building neighborhoods and community, and no one moves in till all the homes are done. Through this "sweat equity", each homeowner earns equity in his or her home, decreasing the cost burden and investing in the community. This enables very-low and low-income families, defined as between 50 and 80 percent of area median income (AMI) for low, and below 50 percent of AMI for very-low income, the opportunity to own their home. At least 40 percent of the families participating in self-help housing programs have incomes at or below 50 percent of AMI.

The average number of homes built each year over the past 3 years is approximately 1,500. Some 68 percent of the participants in self-help housing are minority households. Despite the fact that families participating in self-help housing have lower incomes than others receiving Section 502 loans, default and delinquency rates for self-help families are lower.

It is ironic that the budget cuts self-help housing so dramatically. Because of the success in serving minority households, doubling self-help housing is one of the elements of USDA's 'Five Star Commitment to Increasing Homeownership'.

Despite the proven success of the self-help model and the momentum it has built over recent years, budgetary restrictions have made it difficult for RHS to keep pace with demand for Section 523. In Fiscal Year 2007, a total of $34 million is available for self-help housing grants. However, the total necessary for extending grants for performing programs that expire in 2007 is $60 million which is also the total necessary for FY 2008.
NRHC supports Section 523 funding at $60 million.

The budget slashes farm labor housing loans and grants authorized under Sections 514/516. Farmworkers and their families are some of the poorest yet least assisted people in the nation. In 2003, at least one-half of the individual farmworkers earned less than $7,500 annually, while one half of the farmworker families brought in less than $10,000 which is well below the 2003 poverty level of $8,980 for an individual and $18,400 for a family of four. [1] Some of the predominant problems farmworkers face are a severe shortage of decent, safe, and affordable housing; substandard housing quality; crowding, affordability issues; and low homeownership rates.

There are only two federal housing programs which specifically target farmworkers and their housing needs: USDA's section 514 loans and 516 grants. Section 514/516 Farm Labor Housing Program provides funding to buy, build, improve, or repair housing for farm laborers. Funds can be used to purchase a site or a leasehold interest in a site; to construct or repair housing, day care facilities, or community rooms; to pay fees to purchase durable household furnishings; and to pay construction interests. Section 514 loans and Section 516 grants are made available to various groups which include farmers, associations of farmers, family farm corporations, and nonprofit organizations. Typically the loan applicants are unable to obtain credit elsewhere. In most cases, Section 514 loans are for 33 years at 1 percent interest. Section 516 grants may cover up to 90 percent of the development costs. The remainder of the development costs is usually covered by a Section 514 loan.

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[1] U.S. Poverty Guidelines are released by the U.S. Department of Health and Human Services are available online at http://aspe.hhs.gov/poverty.

Since the early 1960s the USDA has allocated more than $569 million in Section 514 loans and over $413 million in Section 516 grants, for a total of nearly $1 billion for the development of Farm Labor Housing.

The FY 08 budget proposes $14 million for Section 514 and $4 million for Section 516 which is about a 67% reduction of the funding received in FY '07. These drastic cuts come at a crucial time given the high program demand and the poor condition of farmworker occupied housing. The current funding levels for these programs are not nearly enough to address the tremendous need for decent, affordable housing.
NRHC is proposing at least $50 million in funding for each Section 514 and 516.

Acknowledgements:
We appreciate the leadership role that Congressman Hinojosa, Chairwoman Waters, Chairman Franks, and others on the Financial Services Committee have taken by opposing the Administration's budget cuts to these federal rural housing programs with a proven track record of success.

Program Reform: Section 515 Restructuring

As stated previously, over 450,000 low-income families and elderly households live in rental housing financed under Section 515 which often provides the only decent, affordable rental housing in many rural communities. However, properties in the loan portfolio are also aging. Some 89 percent of these properties are at least 10 years old, and 64 percent are at least 15 years old. Their major infrastructure systems are at or near obsolescence and need rehabilitation or replacement. But in recent years, the Administrations and Congress have not provided adequate Section 515 or rental assistance funds to rehabilitate the Section 515 portfolio, deliver sufficient long-term preservation incentives, or protect tenants from rent overburden.

In November 2004, USDA released the *Comprehensive Property Assessment and Portfolio Analysis of Rural Rental Housing (CPA)*. The purpose of this report was to assess the status of the Section 515 portfolio in terms of prepayment options and long term rehabilitation needs.
This report had at least three key findings including:

1. Only 10 percent of the units in the Section 515 portfolio are in 'hot markets' and could become market rate housing if the owners were to prepay;
2. 90 percent of the units are not in markets where prepayment is an option and are in need of additional funds to ensure adequate operation. The report indicated that the average age of Section 515 housing projects is 26 years, and most are in need of renovation; and
3. The projected cost for ensuring adequate operations and addressing long term rehabilitation needs is $2.6 billion for 20 years.

With its work in 2006 on *H.R. 5039, Saving America's Rural Housing Act of 2006* the House Financial Services Committee took an important step toward addressing the need to revitalize the section 515 program. HR 5039 authorized prepayments of Section 515 loans made prior to December 15, 1989 provided that these projects have met their 20 year restrictions and have not received preservation incentives and have not had any servicing actions. Loans made after the December, 1989 date were not given the right to prepay.

- Authorized vouchers, along the lines of Section 8. The tenant contribution on the vouchers is in most cases 30 percent of income. An owner who prepays may not refuse a voucher for a household living in the project. For communities with a lack of affordable housing, USDA can provide an enhanced voucher as authorized under the Section 8 statute.

- Authorized a restructuring assistance program. In return for such assistance, the owner must agree to a use restriction of an additional 20 years or the balance of the loan term, whichever is longer. The legislation establishes a planning process for the owner and USDA to determine the physical and financial needs of the project and the future rents (that are affordable to eligible households under Section 515). The bill also projects a rate of return to the owner that is comparable to other similar properties. Restructuring assistance can include reduction or elimination of interest on the loans, deferral of loan payments, loan forgiveness, subordination of the loan, re-amortization of the loan, grant payments for the long term plan of the project, third party investments, and a direct loan or guarantee. At the end of the use restriction term USDA and the owner divide the proceeds. . Minimum rents are set at the lower of 30 percent of income or $25.
- The bill took an important step with regard to tenant protection by setting maximum rents for restructured projects at 30 percent of income. Some 18,000 low income section 515 tenants pay more than 30% of income for rent and NRHC believes that restructuring should not result in rent increases for these tenants.

While HR 5039 was improved as it went through the legislative process in the House and does set rents at 30 percent for all tenants in restructured projects, the bill does not make prepayment contingent on the availability of vouchers. Therefore, if there is not an adequate appropriation for vouchers, families could be displaced and left without assistance to find other housing. For these and other reasons, the legislation falls short in terms of protecting tenants.

The following National Rural Housing Coalition recommendations would address the Section 515 inventory's most pressing preservation needs. In general, Congress should not repeal section 502 (c) of the Housing Act of 1949, the law regulating prepayments and providing preservation incentives. Instead the Congress should authorize and appropriate adequate funds to preserve rural rental housing project.

NRHC Recommends that:

1. RHS should create and Congress should fully fund a national preservation plan for the Section 515 portfolio that addresses prepayment, transfers, and rehabilitation of properties that do not change ownership. NRHC recommends a minimum funding level of $250 million to address recapitalization needs and additional appropriations for section 515 to add enough new units to replace those lost to prepayment. RHS should also provide full Section 521 rental assistance for rent overburdened tenants; secure grant funding for performing properties that cannot afford increased debt service; and offer budget-based rental assistance or a new operating subsidy program for performing properties where the lack of a market of comparable properties results in operating costs that exceed market rents.
2. Congress should provide rent vouchers for tenants displaced by prepayment lawsuits. Tenants who lose their RHS housing because of prepayment lawsuits may find themselves without other housing options. In such cases tenants should receive portable Section 8 or rental assistance vouchers.
3. RHS should provide RD field staff with better guidance on how to protect minority residents from the adverse consequences of prepayment. While RHS has procedures to protect minority residents, in many cases RD field staff do not understand them well and need additional training.
4. Congress should open the prepayment transfer process to LIHTC partnerships with non-profit general partners. This change would allow tax credit funding for preservation transfers in cases where RHS mandates the sale of a property to a non-profit to protect minority tenants.

5. RHS should allow non-profit purchasers to receive a return on any equity they bring to the property, including government funds that do not require repayment. This change would put non-profit purchasers on equal footing with for-profit purchasers that bring equity to a 515 transaction. It would also give non-profits another tool to finance housing costs.
6. Congress should provide exit tax relief so that owners will be more inclined toward selling rental housing projects to non-profit organizations. Exit options for owners of Section 515 projects are limited. Many Section 515 owners face steep exit taxes if they sell their properties because they have taken depreciation substantially in excess of their original investments. Unless a property can generate a sales price that covers the exit taxes, its owners are usually better off retaining the property. In considering any sale transaction, owners must weigh the continual taxes on phantom income against the one-time exit tax hit, and potential buyers must ensure that they can meet the owner's price and still accomplish the necessary rehabilitation. The Tax Issues and Preservation Task Forces of the Millennial Housing Commission concluded that if a preservation tax incentive were created to provide full tax relief at the time of sale, as many as 68,000 Section 515 units in 2,510 properties could be recapitalized and preserved.
7. Increase RHS revitalization demonstration to $50 million in budget authority. Congress currently provides $28 million for the Section 515 restructuring demonstration, and of this amount, $16 million is allocated for vouchers. Some 4,100 Section 515 developments sought assistance under this demonstration, totaling some $3 billion in debt deferral and related subsidies. With only about $8 million in budget authority RHS provided some $65 million in assistance with the largest share going to partial or full loan deferral;

RHED and HAC

On behalf of the National Rural Housing Coalition, I would like to applaud Congressman Hinojosa for introducing HR 1982 The Rural Housing Economic Development Improvement Act of 2007 and HR 1980 The Housing Assistance Council Act of 2007.

The Rural Housing Economic Development program provides capacity building assistance, funds for innovative activities for established organizations, and seed support for new programs. Grants have supported micro-enterprise development, affordable housing construction, small business incubators, and staff development and computer software. There is a real need for this type of flexible funding. The program has had numerous accomplishments since its implementation. Since its inception in fiscal year 1999, over 5,000 jobs have been created and 15,000 individuals have been trained. In addition, 5300 housing units have been constructed and 5700 units rehabilitated. Finally, some 600 new and 2300 existing businesses have received assistance.

Non-profit organizations, Native American tribes, community development corporations, state housing finance agencies, and state community and/or economic development agencies are eligible for funding under RHED. Rooted in their communities and increasingly experienced in responding to community housing needs, these groups have taken on a central role in providing housing for lower-income families.

NRHC fully supports HR 1982: The Rural Housing Economic Development Improvement Act of 2007.

The Housing Assistance Council (HAC) helps local communities build affordable rural housing. HAC works throughout rural America but has a special focus on the most economically challenged rural areas. Since 1971, the HAC has helped increase the capacity of local, grass roots development organizations by providing loans, grants, training, technical assistance and information to for profit, nonprofit and public sponsors of affordable housing in underserved, high poverty rural areas. HAC is one of the nation's oldest community development loan funds, with over $217 million in financing provided to help local partners develop almost 60,000 modest, affordable housing units. HAC works closely with community-based groups, targets assistance to the neediest, and diligently cares for its scarce resources. In its 35-year history, HAC's loan fund has a loss rate of less than 2 percent.

NRHC fully supports HR 1980-: The Housing Assistance Council Authorization Act of 2007

Thank you for the opportunity to testify today. I would happy to answer any questions.