

# NRHC Budget Bulletin

Volume 13, Number 35

March 31, 2010

## **Final Letters Supporting Funding for USDA Rural Housing Programs in FY 2011**

Please find attached the final versions of the House and Senate Dear Colleague Letter supporting funding for USDA Rural Housing Programs in FY 2011. We had 28 signatures for the House letter and 16 signatures for the Senate letter. We appreciate the support of Congressman Hinojosa and Senators Schumer and Snowe for sponsoring these letters and for their continued support of rural America. Thank you for all your hard work in calling these offices and getting them signed on.

# United States Senate

WASHINGTON, DC 20510

March 26, 2010

The Honorable Herb Kohl  
Chairman  
Subcommittee on Agriculture,  
Rural Development, Food and  
Drug Administration, and  
Related Agencies  
Senate Committee on Appropriations  
Washington, D.C. 20510

The Honorable Sam Brownback  
Ranking Member  
Subcommittee on Agriculture,  
Rural Development, Food and  
Drug Administration, and  
Related Agencies  
Senate Committee on Appropriations  
Washington, D.C. 20510

Dear Chairman Kohl and Ranking Member Brownback:

As the Subcommittee considers the Fiscal Year 2011 Appropriations Bill, we write to respectfully request full funding for rural housing programs administered by the Department of Agriculture and the Rural Housing Service. These federal rural housing programs provide loans, grants and related assistance that create jobs and ensure that low income families live in safe, decent housing.

Section 515 plays a critical role in new construction and renovation of existing rental housing units in many of our nation's rural areas. Previously, Congress has worked together to save the funding for this important program in order to address an ongoing need for new construction in rural areas as well as the preservation of existing affordable units for roughly 450,000 households living in rental housing financed under Section 515. Together, we can again ensure that this program meets our nation's rural housing needs by funding it at \$250 million for Fiscal Year 2011 for use for both section 515 and the multi-family housing restructuring demonstration.

Section 502 direct loans provide affordable credit to the nation's poorest rural families. Almost half of the families in this program have incomes at 40% of area median income. Additionally, at a cost to the government of less than \$10,000 per home, the Section 502 direct loan program is one of the most cost-effective assistance programs. We ask that Section 502 direct loans be funded at \$2 billion. This funding level will allow the program to begin processing the huge application backlog it currently has. It is vitally important that the nation's poorest rural families not be excluded during this time of crisis.

We also ask that you fund the USDA Self Help Housing program at \$60 million in order to renew grants that expire in FY08 and FY09 and expand home ownership for low income families. The Self Help Housing program is an important element in the Administration's stated goal of increasing minority home ownership. Additionally, we support at least \$50 million for farm labor housing loans and grants authorized under sections 514 and 516, respectively. These are the only federal programs with the sole purpose of improving housing conditions for migrant and seasonal farm workers, who are the worst housed people in rural America.

Lastly, the Administration has chosen to eliminate funding for the Rural Community Development Initiative in its Fiscal Year 2011 budget. These are the only funds available to build the capacity of rural communities and organizations to better address housing and community development needs. We ask that the Subcommittee provide the funds needed to effectively run the RCDI at a level of \$12 million for Fiscal Year 2011.

These rural housing programs are crucial to the creation and repair of housing units in rural communities across America. Thank you for your consideration and we look forward to working with you to ensure that our nation's rural housing needs are appropriately met.

Sincerely,

Charles Sch

Olympic Snow

Chris Doherty

Eric Rubin

for Test

Patrick Leahy

Daniel K. Spaka

Tom Harkin

Jim Johnson

Bob Sanders

Blanche L. Lincoln

Ron Wyden

Kirsten E. Gillibrand

Sheldon Brown

Tom Udall

Jeffrey A. Merkley



**Congress of the United States**  
**Washington, DC 20515**

March 19, 2010

The Honorable Rosa DeLauro  
Chairwoman  
Subcommittee on Agriculture  
Committee on Appropriations  
2362A Rayburn HOB  
U. S. House of Representatives  
Washington, DC 20515

The Honorable Jack Kingston  
Ranking Member  
Subcommittee on Agriculture  
Committee on Appropriations  
2368 Rayburn HOB  
U.S. House of Representatives  
Washington, DC 20515

Dear Chairwoman DeLauro and Ranking Member Kingston:

We the undersigned encourage you to include the following funding levels for the United States Department of Agriculture (USDA) Rural Housing Programs in the Fiscal Year 2011 Agriculture Appropriations bill:

- \$2.5 billion for Section 502 Single Family Direct Homeownership Loans;
- \$50 million for Section 504 Very Low-Income Rural Housing Repair Loans;
- \$50 million for Section 504 Very Low-Income Rural Housing Repair Grants;
- \$50 million for Section 514 Farm Labor Housing Program Loans;
- \$50 million for Section 516 Farm Labor Housing Program Grants;
- \$250 million for Section 515 Rural Rental Housing Program;
- \$1 billion for Section 521 Multi-Family Rental Assistance Program;
- \$50 million for Section 523 Self-Help Housing Program;
- \$50 million for Section 533 Housing Preservation Grants Program;
- \$200 million for Section 538 Guaranteed Multi-Family Housing Loans;
- \$20 million for Section 538 interest subsidy;
- \$300 million for the Multi-Family Housing Preservation and Revitalization Program; and,
- \$12 million for the Rural Community Development Initiative.

**Section 502 Single Family Direct Homeownership Loans Program** is USDA's main housing loan program and is designed to help low-income individuals purchase homes in rural areas. Funds can also be used to build, repair, or renovate a house, including providing water and sewage facilities. The program provides fixed-interest mortgage financing to low-income families who are unable to obtain credit elsewhere. The program also provides "supervised credit" including pre-loan and post-loan credit counseling to its borrowers to help them maintain their homes during financial crises.

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, and below 50 percent of area median income for very low-income. The annual average income of a Section 502 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 income. The average annual 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.

Applicants who qualify for a Section 502 Single Family Direct Homeownership Loan may obtain 100 percent financing to purchase an existing dwelling, purchase a site and construct a dwelling, or purchase newly constructed dwellings located in rural areas. They must have a good credit history and their adjusted household income must be less than the "low-income" limit for the respective household size and area in which the prospective property to be financed is located.

Mortgage payments are based on the household's adjusted income. Loans are for up to 33 years (38 years for those with incomes below 60 percent of area median income and who cannot afford 33-year loans). The term is 30 years for manufactured homes.

Section 502 is the most cost efficient program in the federal system. In Fiscal Year 2010, it will cost the government approximately \$6,000 to provide a 30-year, low interest rate mortgage to a low-income rural family.

Since its inception, Section 502 has provided loans to some 2.5 million families at an extremely low cost to the federal government. Unfortunately, for many years appropriations for rural housing programs have not met the demand.

In Fiscal Year 2004, USDA provided 14,643 Section 502 direct loans. In Fiscal Year 2005, the number of direct loans declined to 11,744, and in Fiscal Year 2006, the number of Section 502 direct loans increased slightly to 11,865. In Fiscal Year 2007, the number of Section 502 direct loans continued the decline to 11,051.

In Fiscal Year 2008, the number of Section 502 direct loans USDA provided was a mere 9,831. At the same time that the number of direct loans provided for homeownership was declining, the number of qualified applications in hand at USDA offices was increasing, exceeding \$2 billion in 2008. The current backlog for Section 502 direct loans totals \$2.9 billion in loan applications from over 27,000 rural households. We urge you to address this issue by increasing funding for the USDA 502 Single Family Direct Homeownership Loans Program.

**Section 504 Very Low-Income Rural Housing Repair Loan and Grant Program** provides loan and grant assistance to very low-, and low-income homeowners to make repairs that remove various health and safety hazards from their houses or to improve or modernize a home. Grants may be made to cover the costs of such improvements as repairing roofs, providing toilet facilities, providing a convenient and sanitary water supply, and installation costs in obtaining central water and sewer service. Loans of up to \$20,000 and grants of up to \$7,500 are available.

**USDA's Section 514 Farm Labor Housing Loan Program and Section 516 Farm Labor Housing Grant Program** for Off-Farm Labor is the two nationwide programs that provide housing for farm laborers. Loans and grants are provided to buy, build, improve, or repair housing for farm laborers, including persons whose income is earned in aquaculture and on-farm processing. Section 516 grants are used in conjunction with the Section 514 loans to finance affordable, off-farm rental housing to low-wage farm workers. This program provides direct

loans to farm owners, Indian tribes, farmer associations, public bodies, and nonprofit organizations to provide living quarters, furnishings, and related facilities for domestic farm workers. Section 514 loans have a one percent interest rate and a maximum repayment term of 33 years. Grants may cover up to 90 percent of development costs.

Over the last several years, USDA has financed an average of 600 units of Farm Labor Housing per year, which is far from meeting the need for housing for farm workers throughout the United States. For example, Texas has approximately 360,000 migrant and seasonal farm workers, and only about 1,300 units of farm labor housing. One project in California has a waiting list exceeding 800 families. For these reasons, we encourage you to appropriate \$100 million in funding for the farm worker programs.

Some of the most significant housing problems are faced by rural rental households who tend to have lower incomes and are more likely than their owner counterparts to live in substandard housing. Even though housing costs are typically lower in rural areas, many rural households, especially renters, have difficulty meeting these expectations. Renters in rural areas are the worst housed individuals and families in the country. Thirty-five percent of rural renters are cost-burdened paying more than 30 percent of their income for housing costs. Almost one million rural renter households suffer from multiple housing problems, 60 percent of whom pay more than 70 percent of their income for housing.

**The Section 515 Rural Rental Housing Direct Loans Program** houses the poor through 50-year, one percent loans and rental assistance. The program is typically used in conjunction with the Section 521 Rental Assistance Program. With assistance, tenants pay a maximum of 30 percent of their income toward rent and utilities. Some 515 projects also use HUD Section 8 project-based assistance, which enables additional very low-income families to be helped. This program uses a public-private partnership to provide direct subsidized interest loans at one percent interest rate to limited-profit and nonprofit developers to construct or to renovate affordable rental complexes in rural areas.

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 Section 515 Rural Rental Housing Direct Loans Program created about 1,000 new properties a year. However, since the mid-1990s, the Section 515 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.

Close to 500,000 low-income families and elderly households live in rental housing financed under USDA's Section 515 program. For many rural areas, Section 515 provides the only decent, affordable rental housing in the community.

In 2008 alone, USDA's Rural Housing Service has provided restructuring financing to 105 projects. The financing - mostly in the form of deferred loans - preserved over 4,500 units of rental housing in rural areas.

The current restructuring program relies heavily on funding from other sources. USDA data indicates that every dollar provided by the Department of Agriculture is matched by a dollar from some other source including tax credits, state and local financing, and other federal grants.

In this uncertain economic climate, raising capital from other sources may prove more difficult. For these reasons, we urge you to appropriate \$250 million for the Section 515 Rural Rental Housing Direct Loans Program, which is helping preserve affordable housing in rural America and \$300 million for the Multi-Family Housing Preservation Program.

**Section 521 Rental Assistance Program** makes rental assistance payments to owners of rental housing (Sections 515 or 514) to enable eligible tenants to pay no more than 25 percent of their income in rent. The rental assistance payments, which are to be made directly to the property owners, make up the difference between the tenants' payments and the USDA-approved rent for the units. Owners must agree to operate the property on a limited profit or nonprofit basis. For residents receiving Section 521 rental assistance in units made uninhabitable by a presidentially-declared disaster, USDA permits the transfer of the rental assistance to another eligible Section 514 or Section 515 apartment complex. The transfer must be agreed to by all parties and be designed for the return of the residents and the rental assistance to the original complex and unit after the property has been restored. If the tenant chooses to stay instead of returning to the original complex, the tenant will not be assured rental assistance, and the owner would charge an appropriate rent based on any subsidy available to that property.

**USDA's Section 523 Mutual and Self-Help Grant Program** allows very-low and low-income rural Americans to use "sweat equity" to reduce the costs of home ownership. Nonprofit organizations and local governments may obtain grant funds to enable them to provide technical assistance to groups of families that work cooperatively to build their houses. Typically, future homeowners use Section 502 direct homeownership loans to finance their mortgages and, through their own labor on constructing the house, are able to reduce costs by ten to fifteen percent while learning construction skills.

**USDA's Section 533 Housing Preservation Grant Program** provides funding through nonprofit groups, Indian tribes, and government agencies to very-low and low-income home owners to repair their houses, and to rental property owners for the rehabilitation of rental and cooperative housing to be rented to very-low and low-income families.

**USDA's Section 538 Multi-Family Housing Guaranteed Loan Program** funds acquisition, rehabilitation and construction of multifamily housing for low to moderate-income residents. It provides 90 percent loan guarantees to certified lenders to make rental housing affordable to low and moderate-income residents. For the nonprofit sector, the program covers 97 percent loan-to-value ratios. It guarantees market-rate loans made by private lenders. The interest subsidy component reduces commercial interest rates anywhere between six and eight percent to applicable federal rates of a little over four percent or lower. This difference can then be passed on to residents in the form of lower rents and converts moderate income housing into low-income housing.

**USDA's Rural Community Development Initiative Program** provides grants from Rural Community Advancement Program accounts for capacity-building among private, nonprofit community development organizations and low-income rural communities in the areas of housing, community facilities, and community and economic development. Funds are available to qualified intermediaries that can be public or private organizations (including tribal organizations) that have been legally organized for at least three years and have experience working with eligible recipients.

Rural America needs our help. Our rural constituents, their families and their communities need our support. We ask that you appropriate funds for USDA's Rural Housing Programs at the levels we have recommended.

Furthermore, we ask that you join us now and in the future in finding and providing the ways and means to improve the affordability, availability and quality of housing in rural America. We appreciate your consideration of our rural housing appropriations request.

Sincerely,



Rubén Hinojosa  
Chairman  
Congressional Rural Housing Caucus



Barney Frank  
Chairman  
Financial Services



Maxine Waters  
Chairwoman  
Housing Subcommittee



Ron Paul  
Member of Congress



Norman Dicks  
Member of Congress



Collin C. Peterson  
Member of Congress



Lois Capps  
Member of Congress



Bennie Thompson  
Member of Congress



Mel Watt  
Member of Congress





Joe Baca  
Member of Congress



Russ Carnahan  
Member of Congress



Corrine Brown  
Member of Congress



Wm. Lacy Clay  
Member of Congress



Al Green  
Member of Congress



Charles Wilson  
Member of Congress



James Oberstar  
Member of Congress



Chellie Pingree  
Member of Congress



Mazie Hirono  
Member of Congress



William L. Owens  
Member of Congress



Rush Holt  
Member of Congress



Mike Ross  
Member of Congress



Solomon Ortiz  
Member of Congress



Peter Welch  
Member of Congress



Doris Matsui  
Member of Congress



Joe Sestak  
Member of Congress



Raul Grijalva  
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Michael A. Arcuri  
Member of Congress



Bart Stupak  
Member of Congress