NATIONAL RURAL HOUSING COALITION

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Statement of Robert A. Rapoza
Executive Secretary
National Rural Housing Coalition
Fiscal 2012 Administration Budget for the Rural Housing Service
Appropriations Subcommittee Agriculture, Rural Development, Food and Drug Administration, and Related Agencies
US House of Representatives

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The National Rural Housing Coalition is a national membership organization that conducts research, policy analysis and advocacy on federal rural housing programs. The Coalition has been privileged with the opportunity to testify before the Subcommittee many times before and we appreciate the opportunity to submit a statement for the record today.

Even before the financial crisis, it was hard to argue that rural America was not already in economic distress. USDA's Economic Research Service recently released updated typologies for the Nation's counties. The classification includes a new typology which identifies 15 percent of non-metropolitan counties as housing stressed. In these counties, 30 percent or more of homes are considered too costly relative to household incomes, are too crowded, or lack certain basic facilities, such as a complete kitchen or bathroom. Also, according to the Economic Research Service, approximately 4 million rural families live in "housing poverty."

Since 2003, Congress and the Administration have reduced budget authority for rural housing loans programs. In Fiscal Year 2003, the budget authority devoted to rural housing lending totaled $342 million. With enactment of the Full Year Continuing Resolution, the cost of loan programs is less than half that amount. So, while there is great concern about increases in federal spending, the fact is the cost of rural housing lending has decreased significantly.

The National Rural Housing Coalition urges the Committee to adopt for Fiscal Year 2012 the levels in HR, 1473, as enacted, Full Year Continuing Resolution for Fiscal Year 2011.

The overall emphasis on the USDA FY 12 budget is to eliminate programs that support affordable home ownership. The budget calls for elimination and reductions in two small but important programs -- section 504 loans and grants, which finance repairs of existing houses for low income and elderly households. The budget also proposes reduction in section 502 direct loans from $1.12 billion to $200 million and elimination of the Mutual and Self-Help Housing program. These programs have been the bedrock of the long time effort to improve housing conditions in rural America. Without these programs, USDA will be out of the business of providing affordable housing for low income families and improving housing conditions in smaller, poorer rural communities.

There are many reasons to support the section 502 direct loan program. No other federal home ownership program can match the profile of the families served: The average income for families receiving direct loans is $27,000. Approximately 60% of the families receiving section 502 loans have incomes of less than 60% of the median income. By law, 40% of families participating in the program have incomes that do not exceed 50% of the median income. The current waiting list for section 502 direct loans exceeds $2 billion and 25,000 families.

Despite serving families with limited economic means, the section 502 direct loan program is the most cost effective affordable housing program in the federal government. In FY 10, the total per unit cost for a homeownership loan to a low income family was less than $5,000. This stands in sharp contrast to many other comparable federal programs with annual costs exceeding the total federal expense of a section 502 direct loan.

In fact, while subsidy costs on section 502 loans increases in FY 11 to 6.26% ($7,000 per unit); it is important to note that the FY 12 budget forecasts a reduction in subsidy costs to 4.73%. For FY 12, an appropriation of approximately $53 million will support $1.12 billion in section 502 loans, $17 million less than FY 11 enacted.

There are a number of reasons for this overall low cost to the government for section 502 direct loans. First, a low interest rate environment reduces the cost of borrowing. In addition, in December, 2007 the Rural Housing Service revised payment assistance rules reducing subsidies to families. Finally, less well known is a longstanding requirement to recapture subsidy when a house financed under section 502 is sold. Essentially a family and the government share in the appreciation on a home, taking into account how long a family has lived in the house. Recapture provides a substantial return to the government.

Despite lending to families with limited incomes, the Section 502 Direct Loan Program has a record of success in not only improving housing opportunities, but also protecting the federal investment. For example, during the last year USDA Rural Development in California foreclosed on only 57 mortgages out of a loan portfolio of nearly 10,000 loans. This is a foreclosure rate of just over 0.5%. During the entire year, only 176 loans went into foreclosure, which is a rate well below the conventional market, and stands, in stark contrast to what is happening in the conventional market in California. Nationally, the foreclosure rate on direct loans is 4.23%.

The budget indicates that the section 502 guarantee program is an alternative for families eligible for direct loans. It is not. The average annual income for families receiving the guarantee is $48,000. Only about 5% of families receiving guarantees make between 60-70% of the median and the majority of the loan guarantees go to households with incomes at or above 100% of the median.

There are two factors that determine the extent to which low income receive guaranteed loans. One is the low interest rate environment that is clearly coming to an end. Interest rates are on the rise and with this the limited utility of the guarantee for low income households will be further diminished.

The other is geography. According to the Economic Research Service: ***"Of the large rural development programs, the one least targeted to distressed and rural areas is the Low Income Housing Loan Guarantee Program. This program's per capita funding is correlated with higher local employment and lower local poverty, and it provides more funding per capita to non-metro counties that have lower shares of population that are rural."***
It is a just a fact that the guaranteed loan under section 502 will not serve the vast majority of the families who are eligible under the direct program.

We are also opposed to the Administration proposal to end the Mutual and Self-Help Housing, which takes the rural tradition of barn raising and applies it to providing housing opportunities for families with limited economic means.

Here is what OMB had to say about self-help housing in 2009:
"No other program combines the unique features which make the Self-Help program a success. The Section 523 grants provide support to Self-Help sponsors who provide technical assistance, recruiting, training, and supervising to families to earn "sweat equity." The Section 502 Direct loans provide subsidized financing which provides affordability and minimizes loan costs. This unique construction method also promotes strong communities by building close bonds among future neighbors. The program is also unique in serving the lowest income families who have no other homeownership opportunity, yet are able to succeed at a rate higher than other Section 502 borrowers and comparable to other borrowers."(Source: expectmore.gov)

Currently, more than 100 organizations across America participate in the self-help housing program. These organizations support groups of eight to 12 self-help families who construct each other's homes, performing approximately 65% of the construction labor. Through this contribution of "sweat equity", each homeowner decreases the cost burden and increases the investment in their community. Despite being the poorest families in the section 502 portfolio, approximately 50% of families participating in self help are minority households and self- help families have the lowest rates of default and delinquency of all section 502 borrowers. Over the last three years, self-help housing organizations have constructed about 3,500 homes. This construction has led to over 11,000 jobs, more than $738 million in local income and $77 million in taxes and revenue in rural communities across the country. There is a waiting list for self-help housing that totals over 50,000 families nationally.

NRHC support rural rental housing programs through section 515, farm labor housing – under section 514/516 and the multi-family restructuring program.   All are low cost programs with substantial waiting lists and good records of production.

In conclusion, with an overall Fiscal Year 2012 budget of $145 billion and $24 billion in discretionary appropriations, it is hard to understand the reasons for singling out these direct 502 loans and self help housing for such rough treatment. For a very small fraction of the budget, USDA could provide homeownership opportunities to 10,000 rural families with limited means supply a needed capital boost to flagging economies in small communities and reward those who, after working all day and all week, are willing to spend their nights and weekends building their own home.

Thank you for this opportunity to submit this statement.