

Statement for House Subcommittee on Agriculture, Rural Development, and Related Agencies

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Subject matter of testimony: funding levels for USDA Rural Development, with emphasis on Section 502 Direct Loans and Section 523 Technical Assistance for Mutual Self-Help Housing

Self-Help Enterprises is a regional nonprofit housing and community development organization serving 8 expansive counties in California's agricultural San Joaquin Valley. Founded in 1965, Self-Help Enterprises has developed nearly 6,000 self-help homes and 1,200 units of multifamily rental housing for farmworkers and other low wage earners. In partnership with local governments, SHE has rehabilitated or replaced 6,000 homes, assisted 1,500 first-time homebuyers, and provided planning and technical assistance to dozens of small, unincorporated communities meeting needs for safe drinking water and wastewater treatment.

The Rural Housing Service's housing programs continue to be the most effective, and in many cases, the only, resources which address the critical housing needs of rural America. Self-Help Enterprises strongly supports an appropriation to maintain USDA's Rural Housing programs at the following levels.

- **Section 502 Family Direct Homeownership Loans: \$900M**
- Section 504 Very-Low Income Rural Housing Repair Loans: \$28M
- Section 504 Very-Low Income Rural Housing Repair Grants: \$29.5M
- Section 514 Farm Labor Housing Program Loans: \$26M
- Section 516 Farm Labor Housing Program Grants: \$9M

- Section 515 Rural Rental Housing Program: \$64.5M
- Section 521 Multi-Family Rental Housing Rental Assistance Program: \$907M
- **Section 523 Self-Help Housing Program: \$30M**
- Section 533 Housing Preservation Grants Program: \$3.6M
- Section 538 Guaranteed Multi-Family Housing Loans: \$150M
- Multi-Family Housing Preservation and Revitalization Program: \$46.9M
- Rural Community Development Initiative: \$13M

Section 523 Mutual Self-Help Housing Program

"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." This unique construction method also promotes strong communities by building close bonds among future neighbors. (PART review, www.expectmore.gov)

Created by the Housing and Community Development Act of 1968, the USDA Rural Development Section 523 Mutual Self-Help Housing Program is one of the best and most successful avenues to sustainable homeownership for low-income rural Americans.

With its roots in the tradition of barn raising, mutual self-help housing gives hardworking rural families the opportunity to work together to achieve the dream of homeownership which individually could not be attained. Mutual self-help housing programs, which still retain a style reminiscent of pioneer barn raisings, provide the organizational structure that allows low-income families to build the homes they so desperately want and need. This includes the capital, training and supervision, coordination, accounting, and myriad of other technical skills necessary to any successful housing development effort.

The concept is straightforward: groups of 6-12 low-income families join together to pool their labor to build each other's homes, in the process building a neighborhood for their community, for their children, and for themselves. The future homeowners commit to completing 65 percent of the work necessary to build the homes. At Self-Help Enterprises, these families pour the concrete, frame the walls, and install electrical wiring, heating ducts, roof framing, as well as all finish, tile, paint, and trim. Reducing the labor cost of the home reduces the total cost of the home, enabling lower-income households to become homeowners and earn equity at the same time.

The economic benefits extend far beyond the individual homeowners. As contractors are hired to turn raw land into subdivisions, local vendors provide building materials and subcontractors complete technical work such as plumbing. Local governments receive building permit fees, and in the long term, property taxes from proud homeowners. Rural communities, often plagued with an abundance of substandard housing, gain an expanding stock of good housing and the stability that comes to a community of homeowners.

In the San Joaquin Valley each year, as many as 120 hardworking families each commit 1,400 hours, 40 hours per week, week after week, through the heat of summer and the cold of winter, sharing the labor necessary to build homes for their neighbors, their children and themselves.

It is popular today to talk about the importance for homebuyers to have "skin in the game" as protection against failed mortgages. Mutual self-help families have more than skin in the game. They have skin, sweat, and occasionally a bit of blood as they invest themselves in the home of their dreams. And does it work? With 47 years of experience behind us, those of us at Self-Help Enterprises say "YES" unequivocally. Self-help homebuilders achieve remarkable

stability. Despite being the lowest income of the Section 502 borrowers, our self-help homebuilders have lower delinquency rates and very low foreclosure rates.

No other path to homeownership for low-income families has proven to be as successful.

Section 502 Direct Lending Program

The Section 502 Direct Loan program is an equally important element of self-help housing, affording well-underwritten construction-to-permanent mortgages that finance the home from the start of construction to the final mortgage payment. But the reach of this model mortgage program goes far beyond self-help households.

Since the Housing Act of 1961, the USDA 502 Direct Loan Program has been a cornerstone of homeownership opportunity in rural America, with over 2 million homeowners seizing the opportunity for an affordable mortgage which would enable them to be homeowners in the town where they live and work. For a surprisingly low federal budget cost, the 502 Direct mortgage is a well underwritten, affordable, no gimmicks financing for rural families who want to invest in homes and in their communities.

No other federal home ownership program can match the profile of the families served by the section 502 direct loan program. The average income for families receiving direct loans is \$27,000. By law, 40% of families participating in the program have incomes that do not exceed 50% of the median income. For the past 2 years at Self-Help Enterprises, fully 60% of the borrowers have incomes below 50% of median.

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 11, the total per unit cost for a homeownership loan to a low income family was less than \$7,200. There are a number of reasons for this overall low cost to the government. First, a low interest

rate environment reduces the cost of borrowing. 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.

Although the Section 502 Direct Loan Program lends to families with limited incomes, the program has a record of success not only in creating affordable homeownership opportunity, but also protecting the federal investment. For example, in 2010, USDA Rural Development in California foreclosed on a mere 57 mortgages out of a loan portfolio of nearly 10,000 loans. This is a foreclosure rate of just over 0.5% and stands in stark contrast to what is happening in the conventional market in California.

It has been stated 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. The majority of the loan guarantees go to households with incomes at or above 100% of the median, and only about 5% of families receiving guarantees make between 60-70% of the median. With the inevitable end of the current low interest rate environment, interest rates on 502 Guarantee loans will once again rise, and the number of qualifying low income borrowers will drop, if not disappear altogether.

SUMMARY

USDA's Rural Housing Service and the resources it delivers represent vital resources to the people and the economies of rural American communities so desperate for jobs. As the recession seems finally to be fading in some areas of the country, its grip on rural America is still devastatingly strong. This is no time to reduce the investment so important to the recovery of Rural America.