

NATIONAL RURAL HOUSING COALITION

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April 11, 2013

The Honorable Tom Vilsack
Secretary of Agriculture
U.S. Department of Agriculture
1400 Independence Avenue, S.W.
Washington, DC 20250

Dear Secretary Vilsack:

I write to express extreme disappointment and opposition to the Fiscal Year 2014 U.S. Department of Agriculture (USDA) Budget for Rural Development. With this budget, it is clearer than ever that USDA has no real interest in these programs and, in particular, is seeking to eliminate Rural Housing programs that assist low-income rural families and to hamper the effectiveness of Water and Wastewater Disposal programs.

Despite the need in rural America and the success of these critical programs, there is ample evidence that Rural Development ranks low on USDA's list of priorities. Between 2010 and 2013, the Budget Authority for Rural Development accounts – including Rural Housing Service programs, Rural Business programs, and Rural Water/Sewer loans and grants – were reduced by at least \$750 million. This substantial and disproportionate cut represents 19 percent of the overall reduction in USDA discretionary appropriations for the same period.

The FY14 Budget piles on even further by proposing an additional \$200 million in reductions. While the Budget Control Act has imposed tight spending caps on discretionary spending, this is no excuse for the size and scope of the proposed reductions. This is especially true as the budget includes savings of more than \$300 million from negative subsidies from USDA loan programs.

These reductions have not gone to offset the cost of Section 521 Rural Rental Assistance, as is the common claim. In fact, the FY14 Budget proposes the first increase in Rental Assistance in 5 years.

Particularly galling is the treatment of rural housing programs, especially in light of the reduction in subsidy rates. In 2012, you told the Board of Directors of the National Rural Housing Coalition that increasing subsidy rates were behind the proposed reduction in the FY13 budget for Section 502 Direct Loans. Yet, despite a reduction of more than 50 percent in the subsidy rate – from 5.97 percent in FY13 to 2.72 percent in FY14 – the FY14 Budget proposes a 60 percent cut in the program. One can only assume that the subsidy rate is irrelevant; USDA simply does not support the program.

This is hard to understand. Section 502 Direct Loans are the single most cost-effective federal housing program, period. According to the FY14 Budget, each Section 502 Direct Loan costs the government about \$3,000 over the *entire lifetime of the loan*. This is far less than the *annual cost* of most other comparable federal housing programs.

Despite serving families with such limited economic means, the Section 502 Direct Loan program performs on par or better than other loan portfolios serving higher income borrowers, in terms of delinquency and foreclosure rates. For example, the Section 502 Direct Loan program significantly outperforms the private subprime market. Despite serving borrowers with similarly low incomes, only 10 percent of Section 502 borrowers are delinquent, compared to 20 percent of private market subprime borrowers. Likewise, despite serving lower-income families, the Section 502 Direct Loan program performs on par with other federal lending programs, including Federal Housing Administration (FHA) loans.

Beyond this, Section 502 Direct Loans are an important source of jobs in rural America. USDA estimates that each single-family home financed by the Section 502 Direct Loan program creates 1.75 jobs. This means that in 2011 alone, the program led to the creation of 16,707 jobs. In the past 5 years, the program created 103,637 jobs. In addition, each home financed by the program generates \$50,201 in local wages, amounting to \$5.2 billion in wages over the past 5 years.

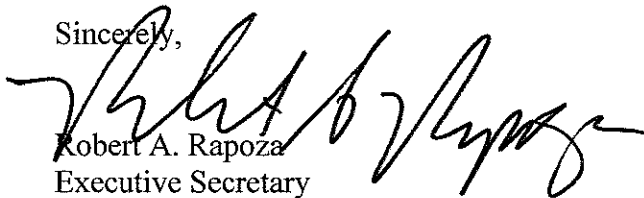
The proposed elimination of Rural Water/Wastewater Grants is equally concerning. For a very long time, USDA has been the principal source of grant funding for rural communities needing water or waste disposal facilities. No other federal agency has the grant resources or the commitment to assisting small rural communities. These communities – often with less than a few hundred or a few thousand residents – do not have the population base necessary to spread the cost of a loan to finance an entire water or wastewater system, regardless of the interest rate. This policy change will do nothing to help the communities that need assistance the most. It is simply one more gimmick to skewer Rural Development spending.

I have read with great interest USDA's press releases about its commitment to rural communities and all the good things that USDA does. While I do not dispute the success of USDA's Rural Housing and Community Development programs, it seems to me that USDA should acknowledge that this a low priority for the Department and for that reason, these programs are the first on the chopping block and always available to offset increases for other programs and activities that are deemed more important.

It is obvious to me that this is the case.

Sincerely,

Robert A. Rapoza
Executive Secretary

A handwritten signature in black ink, appearing to read 'Robert A. Rapoza', written over the typed name and title.