

**Statement of Tammie Trevino, Administrator, Rural Housing Service
United States Department of Agriculture
Before the House Agriculture Subcommittee on Rural Development, Research,
Biotechnology, and Foreign Agriculture**

Chairman Johnson, Ranking Member Costa, and Members of the Committee, it is my privilege today to provide to you a review of the United States Department of Agriculture (USDA) Rural Development's (RD) Rural Housing Service (RHS) programs and activities. The core mission of RHS is to create vibrant, thriving rural communities, a strong housing stock, access to safe, decent and affordable rental housing and access to high quality essential community infrastructure. RHS accomplishes its mission through a number of housing programs authorized under the Housing Act of 1949 and the Community Facilities (CF) programs authorized under the Consolidated Farm and Rural Development Act (CONACT) and amended through Farm Bill legislation. In addition, through the Rural Community Development Initiative (RCDI) RD provides technical assistance and training funds to qualified intermediary organizations to develop their capacity to undertake housing, community facilities, and community and economic development projects in rural areas.

Overview

The RHS programs are a systematic part of RD's community and economic development structure which works to improve the quality of life in rural America. We work to improve infrastructure, sustain and create jobs, and create economic wealth in rural communities. RD programs are locally-led and they work together in a cohesive manner to provide all of the necessary services and activities to have sustainable and prosperous communities. Housing, community development, and technical assistance are at the foundation of our Agency's mission. This foundation, along with the targeted programmatic approach, makes RHS programs an essential tool for rural America.

In Fiscal Year (FY) 2010, utilizing budget authority of about \$1 billion, RHS supported a program level of approximately \$26.3 billion in loans, loan guarantees, grants, and technical assistance. The budget targeted resources to programs that are most needed and most effective in rural communities. RHS programs continually assist USDA's efforts to help rural America out-build, out-educate, and out-innovate our global competitors while making the tough choices necessary to address responsibly the Nation's budget deficit. In 2010, RHS assisted nearly 161,000 rural American families to buy or repair their homes, provided safe, decent affordable rental housing to 460,000 individuals, and provided financing to assist over 1,000 small communities develop essential community buildings and equipment. The remaining text discusses our RHS programs, and how they impact rural America.

CF Program

The CF program was authorized in 1972 under the CONACT to provide funding necessary for the installation or improvement of essential community facilities in rural America. Since that

time, the CF program has provided over \$12.7 billion in funding for health care, educational, public safety, and other essential community facilities and more than 40 percent of the CF program investments have been made in rural health care facilities. The local hospital, school system, or public safety district is often the largest employer in a rural community or region. By providing low-interest loan and grant funding for these organizations through the CF program, we directly support economic development and job creation.

The current CF program portfolio consists of about \$5.2 billion in outstanding loans and grants that have been made to 11,197 facilities that received either individually, or in combination, a direct loan, guaranteed loan, or grant. Since FY 2009, the CF programs have invested over \$3.1 billion in 4,207 essential community facilities, estimated to directly create 9,996 jobs and save 22,384 jobs. Of that amount, over \$1.66 billion was invested in 464 rural health care facilities and is estimated to create 4,124 jobs and save 10,319 jobs.

CF Loan Programs

RHS offers both guaranteed and direct CF loan programs. Direct loans are available to those who are unable to obtain commercial financing. The maximum term for all loans is limited to the lesser of the useful life of the facility, any State law limitation on loan terms, or 40 years. Interest rates for direct loans are based on current market yields for municipal obligations, although loans for facilities impacting prime or unique farmland may require a slightly higher rate. Certain other direct loans may qualify for a lower interest rate, depending upon the median household income of the residents of the community to be served. Guaranteed loans are made and serviced by commercial lenders such as banks, savings and loans, mortgage companies which are part of bank holding companies, the Farm Credit System, or insurance companies. CF programs may guarantee up to 90 percent of any loss of interest or principal on the loan. The entities eligible to apply for loans are public bodies, nonprofits, and Federally-recognized Indian tribes. The eligible area for both direct and guaranteed loans is rural communities with a population up to 20,000.

The President's FY 2012 Budget proposes to fund the CF direct loan program at \$1 billion, more than triple the historic funding level. In addition, the budget proposes to eliminate funding for the CF guaranteed loan program. The CF guaranteed loan program originated as an inexpensive alternative to the direct loan program, designed to stimulate additional assistance to moderate income communities in rural areas. However, the defaults in the CF guaranteed program have been much higher than originally projected, making it more expensive than the direct loan program. The CF direct loan program has a negative subsidy rate in FY 2012. This means that the \$1 billion in CF direct loan assistance can be provided without the need to request subsidy budget authority. The proposed increase in the CF direct loan program will mitigate any effects of ending the guaranteed loan program. This is a win-win for taxpayers and rural residents working to strengthen their rural communities.

CF Grant Program

The entities eligible to apply for grants are public bodies, nonprofits, and federally-recognized Indian tribes. The eligible area for the program is rural communities with a population up to 20,000. The amount of grant assistance depends upon the median household income and the

population in the community where the project is located. Grant assistance may be available for up to 75 percent of project costs.

Housing Programs

Title V of the Housing Act of 1949 authorizes loans and grants to assist rural families in becoming homeowners and to provide safe, decent and affordable rental housing. The major housing programs under this legislation are single family housing (Section 502), single family housing repair and rehabilitation (Section 504), rural rental housing (Section 515), and self-help technical assistance grants (Section 523). These programs were carried out by the Farmers Home Administration prior to reorganization of the Department in 1994 and creation of the Rural Housing Service.

In 1968, an amendment to Title V of the Housing Act of 1949 established the interest-credit housing loan program. It enabled some low-income families to pay as little as 1 percent interest and provided for subsidized loans to developers of low-priced rental housing for low-income families and senior citizens. New programs also were enacted in 1968 for rural homesite development loans and for grants toward support of “self-help” homebuilding group projects. Grants of up to 90 percent, as well as loans, were authorized for farm labor housing projects.

Single-Family Housing Programs

The Single-Family Housing (SFH) programs provide homeownership opportunities for rural Americans with very low-to moderate incomes to purchase and improve homes through several loan, grant, and loan guarantee programs. The programs also make funding available to individuals to finance vital improvements necessary to make their homes decent, safe, and sanitary. Thus far in FY 2011, USDA through the RHS Single Family Housing programs has provided \$11.7 billion in direct and guaranteed loans to assist 92,786 families to purchase or refinance a home, strengthening our rural communities and neighborhoods and helping families build equity in their future. In FY 2010, the SFH programs provided \$18.9 billion to 150,693 families to purchase or refinance a home, helping boost rural economies and creating thousands of new jobs in rural communities.

The 2012 budget proposed a \$24 billion program level for the SFH Section 502 loan guarantees which is anticipated to fully meet demand. For FY 2011 and FY 2012, the program has a negative subsidy rate because of a low and stable default rate coupled with increased program fees. The 2012 fee structure will be a 2 percent up-front fee and an annual fee of 0.3 percent. Single-family housing direct loans and housing repair grants are both funded at reduced levels for 2012, reflecting the efforts of this Administration to “tighten our belts”. The shift from direct loans and grants to guaranteed loans allows us to significantly increase our investment in rural America while simultaneously decreasing the burden on taxpayers. The \$24 billion guaranteed loan level allows RHS to provide the highest level of assistance for single family housing in rural areas that has ever been provided—and without needing to request subsidy budget authority.

The collapse in the housing market caused a reduction in lender confidence, which has increased demand for the SFH guaranteed program. Currently, approximately 2,000 lenders participate in the program. The low home mortgage interest rate environment has enabled the guaranteed rural housing program to serve low-income families who may have previously looked to our SFH

direct loan program for assistance. However, recognizing that an unserved need may continue to exist for very low-income families, the single-family direct loan program's reduced funding level will be \$211 million and will be targeted to very low-income applicants.

Multi-Family Housing Programs

The Multi-Family Housing (MFH) budget continues RD's commitment to providing affordable housing options to the poorest of the poor in rural America. Our existing portfolio provides decent, safe, sanitary, and affordable residences for the 460,000 tenant households. The MFH Program offers Rural Rental Housing Loans to provide affordable multi-family rental housing for very low-, low-, and moderate-income families; the elderly; and persons with disabilities. This is primarily a direct mortgage program, but funds may also be used to buy and improve land and to provide necessary facilities such as water and waste disposal systems. In addition, rental assistance is available to eligible families.

The total program level request for MFH programs is \$1.06 billion of which \$907 million is allotted for the MFH Rental Assistance contract renewals. The requested rental assistance is sufficient to accommodate the renewal of 204,503 expiring rental assistance contracts. While the FY 2012 budget request proposes to terminate funding for the MFH Revitalization Demonstration Program, it proposes to increase the MFH direct loan program from a program level of \$69.5 million to \$95 million, ensuring that more affordable rental housing opportunities are created for the very-low income tenant base in rural America. The direct loan program can be used for repair and rehabilitation as well as new construction. So the increase in funding should allow property owners to continue to finance revitalization efforts even without the demonstration program.

The FY 2012 budget request proposes \$16 million for the Rural Housing Voucher Program. The voucher funding will be used to offset some of the reductions in rental assistance. If a MFH property offering rental assistance leaves the portfolio, vouchers will be offered to all low-income tenants that presently receive rental assistance.

The FY 2012 budget request for MFH Section 514/516 Farm Labor Housing is approximately \$37.2 million in program level funding.

Farm Labor Housing

Funding was not proposed for FY 2012 for the Farm Labor Housing program. The program provides loans and grants to build affordable rental housing and related facilities for both migrant and year-round farm workers. Units may be off-farm housing available to eligible farm workers of any farming operation or on-farm housing for farm employees. Funds for this program may also be used for repairs of existing program units.

Housing Loans and Grants for Rehabilitation and Repair

The FY 2012 budget limits or eliminates funding to some very small loan and grant programs to allow the agency to focus on the programs that most effectively achieve USDA's housing goals through higher loan volumes. USDA will provide approximately 2,000 grants to very-low income, elderly, rural homeowners in order to make essential repairs to their homes to make

them safe and to remove health hazards through the SFH Housing Repair grant program. This program is designed to help the most vulnerable residents in rural America.

Smaller and more labor intensive programs that are not proposed for funding include housing repair loans, self-help housing grants, housing assistance grants, and loans to deal with inventory property referred to as “credit sales.” This shift in the focus of program delivery will make USDA leaner, more efficient and will help the agency streamline operations and deliver results at a lower cost for the American people.

Technical Assistance

The RCDI provides technical assistance and training funds to qualified intermediary organizations to develop their capacity to undertake housing, community facilities, and community and economic development projects in rural areas.

Technical assistance promotes partnerships at the local, regional, and State levels to assist communities in advancing their strategic or economic development plans. It also encourages coordinated planning among RD programs to address specific projects within the context of a community or regional strategic plan.

The entities eligible to apply for RCDI funds are public bodies, for profits, private nonprofits and Indian Tribes. Eligible areas include outside the boundaries of a city with a population of 50,000 or more and its immediately adjacent urbanized area.

Conclusion

RHS implements rural housing and CF programs to assist rural communities to create a healthy, safe, and prosperous place in which to live and work. Rural housing direct and guaranteed loans and grants assist rural families in becoming homeowners and provide safe, decent and affordable rental housing. CF direct and guaranteed loans and grants create jobs in rural America through the development of essential community facilities such as hospitals, libraries, day-care facilities, fire halls, community centers, and more. In closing, I would like to thank the subcommittee for the opportunity to appear before you today and look forward to responding to your questions.