Testimony of Joe L. Myer
Executive Director
NCALL Research, Inc
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National Rural Housing Coalition

Before
Subcommittee on Housing and Community Opportunity
Committee on Financial Services
US House of Representatives

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Mr. Chairman, my name is Joe Myer and I am the Executive Director of NCALL Research. NCALL is a nonprofit rural housing technical assistance provider based in the great state of Delaware, represented by Congressman Michael Castle. Since 1976, NCALL has utilized virtually all of USDA's rural housing programs in its efforts in Delaware and the Delmarva Peninsula.

I am also past president and current executive committee member of the National Rural Housing Coalition (NRHC). NRHC is a national membership organization that advocates on rural housing policies and programs. NRHC has testified before this Committee before and we appreciate the chance to testify today.

Overview of Rural Housing Need

According to the 2002 Millennial Housing Commission Report, rural communities were bypassed in the recent economic good times and now face poverty rates, unemployment rates, and the incidence of housing problems at levels similar to that of the nation's big cities.

According to the 2000 Census, there are 106 million housing units in the United States. Of that, 23 million, or 23 percent, are located in non-metro areas. Many non-metro households lack the income for affordable housing. The 2000 Census reveals that 7.8 million of the non-metro population is poor, 5.5 million, or one-quarter of the non-metro population face cost overburden, and 1.6 million of non-metro housing units are either moderately or severely substandard.

According to the USDA Economic Research Service, 4 million, or 17 percent of the households in non-metro areas are classified as being in housing poverty. Households are defined as being in housing poverty when their housing has at least one of four important indicators of housing disadvantage:

- Economic need - housing costs over 50 percent of the household income;
- Inadequate quality - physical quality defined as moderately or severely inadequate using the HUD measure based on 26 indicators of physical problems;
- Crowding - more household members than rooms; and

- Neighborhood quality - perception of poor quality in at least 2 out of 4 neighborhood conditions: crime, noise, inadequate public services, and litter/deteriorating housing.

Renters in rural areas are among the worst housed individuals and families in the country. Thirty-three 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.

Although issues around rental housing are of vital concern, homeownership is the principal form of housing in rural America. However, there are a number of obstacles to improving homeownership in rural areas including high rates of poverty and poor quality of housing.

Rural residents also have limited access to mortgage credit. The consolidation of the banking industry that accelerated throughout the 1990s has had a significant impact on rural communities. Mergers among lending institutions have replaced local community lenders with large centralized institutions located in urban areas. Aside from shifting the focus of loan making, this has resulted in the diminishment of a competitive environment that, in the past, encouraged rural lenders to offer terms and conditions that were attractive to borrowers.

In recent years, the single biggest change in rural housing policy is the reduction in resources available to address urgent housing needs. In 1994, spending on rural housing loans for multi-family and single-family housing totaled $663 million. This provided for some $1.8 billion in direct home ownership loans and some $500 million in lending for rural rental housing.

Today, total spending for home ownership loans and rural rental housing is less than $200 million. As a result, only about $1.1 billion is available for home ownership and $114 million for rental housing. This reduction in spending for single-family housing is also reflected in reduced subsidy rates to low-income families.

Rural housing efforts are also hampered by low level of federal assistance for rural housing. The rate of federal assistance to non-metro households is only about half that for metro households. There is substantial evidence that more remote rural areas, which are also usually the poorest with the worst housing conditions, fare even worse in garnering federal housing aid.

With this funding shortfall RHS has made important improvements in the direct loan program. The agency now encourages partnerships with lenders and other entities wishing to finance homeownership. These partnerships allow the agency to stretch its subsidy dollars and assist more low-income families. RHS' leveraged loan program is an important innovation in an era of shrinking federal support for low-income homeownership. It is important to note that this innovation comes with a price; leveraged loans serve households with higher incomes than direct loans.

RHS has also paid increased attention to mutual and self-help housing as a strategy to assist low-income families. As appropriations for mutual and self-help housing increase, RHS is providing funding to some 100 non-profit organizations, which in turn give technical assistance to low-income families building their homes, and has allocated greater amounts of Section 502 assistance for self-help housing in recent years.

Home Ownership

Under Section 502 low-income families received subsidized direct loans to construct or acquire single-family housing. Over the history of the Section 502 program, some 2 million low-income families have received assistance. Loans are limited to families with income up to 80 percent of median, and 40 percent of all loan funds must go to families with incomes at 50 percent of median or below – very low-income families.

The average income of households assisted under Section 502 is $18,500. About nine percent of the households have annual incomes of less than $10,000.

Under Section 502 home ownership, the current loan level totals $1.044 billion. This will provide subsidized, direct loan financing for about 15,000 units.

There is unprecedented demand for Section 502 direct loans that exceed the budget request. The FY 04 budget request for Section 502 direct loans is $1.366 billion; the largest request in several years. The additional funds are targeted to improve minority home ownership.

The Section 502 direct loan program is truly a bargain for the government. Based on the budget authority cost to the government, the cost per unit in 2003 is $12,000. It will be less than that in 2004.

Self-Help Housing

In an era of increased focus on family and community, mutual self-help housing stands out as a positive step towards stabilizing low-income families and offering them a means to self-sufficiency. The self-help concept allows low-income families to trade what they have in abundance – labor and determination – for what they do not have – resources for a down payment on a home. Mutual and self-help housing is the hidden gem of the federal government.

Under the mutual and self-help program, RHS makes grants to local housing organizations that recruit groups of 6-8 families who apply for Section 502 loans. These families receive home ownership counseling, construction training and supervision and then work together to build their own homes contributing 65% of the labor.

This sweat equity does two important things: it provides the opportunity for home ownership that might not otherwise be available to economically disadvantaged families and saves the government millions of dollars in reduced mortgage costs. Self-help families who are arguably the lowest income mortgage borrowers in the entire federal government have among the best payments of all federal rural housing borrowers.

The self-help program is also an important tool for increasing minority homeownership rates, which is a goal of the President. RHS FY 1998 statistics show that 68 percent of self-help loans were made to minorities, compared to 31 percent of Section 502 loans overall. Self-help housing has also been a viable option for farmworker families. In a study by Self-Help Enterprises of California, measuring its program from 1965 to 1996, farmworker families represented some of the lowest-income participants – but also had the lowest foreclosure rates and the longest residency rates.

Congressman Castle visited a self-help housing subdivision last week in Milford, Delaware to help celebrate National Homeownership Month and met with families just moving into their new homes.

Section 515 rental housing program

Although we often talk about the surge in homeownership and all of its benefits, not all of us are or are prepared to be homeowners. USDA's Rural Housing Service Section 515 rural rental housing program is invaluable to low-income residents in rural areas. The portfolio contains 450,000 rented apartments in Section 515 developments. The delinquency rate is a low 1.6 percent. The average annual tenant income is about $8,000, which is equal to only 30 percent of the nation's rural median household income. More than half of the tenants are elderly or disabled and one-quarter are minority.

In Delaware the 515 program is the rental backbone of our rural communities providing quality, affordable housing. It provides a great alternative to families and elderly to move from substandard, tar paper conditions. Waiting lists are very long. More than 200 households showed up this spring for application day for a 24 unit Acorn Acres complex that just opened in Georgetown, Delaware.

Federal policy faces two challenges regarding rural rental housing. The first is to increase the production of affordable rental housing units in rural communities. The second is to maintain the existing stock of Section 515 units.

For many years, federal budget requests for rural rental housing have fallen short of the need. This year, the President's budget cut Section 515 to $71 million and limited it to repair, rehabilitation, and preservation. If the FY 2004 budget request for Section 515 is approved, it will be the first time in more than 30 years that the federal government provides no new rental units for rural America. Section 521 rental assistance is used in conjunction with Section 515 to help families who cannot afford even their reduced rent. In recent years, mostly in response to an escalating number of expiring contracts, appropriations for rental assistance have gone up. Despite the fact the current appropriations stand at $701 million (FY 2002), the funds are insufficient. Almost 90,000 Section 515 households who need rental assistance do not receive it. The need for rental assistance is projected to increase to $937 million by 2006.

While the budget request clearly misses the mark on new production, it also jeopardizes existing rural rental housing developments. Incentives for long term use for rural rental housing authorized in the 1987 Housing Act are under-funded.   Lack of Section 515 funding -- and cuts in other resources -- has limited the ability of RHS to provide adequate incentive to owners, or to facilitate acquisition or transfer of Section 515 developments to non-profit organizations or public bodies. As a result, owners seeking incentives or wishing to sell their projects are frustrated.

The General Accounting Office indicates that 24 percent of the Section 515 portfolio is subject to prepayment. This means that some 100,000 families could be displaced if the Section 515 portfolio is deregulated. As noted, the populations of Section 515 developments are very poor and two thirds are elderly or households with disabilities.

These are families with limited means and very often they live in markets with limited housing options. In many rural communities the Section 515 development is the only decent housing in town.

In the past, we have opposed legislation that has de-regulated the Section 515 portfolio and offered tenants only HUD vouchers. In our view, implementation of such a proposal will put an enormous burden on low-income, disabled and elderly tenants. If the voucher is available, tenants will have to navigate between HUD and USDA to gain a voucher, and find decent housing in which their landlord will take a voucher.

It is possible the money for vouchers will be there – but the federal budget for vouchers is very limited. It is possible HUD and the USDA will work out a way to get the voucher to the displaced families – but the track record of HUD in getting vouchers to rural America is not very good. It is possible that the housing will be available in the community and landlord will accept vouchers – but in many rural communities the Section 515 project is the only decent affordable rental housing in town.

So, it is possible that de-regulating the Section 515 portfolio will not adversely impact tenants. It is just not very likely.

Even if prepayment is contingent on appropriations for vouchers and the owner accepting the voucher, we still only have half a loaf. Such a policy may offer protection for current tenants but over time the project would very likely cease to be low-income housing and units will be lost. Section 515 is a tremendous resource for rural America and the voucher solution will result in the decay of stock of decent affordable housing in our nation's small town and farming communities.

Given the current federal budget environment, it seems unlikely the resources will be available to replace Section 515 units that would eventually be lost if the portfolio is de-regulated. It will be far cheaper to the government and less burdensome for tenants for Congress to simply provide adequate resources for preservation incentives compensate owners for long term use and allow tenants to continue to live in their homes.

Section 514 loan and Section 516 grant farm labor housing programs

Two additional rental housing programs specifically address the needs of farm laborers. Migrant and seasonal farm workers are some of the nation's most poorly housed populations. The last documented national study indicated a shortage of some 800,000 units of affordable housing for farm workers.

Farm worker households are also some of the least assisted households in the nation. Some 52 percent of farm worker households' incomes are below the poverty threshold, four times the national household poverty rate, and 75 percent of migrant farm workers have incomes below the poverty line. Yet little more than 20 percent of farm worker households receive public assistance, most commonly food stamps, rarely public or subsidized housing.

There are only two federal housing programs that specifically target farm workers and their housing needs: Sections 514 and 516 of the Housing Act of 1949 (as amended). Borrowers and grantees under Rural Housing Service Sections 514 and 516 receive financing to develop housing for farm workers. Section 514 authorizes the Rural

Housing Service to make loans with terms of up to 33 years and interest rates as low as one percent. Section 516 authorizes RHS to provide grant funding when the applicant will provide at least 10 percent of the total development cost from its own resources or through a 514 loan.

This program has been used very successfully in Delaware to provide decent, affordable housing in place of primitive camps while serving local workers and those who migrate to the Delmarva Peninsula in support of our agricultural industry. The Elizabeth Cornish Landing facility in Bridgeville is a Fannie Mae Maxwell Award winner.

Non-profit housing organizations and public bodies use the loan and grant funds, along with RHS rural rental assistance, to provide units affordable to eligible farm workers. These funds are used to plan and develop housing and related facilities for migrant and seasonal farm workers. Current funding for Sections 514 and 516 totals $37 million in program authority. This amount provides about 700 units of housing. The estimated need is far beyond the current level.

Support Rural Rental Housing Act

The National Rural Housing Coalition applauds the efforts of Congressmen Ruben Hinojosa and Artur Davis in addressing the significant need for federal assistance of rental housing in rural communities. Their introduction of HR 1722, the 2003 Rural Rental Housing Act (RRHA), which will create a new federal program to alleviate problems such as cost-burden, substandard housing conditions and the lack of affordable rental housing in rural low-income communities, has long been overdue.

The Rural Rental Housing Act authorizes $250 million in annual federal appropriations to finance the acquisition, rehabilitation and construction of rental housing and related facilities in rural areas. The purpose of the program is to increase the quantity and quality of affordable housing for rural low-income households and the elderly.

The funds may be used on a flexible basis to provide a variety of forms of assistance to increase the supply and quality of affordable housing in rural areas. With matching funds, up to $500 million in financing could be available to rural America to increase the supply of rural rental housing for families and the elderly. These funds could finance up to 5,000 units annually.

Funds will be allotted on a state-by-state basis based on the rural substandard housing and rural poverty within a state. USDA will make assistance available to public bodies and Native American tribes, as well as private non-profit corporations with a record of accomplishment in housing or community development.

Federal assistance may not be used to finance more than 75 percent of a project cost. The assistance may be made available in the form of capital grants, direct subsidized loans, guarantees, and other forms of financing for rental housing and related facilities.

Under the RRHA, USDA will directly administer the funds, financing up to 75 percent of the cost of housing and related facilities. Alternatively, states, CDFIs or other non-profit intermediaries could match the funds allocated to a state and provide financing to eligible rental housing projects.

The population served must be very low, low or moderate-income households, i.e. those with incomes of 0 percent to 100 percent of the area median income. *Priority for assistance* will be given to very low-income (0 percent – 30 percent of area median income) and minority households.

Housing must be in rural areas with populations not exceeding 25,000, outside of urbanized areas. Priority for assistance will be in low-income communities or in communities with a severe lack of affordable housing.

In conclusion, we believe that the programs of the Rural Housing Service have made a huge difference in quality and quantity of housing in rural America. The task now is to reinvigorate spending for homeownership, reinvest in Section 515 developments and authorize the Rural Rental Housing Act to spur new rental development.

Thank you for the opportunity to testify before the Subcommittee. I would be happy to answer any questions you may have.