Statement of
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Community Action Commission of Fayette County,
representing the Housing Assistance Council
before the Committee on Financial Services,
Subcommittee on Housing and Community Opportunity,
U. S. House of Representatives
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Thank you for the opportunity to submit testimony on rural housing to the Subcommittee, and thank you, Chairman Ney, for convening this very important hearing. My name is Patty Griffiths, and I am the housing director of the Community Action Commission of Fayette County (CAC), a nonprofit organization located in Washington Court House, Ohio.

I also am speaking today on behalf of the Housing Assistance Council (HAC), a national nonprofit group working to create more affordable housing throughout rural America. Established in 1971, HAC provides financing, information and other services to nonprofit, for profit, public and other providers of rural housing. My testimony focuses on three areas: (1) a brief overview of rural housing conditions and programs; (2) a description of what we are doing with U.S. Department of Agriculture (USDA) rural housing and other programs to meet needs in our area of Ohio; and (3) responses to questions posed by the Subcommittee for this hearing. My comments on national concerns will set a context for a description of the conditions in our area and the work that my organization does.

HOUSING CONDITIONS AND POVERTY IN RURAL AMERICA[1]

Most housing policy is focused on urban concerns, which are of course substantial and deserve attention. But needs are often just as great in rural America. The level of need may be seen in data from the 2000 Census and the 2001 American Housing Survey, as compiled and analyzed by the Housing Assistance Council. Of the 200 poorest counties in America, all but 11 are nonmetropolitan. There are 363 rural counties where the poverty rate has exceeded 20 percent since those figures were first collected in 1960. In housing for most of the 20th century, substandard quality was the primary problem in rural areas. Quality remains a major concern. But today sharply higher and increasing housing costs have made affordability rather than poor

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[1] Portions of this section are drawn from Housing Assistance Council, *Taking Stock: Rural People, Poverty and Housing at the Turn of the 21st Century,* December 2002.

conditions the bigger problem in rural housing, especially for low-income people. While housing costs are lower in nonmetro areas than in cities, incomes are also lower. As a result, many rural households find it difficult to meet basic housing expenses. Among the 23 million nonmetro households, approximately 5 million, or 22 percent, pay more than 30 percent of their monthly incomes for housing costs and are considered cost-burdened. Of these nonmetro cost-burdened households, more than 2 million pay more than half their incomes toward housing costs.

Most cost-burdened households have low incomes, and a disproportionate number are renters. In fact, renters are 35 percent of nonmetro cost-burdened households while they comprise less than one-quarter of all nonmetro households. Research by the National Low Income Housing Coalition, supported in part by the Housing Assistance Council, shows that nowhere in the United States can a household afford a two-bedroom apartment at the HUD fair market rent with income at the federal minimum wage. Even in very rural places, minimum wage incomes place fair market rents out of reach.

We see these conditions in rural Ohio. The average person in a big city may not think of Ohio as a rural state. But in fact Ohio has the fourth largest rural population among the 50 states, with over 2.1 million people. Of our 640,000 occupied rural housing units in Ohio, 130,000 – over 20 percent – are occupied by families that are cost burdened.

There have been many gains in rural housing quality, largely because of federal programs. But substandard housing still exists in the United States, especially in rural areas and central cities. The frequency of housing inadequacy among nonmetro units is slightly higher than for all housing units. Approximately 1.6 million, or 6.9 percent, of nonmetro units are considered either moderately or severely inadequate. Fully 12 percent of low-income households in nonmetro areas live in physically inadequate housing, and poor housing conditions are disproportionally more common among renters and minority households than among owners and non-minorities.

THE CAC'S WORK IN OHIO

Founded in 1965, the Community Action Commission of Fayette County has been involved in housing development and rehab for many years. CAC has done home weatherizations since 1967; has developed and manages housing for the elderly, disabled and homeless; provides housing counseling; and has developed several rental projects using the Low Income Housing Tax Credit. We have used the major programs of the USDA Rural Housing Service, including the Sections 502, 504, and 515 programs. We also use HUD programs and we are a State-certified Community Housing Development Organization.

Since 1995 the Commission has helped over 100 low-income families become homeowners through the USDA self-help housing program. We are the only USDA self-help housing builder in Ohio. Under this unique program (sometimes described as a "hand up, not a hand out"), we organize groups of eight to ten families, help them qualify for USDA Section 502 single-family mortgages, and work with them as they put over 1,000 hours of sweat equity into the building of their own and their neighbors' homes. No one moves in until all the homes in a group are done. A skilled construction supervisor from our staff works alongside the families, who do 65 percent of the labor. The families don't just paint the walls; they also build them – and the foundation and the roof.

In our self-help work, we have benefitted from the Housing Assistance Council's HUD-funded Self-Help Homeownership Opportunity or "SHOP" program. We have received $850,000 in SHOP funds from HAC and another $800,000 in loans from HAC's Rural Housing Loan Fund. The SHOP funding helps CAC buy the land and put in infrastructure for our self-help homes. HAC and CAC want to thank this Subcommittee for having created the SHOP program in 1996. The CAC's housing work has also received support from HAC and the Enterprise Foundation in the HUD-funded Rural Capacity Building Initiative.

The Commission has also used the USDA Section 504 home repair program, and we developed and now own and manage a 24-unit USDA Section 515 rural rental apartment project. Overall we have had excellent success with the USDA rural housing programs. All of these Rural Housing Service resources have been vital to our ability to meet needs in Fayette County.

Perhaps the best way to illustrate our work and its impact might be to tell you about Julie Allen. She was a single pregnant mother who became homeless after leaving a domestic violence situation in 1996. Our agency housed Julie and her children first in our homeless shelter and then in our supportive housing program. She became involved in our USDA self-help housing program and built her own home in one of our first sweat equity subdivisions in Bloomingburg, Ohio. Today Julie is a homeowner and has an excellent job. Her children are thriving. Last December she was a featured speaker before 800 people at the opening session of HAC's National Rural Housing Conference, speaking about how self-help housing had changed her life. HAC and CAC considered asking Julie to provide this testimony today, but she could not make it, because she is getting married on Saturday.

When I consider Julie Allen and her life, I can think of no better reason to support, continue and expand the USDA Rural Housing Service's programs. Yes, they may need some changes and improvements. They definitely need more funding. But they really have had an enormous impact on the lives of millions of rural people.

ANSWERS TO QUESTIONS POSED BY THE SUBCOMMITTEE

1. What are your general impressions and overview of the Rural Housing Service (RHS) and whether the agency within the U.S. Department of Agriculture (USDA) is meeting its intended purpose and goals?

Based on our many years of experience in rural housing, the Housing Assistance Council and the Community Action Commission believe that RHS is meeting its intended purpose and goals. We also feel strongly that the agency should continue to be a lender of last resort – that is, RHS should continue to make loans to those who cannot obtain them in the private market. This is Rural Development's historic mission, and it should be still if low-income and minority homeownership goals are to be pursued.

Federal housing assistance has played an important role in the production of low- and moderate-income rural housing since the 1930s. Yet, according to a methodology developed by the Housing Assistance Council, only 8 percent of nonmetro households receive some type of federal or other publicly-supported housing assistance.[2] Most are renters. After having successfully produced over 3 million units since 1950, the USDA rural housing programs have been sharply reduced in recent years. The role and impact of these programs in production have been dramatically transformed. A primary example is USDA's Section 515 rural rental housing program, which serves the poorest households. In fiscal year 1994, Section 515 funded 11,542 units of affordable rural rental housing, but in FY 2002 the program funded only 1,757 units -- an 85 percent reduction. The larger Section 502 single-family loan program has also seen deep cuts. These programs need to be maintained and restored. RHS/RD also have had personnel cuts that make it difficult to deliver services.

2. To what extent has the rural housing market changed and how has the Rural Housing Service adapted to meet those market changes? Could you differentiate between the rental and homeownership markets?

The market has clearly changed, as prices have risen, new population groups have moved into rural America, and some rural places have declined as others boom. One major change has been the explosive growth of the rural Hispanic population, which increased by 1.3 million people in the 1990s. Most of this growth has been in the South and Midwest.

In housing the main rural need has switched from quality to affordability. One way in which USDA has responded is to expand dramatically the role of guaranteed (rather than direct) housing loans. The problem with this approach is that it dilutes service to lower-income people who most need the help.

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[2] The number of rental households receiving assistance is estimated from those households who report their income as part of their rental lease, pay a lower rent because the government is paying part of the cost of the unit, or live in a building owned by a public housing authority. Based on the 2001 American Housing Survey, these estimates include federal, state and local government assistance. Data on government subsidized owners in the AHS are limited. The number of homeowners who receive public mortgage assistance is estimated from those households who indicate they obtained a mortgage through a state or local government program that provides lower cost mortgages or have a primary mortgage from the USDA Rural Housing Service. This methodology is assumed to provide an underestimate of the number of subsidized owners. See Housing Assistance Council, *Taking Stock*, p. 33.

There is no way to generalize about rural markets because they vary greatly from place to place. The high proportions of both owners and renters experiencing cost burden indicate that costs in both the rental and homeownership markets exceed the incomes available to many rural residents. The only way to meet their needs is to increase the available subsidies, and RHS has not had the resources to do that.

3. What are your views regarding the Administration's efforts to expand homeownership opportunities for low-income families in rural areas? Are these efforts coordinated with the Department of Housing and Urban Development?

HAC and CAC are very supportive of the Administration's efforts to expand low-income and minority homeownership in rural areas. President Bush, Secretary Veneman, Under Secretary Dorr and RHS Administrator Garcia are to be congratulated on this initiative. HAC has been a leader in this arena for over 30 years, having made our first loans to support rural self-help homeownership developments in 1972.

As for coordination with HUD, the Memorandum of Agreement signed between Secretaries Martinez and Veneman on June 16 is an excellent start. We also would observe that homebuilders and nonprofits (such as CAC) have been coordinating HUD, USDA and other programs for decades. They have learned to coordinate out of necessity. In truth our experience is that RHS and HUD staff do not coordinate much at the local level.

Other creative ideas that could promote homeownership include the Rural Housing Tax Credit Act (HR 1913), which was recently introduced by Reps. Davis, Leach, Ross, Hinojosa and Lucas; the American Dream downpayment assistance initiative (HR 1276), sponsored by Rep. Harris; and the President's homeownership tax credit plan.

4. What are your views regarding the definition of rural housing and whether that definition should be adjusted to reach larger cities, e.g. localities up to 50,000 in population?

We are not supportive of this idea, unless substantial new funding were added to serve an expanded population base. There are already many unserved low-income families in the current eligible areas, and funds have been cut in recent years. At the same time we recognize that there is an underserved niche of small cities that are too large for RD eligibility but too small for many other programs.

5. On June 2 the Rural Housing Service published a proposed rule that would consolidate 13 existing regulations. To what extent will this consolidation assist RHS in becoming a more efficient housing agency? Do you have any concerns relating to this consolidation?

Much of the new proposed rule for multi-family housing seems logical and useful. The RHS staff are to be commended for the enormous amount of work that went into this proposal. The proposed new handbooks will provide a great deal of flexibility in the program. However, comments on the rule may be due before the new handbooks are published. We feel that RHS should not require comment on the rule before the public can see and comment on the new handbooks.

We have no other concerns about the rules' consolidation itself. HAC is still reviewing the proposal, and will provide detailed comments to RHS within the comment period. Our comments will relate to changes in RHS policies and procedures being proposed along with the regulatory streamlining. We are pleased to see some added protections for the low-income tenants who occupy RHS multi-family developments. We also support RHS's ideas to shorten the time owners must wait for incentive payments to keep them in the program.

We are concerned, however, about RHS's proposal to change the time period for which a rental project will be obliged to remain available for low- and very low-income tenants. RHS proposes to shorten the restrictive use period from 50 years to 30. However, we believe it is entirely appropriate to impose 50-year restrictions on a loan that is amortized over 50 years, especially since the developer receives substantial assistance from the loan and the program's very purpose is to provide decent, affordable homes for low- and very low-income people.

Some other changes that provide better protection and service for tenants may raise rent levels, thus increasing costs for the Rental Assistance program. We believe this is appropriate. For example, we agree that maintenance reserves should be increased, but believe the standard should be 1.5 percent per year rather than 1 percent.

6. As you may be aware, existing statutes address preservation issues confronted by the Department of Housing and Urban Development. Could you discuss the current status of preservation activities by the Rural Housing Service as well as any complementary programs on the state and local levels? Given the budgetary environment, how can RHS become more effective and efficient? How many units and developments will be affected by expiring contracts over the next 10 years?

Much of the current subsidized rental housing stock is at risk of loss, making the rural rental shortfall worse. Many owners of rental developments with subsidized mortgages from USDA or HUD are seeking to opt out of the subsidy programs by prepaying their mortgages and converting their apartments to market rate rentals. Likewise, landlords can opt out of HUD's Section 8 rental assistance program in search of higher rents and fewer government regulations. RHS units, like HUD's, are covered by preservation statutes, but existing laws do not fully solve the problem.

Nearly 300,000 Section 515 units will be potentially eligible for prepayment within the next few years. The General Accounting Office developed an estimate of 3,872 eligible projects. If these developments fit the portfolio-wide average of 27 units each, 3,872 projects are likely to represent about 104,544 units. GAO's estimate was conservative, however, because it included only developments that are in market areas GAO believes could support a project after prepayment. But an owner's desire to prepay may not be based solely on whether the units can be converted to market rate. It is more appropriate to base a calculation on the number of units that were constructed with loans made between December 21, 1979 and December 15, 1989, since these loans are eligible for prepayment after 15 or 20 years.

Given the rental housing need described above and the federal investment in place, it is essential to preserve these units. The staff in RHS's Office of Rental Housing Preservation are excellent, but the agency has not had the resources necessary for preservation. A minimum of $25 million should be allocated each year to provide the preservation incentives mandated by Congress.

Another cost-effective way to preserve needed units is to promote purchases of expiring use developments by nonprofit organizations. The proposed new multi-family regulations would take a step in this direction by allowing an owner to offer a project for sale to a nonprofit after waiting 15 months for incentive payments.

7. What are your views about the current status of the Section 521 rental assistance program and to what extent do you believe the agency will make administrative and programmatic changes?

Overall the Section 521 program is well run and effective. There is an excess of units funded in the program but unused. RHS has kept these units as a cushion to ensure that there is sufficient funding to renew all expiring contracts. Given that the rural housing annual budget requests are often tight, this procedure seems logical.

Another issue is that RHS has allowed some rental project prepayments where the owner has replaced five-year RA contracts with one-year HUD Section 8 vouchers or certificates. Because Section 521 RA accounts for such a large percentage of the RHS budget, it appears possible that the Department might try to use annual contracts to lessen the budget impact. This could place tenants at risk during funding downturns.

8. What overlaps in housing program services and needs exist between the Department of Housing and Urban Development and the Rural Housing Service? Are there any collaborative efforts between the two housing agencies to maximize efficiency and the taxpayer's investment in housing? Please explain them in your written testimony.

See question 3 above. Overall we see complementing not overlapping programs. Most low-income housing development today needs and uses multiple funding sources. USDA programs are mostly loans and go directly to the builder, nonprofit or family. HUD programs are usually grants passing through state or local government. USDA clearly reaches rural areas more effectively. USDA has a better local rural office network and is closer to the people served. This is very important for remote communities.

9. What are your views on the agency's new construction over the last five years for all the multifamily programs, including section 515 multifamily direct loans and section 538 multifamily loan guarantee programs?

Considering that the Section 515 program was cut drastically in 1994, it is commendable that the agency has managed to maintain some level of new construction. We support continuing funds for new construction, as well as sufficient funding for equity loans in the 515 preservation program.

The Housing Assistance Council estimates that $100 million is required to cover the development of at least one new Section 515 project in each state. Necessary portfolio maintenance requires approximately $50 million per year. A minimum of $25 million is needed for equity loans to owners who wish to prepay. In short, $175 million would cover minimal essential activities under Section 515. We believe the program should be funded at $550 million, and suggest that Congress begin by appropriating $300 million for FY 2004.

Another very useful idea to create new units is the Rural Rental Housing Act (HR 1722), which is sponsored by Reps. Hinojosa and Davis.