

**RURAL HOUSING SERVICE**

**Statement of Thomas C. Dorr, Under Secretary, Rural Development,  
before the House Subcommittee on Financial Services.**

Mr. Chairman, Members of the Committee, I appreciate the opportunity to come before this committee to share with you an update of USDA's Rural Development and its related programs. I look forward to answering questions from your July 1, 2003, correspondence in today's testimony and by follow-up written response.

Rural Development is the venture capitalist for Rural America. It is with this vision in mind that Rural Development's mission has been designed to deliver programs in a way that will support 1) increasing economic opportunity and 2) improving the quality of life for rural residents. This is accomplished through programs administered by Rural Housing Service (RHS), Rural Business Cooperative Service (RBS) and Rural Utility Service (RUS).

Rural Development and its partners provide equity, liquidity, and technical assistance to finance and foster growth in existing and new communities for homeownership, business development, and critical community and technology infrastructure. Housing is an essential part of that infrastructure.

The RHS serves as a foundation for helping rural families build wealth through homeownership and by providing safe, decent, and affordable rental housing.

Working with oversight agencies, we are implementing a number of improvements to build a stronger housing program. I appreciate the opportunity to share some of those with you today.

Last month, we celebrated National Homeownership Month through promotion of the Self-Help Housing program and other housing initiatives.

In the Single Family Housing Programs, we are carrying out the President's vision through the USDA Five-Star Commitment, which includes:

- Lowering Fees to Reduce Barriers to Minority Homeownership
- Doubling the Number of Self-Help Housing Participants
- Increasing Participation by Minority Lenders through Outreach
- Promoting Credit Counseling and Homeownership Education
- Monitoring Lending Activities to Ensure a 10 percent Increase in Minority Homeownership

The FY03 budget allowed us to transfer \$11 million in carry-over Section 523 funds to our Section 502 guaranteed homeownership program. This transfer allowed us to leverage an additional \$900 million in Section 502 guaranteed homeownership funds. These funds enabled over 11,000 families to achieve the dream of homeownership.

On June 16, 2003, Rural Development hosted the first Rural Housing Summit at the National Press Club entitled “Reaching for the Stars – A Commitment to Rural Housing”. This well-attended summit was successful in bringing together a diverse representation of rural stakeholders and resulted in the signing of two formal Memoranda, which promote RHS partnerships with HUD and FDIC.

RHS has undertaken a major redevelopment and consolidation of Rural Development regulations affecting the sections 514, 515, 516, and 521 Multi-Family Housing (MFH) programs. A proposed rule that consolidates 13 regulations and a number of administrative notices was published in the Federal Register on June 2, 2003, with a comment period to last 60 days.

The goal of this proposed rule is to make the MFH programs more customer-friendly, streamline processes, reduce costs to the taxpayer, and increase the Agency's level of customer service. The rule was developed through collaboration with recognized leaders in the multi-family industry. We have created a series of draft handbooks that will be available electronically to the field staff and to our applicants, borrowers and partners. These handbooks provide “how-to” guidance on loan origination, asset management, and loan servicing. The paperwork burden will be reduced by 25 percent through this proposed rule.

## **Section 515 Rural Rental Housing Program**

The RHS Section 515 Program, used in conjunction with Section 521 Rental Assistance, provides a source of funding for the construction, repair and rehabilitation of affordable housing to families who need it most. The Section 515 program helps to avert rural homelessness and operates with an extremely low delinquency rate of 1.7 percent .

In FY 2003, new projects have been selected for funding totaling \$23,616,151. The projects will contain 984 units, of which 535 units will receive rental assistance. The positive social and community impact resulting from the inflow of program dollars to local communities includes, but is not limited to, the creation of approximately 885 jobs and \$4.9 million in tax revenue to local governments.

Because the Section 515 Program involves direct Rural Development MFH loans, our staff works daily and directly with tenants, community leaders, management agents, and borrowers. This front line involvement by knowledgeable Rural Housing field staff provides first-hand experience in dealing with the issues and problems faced by the disadvantaged rural American.

## **MFH Section 514/516 Farm Labor Housing Program**

Housing for farm workers represents a challenge for rural America. The Agency has committed a total of \$46 million to fund 27 proposals in

FY2003, which will produce 925 units. Of these units, 696 are off-farm, which received nearly 100 percent rental assistance.

The FY 2004 proposed budget for Farm Labor Housing includes \$42 million in loans and \$17 million in grants. These funds will be used to construct approximately 1,700 new housing units for migrant and farm workers. Providing adequate housing for farm laborers is essential to maintaining a dependable and viable agricultural workforce.

### **MFH Section 538 Guaranteed Loan Program**

The MFH Guaranteed Loan Program is designed to serve low to moderate-income residents, and is used to supplement the direct loan program, but was not intended to replace it. These moderate-income families typically do not qualify for very low income rental housing, but still cannot afford the expense of home ownership. In the case of many senior citizens, some may no longer desire to be homeowners. It should be noted that 80% of the section 538 proposals contain tax credits, which means that the housing serves people making less than 60% of the area median income.

The section 538 guarantee reduces the reluctance of lenders to participate in financing properties in rural areas that involve smaller loans, higher risks, less profitability, and require more involved underwriting. The guarantee also creates affordability by allowing amortizations up to 40 years.

A proposed rule was published June 10, 2003, which contains two critical amendments aimed at improving the program's secondary market

participation. First it would allow RHS, in case of default, to buy back guaranteed loans from the investor. This practice is currently utilized by Rural Development's other guaranteed loan programs. As a result of the liquidity given to the investor, lenders are able to offer lower interest rates because investors pay a premium for the liquidity. Second, the proposed rule would lower the minimum level of rehabilitation work from \$15,000 per unit to \$6,500 per unit when loans are used for acquisition and rehabilitation. These changes are in line with the industry, and improve the efficiency of identifying repair needs.

The President's FY 2004 budget includes \$100 million for the Section 538 Guaranteed Loan Program. Multi-family Housing proposes to build 2,700 units. To clarify past reporting of funds used, we have changed our performance reporting to measure units selected for funding versus units built.

### **Leveraging of Resources**

In an effort to find new ways to deliver housing programs, the agency has been proactive in finding ways to leverage its funds. Leveraging not only extends limited program funds, but it helps create valuable private/public business partnerships in local communities. Recent successes have included developing set asides of tax credits for MFH properties in several states. To bring additional funds to RHS properties to assist in meeting the demands for rehabilitation and preservation equity needs, are also working on partnerships with Fannie Mae, the Federal Home Loan Banks and several state Housing Finance Agencies. We have a Memorandum of

Understanding with Freddie Mac. We are working with Ginnie Mae to allow their participation in the Guaranteed Loan Program.

### **Comprehensive Property Assessment**

The Section 515 Rural Rental Housing program currently has 17,314 properties that contain 465,426 units in the portfolio as of June 2003. These properties have an outstanding indebtedness to the Government of over \$11.8 billion. The Comprehensive Property Assessment (CPA) is designed to provide an evaluation of the state of the portfolio.

In March of this year, we began the formation of a Multi-family Housing Advisory Group consisting of National office leaders, State Directors and Program Directors to oversee completion of this study. We have determined that data for several sections of the CPA are available in our existing accounting and management systems. The study will provide data and analysis for evaluating the entire portfolio. Our target date for completion of the CPA is early 2004.

### **Prepayments and Preservation of the Portfolio**

Prepayments continue to challenge RHS' ability to retain needed affordable housing in rural America. Over 64% of our borrowers are eligible to prepay their loans because of expiring use restrictions. We continue to look for creative solutions to address limitations that have resulted in litigation from borrowers who wish to exit the program. The CPA will assist us in

determining the likelihood of a property to prepay based on market data analysis.

### **Multifamily Automation and Improvements to the RA Forecasting Process**

Rural Development has taken significant steps toward automating its multifamily portfolio information and modernizing the forecasting of rental assistance usage. The MFIS (Multifamily Information System) computer system continues to undergo development. The current iteration will interconnect with all the RD state offices as well as USDA's Automated Multifamily Accounting System (AMAS). This merging of systems will provide physical, financial and management information to RD staff to make informed rental assistance management decisions. It is expected that we will automate RA forecasting by November 1, 2003.

Meeting E-gov and E-commerce goals is one of the objectives of our new system. A critical component of the most recent version of MFIS was to upgrade the Industry Interface currently using dial up connectivity to the web enabled Management Agent Interactive Network Connection (MINC). No special software is needed to transmit this information via the web. MINC enables any borrower or management agent to electronically submit tenant and budget information directly to the Agency using the web.



## **Improvements to the Rental Assistance Forecasting Process**

We have undertaken an effort to improve forecasting methods of rental assistance usage. Predicting the use of rental assistance has taken many forms over the last 25 years and various methods were used to determine obligation amounts. When the program started in 1978, rental assistance needs were overestimated, mostly due to newness of the program. A recent analysis of the accuracy of these projections over the last 6 to 7 years reveals that estimating methods are becoming more accurate than in the past.

Implementation of the forecasting model will improve upon these current methods. The Agency has developed a working group consisting of staff from the Department's IT Systems Services Division, the Financial Management Division, national office and field staff, and private contractors. We plan to implement this improved process by November 1 of this year.

## **Servicing Goals**

To improve MFH program servicing, Rural Development's National Office has implemented servicing goals to achieve better asset management of the multifamily portfolio. The reporting of goal achievement is automated, which makes monitoring by the Portfolio Management Division more efficient.

## **General Accounting Office**

Rural Development staff at the National office and at our St. Louis financial and technology center continue to work closely with GAO staff and other oversight agencies to improve program delivery. Many of the issues raised in GAO's review will be addressed through issuance of the final rule 3560 and implementation of the RA forecasting tool.

## **Conclusion**

Rural Development is uniquely qualified to meet housing needs of rural America through our network of nearly 800 field offices across the United States and incorporating cross-cutting programs offered by RHS, RUS and RBS.

It is our intent to make significant progress on the administration and servicing of the Multifamily Housing Program to run a strong, viable rural housing program. With your continued support, Rural Housing Service looks forward to continuing to work with Congress to provide decent, affordable housing to very low, low, and moderate income rural Americans.

Mr. Chairman, this now concludes my testimony.