

MEMORANDUM

To: Members of the Committee on Financial Services

From: FSC Majority Staff

Date: May 14, 2015

Subject: May 19, 2015, Housing and Insurance Subcommittee Hearing on “The Future of Housing in America: Oversight of the Rural Housing Service”

The Subcommittee on Housing and Insurance will hold a hearing entitled “The Future of Housing in America: Oversight of the Rural Housing Service” on Tuesday, May 19, 2015, at 10:00 a.m. in Room 2220 of the Rayburn House Office Building. The purpose of the hearing is to provide Members with the opportunity to receive testimony from the Rural Housing Service (RHS) on its budget priorities for fiscal year 2016, the agency’s overall performance, and its future goals and challenges.

This will be a one-panel hearing with the following witnesses:

- Mr. Tony Hernandez, Administrator, Rural Housing Service, U.S. Department of Agriculture
- Mr. Mathew Scire, Director, Financial Markets and Community Investment, U.S. Government Accountability Office

Rural Housing Service

Established by Title V of the Housing Act of 1949 (P.L.81-171), the RHS is a federal agency housed in the U.S. Department of Agriculture charged with providing affordable housing for low- to moderate-income rural families. RHS programs are intended to facilitate homeownership, develop rental housing, and promote community development through loan and grant programs in rural communities plagued by poverty, substandard homes, housing shortages, costly development, and inadequate access to mortgage loans.

For its FY 2016 budget proposal, RHS requests a total budget authority of \$1.39 billion, supporting a program level of approximately \$28.73 billion in loans, loan guarantees, grants, and technical assistance.¹

¹ Testimony of RHS Administrator Tony Hernandez, before the House Appropriations Committee, Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies, March 18, 2015, available at <http://docs.house.gov/meetings/AP/AP01/20150318/103115/HHRG-114-AP01-Wstate-HernandezT-20150318.pdf>.

Eligible Communities

To qualify for RHS programs, a community must meet the statutory definition of a “rural area” using the most recent decennial census data. As of September 30, 2014, the following three-pronged test determines if communities remain eligible to participate in RHS programs: (1) the population does not exceed 35,000, (2) the area is rural in character, and (3) the area has a serious lack of mortgage credit for lower- and moderate-income families. Areas that meet all three of these standards can continue to remain eligible until receipt of data from the decennial census in the year 2020.

The following is a list of rural housing programs under the jurisdiction of the Financial Services Committee:

Single-family Rural Housing Programs

- **Section 502 Housing Direct Loan Program:** This loan program provides financing with no down-payment and at favorable rates. Low- or moderate-low-income individuals may use these loans for the purchase, construction, rehabilitation, or relocation of a dwelling and related facilities.
- **Section 502 Housing Guaranteed Loans:** This loan program provides guarantees on loans to low- and moderate-income families in order to encourage private lenders to offer 30-year mortgages to rural residents who would otherwise be unable to obtain credit.
- **Section 504 Rural Housing Repair and Rehabilitation Loans:** This loan program provides loans to very low-income rural residents who own and occupy a dwelling in need of repair. Loan recipients can use the funds to improve or modernize a home or to remove health and safety hazards. This loan is a 1 percent interest rate loan that may be repaid over a 20 year period.
- **Section 504 Rural Housing Repair and Rehabilitation Grants:** These grants are available to dwelling owners or occupants who are 62 or older. Grant recipients may use these funds only for repairs or improvements to remove health and safety hazards, or to complete repairs to make the dwelling accessible for household members with disabilities. The amount of the grant is based on the applicant’s ability to repay and must be used in conjunction with a Repair and Rehabilitation Loan. There is a lifetime maximum grant amount of \$7,500.
- **Section 523 Mutual Self-Help Housing Loans:** These loans are for very low- and low- income households that wish to build their own homes. The program is directed to families that cannot buy housing through conventional methods. Families participating in a mutual self-help project perform approximately 65 percent of the construction labor on each other’s homes under qualified supervision. If families cannot meet their mortgage payments during the construction phase, the funds for these payments can be included in the loan.

- **Section 523 and 524 Rural Housing Site Loans:** These programs provide loans to public or private non-profit organizations to buy and develop building sites, including the construction of access roads, streets, and utilities. Sites developed under this program may be sold to individual households, non-profit organizations, public agencies, and cooperatives that provide financial assistance for housing to low-and moderate-income families. Public or private non-profit organizations use Section 523 loans to acquire and develop sites only for housing to be built through self-help. Public or private non-profit organizations use Section 524 loans to acquire and develop sites for any low-or moderate-income family.
- **Self-Help Technical Assistance Grant:** These grants provide funding to non-profit organizations to provide technical assistance to low-and very low-income households to build their own homes in rural areas. Funds may be used to pay salaries, rent, and office expenses of the non-profit organization.

Multi-family Rural Housing Programs:

- **Section 515 Rural Rental Housing Loans:** Rural Rental Housing loans are made to developers to finance building construction and site development of multi-family living quarters for people with low, very low and moderate incomes. Some units are reserved for people aged 62 and older. Loans can be made to individuals, trusts, associations, partnerships, limited partnerships, state or local public agencies, consumer cooperatives, and profit or nonprofit corporations.
- **Section 514 and 516 Farm Labor Housing Loan and Grant Program:** This program provides financing for the development of housing for domestic farm laborers. Under this program, loans and grants are given to farmers, associations of farmers, family farm corporations, Indian tribes, nonprofit organizations, public agencies, and associations of farmworkers. Recipients may use program funds in urban areas that are a source of farm labor.
- **Section 533 Housing Preservation Grant Program (HPG):** The HPG program provides grants to sponsoring organizations for the repair or rehabilitation of low-and very low-income housing.
- **Section 538 Multi-family Guaranteed Loan Program:** This program provides loan guarantees for the construction, acquisition, or rehabilitation of rural multi-family housing.
- **Section 521 Rental Assistance Program (RA):** This program provides additional support for households with incomes too low to pay the RHS-subsidized rent. The RHS pays the owner of a multi-family housing complex the difference between the tenant's contribution, which is 30 percent of adjusted income, and the monthly rent.

RHS Portfolio

As of March 31, 2015, the following is the portfolio amount for the major housing programs operated by the Rural Housing Service:

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RHS Program	Outstanding Balance
Single Family Direct Loans	\$15.72 billion
Single Family Guaranteed Loans	\$107.79 billion
Multifamily Direct 515 & 514 Loans	\$10.85 billion
Multifamily 538 Guarantee Loans	\$825 million