Council for Affordable and Rural Housing
Serving the Affordable Housing Needs of Rural America

TESTIMONY OF KATHERINE M. ALITZ ON BEHALF OF THE COUNCIL FOR AFFORDABLE AND RURAL HOUSING

BEFORE THE SUBCOMMITTEE ON INSURANCE, HOUSING AND COMMUNITY OPPORTUNITY, HOUSE FINANCIAL SERVICES COMMITTEE

LEGISLATIVE PROPOSALS TO DETERMINE THE FUTURE ROLE OF FHA, RHS AND GNMA IN THE SINGLE-AND MULTI-FAMILY MORTGAGE MARKETS

May 25, 2011

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I am the President of the Council for Affordable and Rural Housing, and on behalf of myself and CARH, I want to thank the Committee for the opportunity today to submit written testimony about the importance and need to support federal rural housing programs, and address the draft legislation.

CARH members house hundreds of thousands of low-income, elderly and disabled residents in rural America. CARH has sought to promote the development and preservation of affordable rural housing throughout its 30 year history as the association of for-profit, non-profit and public agencies that build, own, manage and invest in rural affordable housing.

In rural areas throughout the country, there continues to be an overwhelming need for affordable housing. With lower median incomes and higher poverty rates than homeowners, many renters are simply unable to find decent housing that is also affordable. While the demand for rental housing in rural areas remains high, the supply, particularly of new housing, has decreased. This is in large part due to a reduction in federal housing assistance. Neither the private nor the public sector can produce affordable rural housing independently of the other. It has been and should be a partnership. CARH and its members continue in their commitment to provide safe, decent and affordable housing for individuals who live in rural areas.

My comments will focus on the later portions of the draft legislation, which concern rural housing. As I note below, CARH is very much focused on saving the Section 538 Guaranteed Rural Rental Housing program from elimination. Section 14 of the draft legislation proposes a fee-based system to continue the program. We hope that the Section 538 program revisions move forward with all due speed as projects, and the good housing and good jobs they bring, are waiting to proceed as we speak.

CARH also appreciates the interest in streamlining federal housing program administration. We heard the President in this year's State of the Union address to Congress question why we had multiple housing agencies and that we need to consolidate government operations. We do need to remember that the different federal housing agencies did not develop arbitrarily but in response to different housing needs. Any consolidation of functions must still serve to address the continuing housing needs and the different constituencies.

CARH members continue to review the issue, as there are pros and cons. The notion of moving some parts of Rural Development ("RD") to the U.S. Department of Housing and Urban Development ("HUD") has been a discussion topic in the past, including the 2000 Government Accounting Office study *Rural Housing: Options for Optimizing the Federal Role in Rural Housing Development.* The draft legislation circulated in advance of this Hearing is the first serious legislative proposal we can recall on this topic. As such it merits further discussion among the housing industry and the affected authorizing and appropriating committees before moving forward.

The key is we must make sure that whatever the context, budget support remains with the program functions. There must also be opportunity to not lose the institutional memory built up by certain long term RD employees. One potential benefit of consolidation is to align congressional oversight so House and Senate authorizing and appropriations committees are the same for rural housing as for other housing programs.

CARH believes that certain programs must be continued, albeit in some instances, modified. In rural America, the key rental housing programs have been and remain the RD multi-family programs. RD programs often work in tandem with other federal housing programs but in rural America, RD multi-family housing programs cannot be replaced. The RD single family housing has drawn most of the attention devoted to RD housing programs. The multifamily portfolio, which consists of more than $11 billion in Section 515 loans alone, has for too long been ignored. The collapse of the single family housing markets is strong evidence of the need to strike a balance with rental housing. Now that there appears to be some stability in the market place, we would urge this Committee to refocus on the affordable rental housing stock.

The Administration's FY2012 budget request is notable in that it eliminates one of the most successful and low cost programs currently in use by RD, the Section 538 Guaranteed Rural Rental Housing program. The Section 538 program is limited to low- and moderate-income rural residents though most residents are low or very low income. Qualifying properties include either new construction or acquisition/rehabilitation of existing multi-family properties. CARH strongly supports a program level of at least $129 million.

The Administration's rationale for eliminating this program was that there are duplicative programs at HUD, but HUD does not currently have any programs that duplicate Section 538. HUD's multifamily mortgage insurance programs are designed for larger, more expensive properties than we generally see in rural areas. The HUD multifamily programs are also not compatible with preservation activities for the existing Section 515 RD properties. Both by contract or statute, Section 515 owners cannot freely prepay their mortgage loans, and indeed, RD laws and regulations require preserving these properties. Because of these restrictions, the HUD programs cannot be used to simply prepay or replace the Section 515 loans. The Administration's other rationale was that the Section 538 program was too expensive. However, the Administration's subsidy rate calculations are incorrect and mistakenly overstate costs. Our findings are similar to GAO's recent findings in its March 2011 report "Rural Housing Service, Opportunities Exist to Strengthen Farm Labor Housing Program Management and Oversight", where GAO found that RD overstated the credit subsidy cost for the Farm Labor Housing programs, also known as Section 514 program. The Administration also fails to consider the underwriting changes implemented in FY2005, reducing the subsidy cost.

Notwithstanding the Administration's mathematical errors and factual oversights, we believe the Section 538 program can be rendered revenue neutral or virtually so. Interestingly, the Section 538 statute already allows the U.S. Department of Agriculture ("USDA") the discretion to charge a fee, but appropriations language in each appropriations law since the Omnibus Appropriations Act of 2009 has prohibited RD from charging that fee. We understand that Appropriations language was added by Congress in an effort to help borrowers as an offset for the elimination of interest subsidy in the program. But the unintended consequence is it removed flexibility that already existed in the program. CARH strongly supports Section 14 of the draft legislation, entitled "Guarantee Fees for Rural Multifamily Rental Housing Loans." This Section would restore financial balance to the program while saving federal appropriations.

While the Section 538 program may well be RD's most effective rental housing development and job creating program, the main program that finances existing housing is the Section 515 Multi-Family Rural Rental Housing program which has produced more than 15,000 apartment complexes with more than 400,000 units. This direct loan program is one of the few resources that enable the very low-income and low-income renters in rural America to access decent, safe, and affordable housing. The Section 515 program also reduces homelessness and overcrowding. The demographics of the residents in these complexes are as follows: the average annual tenant income is $10,500; 72% of the households in the complexes are headed by women; 41% are headed by an elderly person; and 26% of the households are headed by a minority. CARH urges Congress to support this program. Historically, the Section 515 program was funded at more than $900 million a year. Today, the 515 budget provides enough maintenance funding to support minimal operations and has been less than $100 million a year. We urge Congress not to cut the lifeline that is left for this program.

The Section 521 Rental Assistance ("RA") Program is an essential component of the Section 515 and 538 programs and is a lifeline for extremely low income rural residents. The program provides deep subsidy to very low-income residents, providing the difference between 30% of a resident's income and the basic rent required to operate the property. The RA program is similar to HUD's Section 8 program, but one major difference is that RA is tied to the Section 515 mortgage and cannot be separated without legislative changes, where Section 8 can be a stand alone funding source.

We are most concerned with the implication in the FY2012 budget of reducing RA to $907 million. That is an unsustainable reduction, which may result in the loss, eviction and anticipated homelessness of residents in some 400 apartment complexes in rural America. RD has openly discussed how it anticipates meeting this numerical reduction by reducing the number of RA recipients—through foreclosure of the Section 515 loans or by pressing for prepayment—and then offering rural vouchers. RD knows that on average two-thirds of residents do not pursue vouchers. It is in residents' vested self interest to pursue vouchers. We believe that elderly, disabled, or over-whelmed residents are simply unable to cope with the voucher processing. The net result surely will be to materially increase homelessness in rural America. Any transfer of functions would certainly have to address such issues.

To the extent that Congress is looking to past funding levels, we believe it is important to explain that RA budgets have not increased in any real sense, though the budget amount has increased. For approximately the past five years, Congress has sought to convert RA contracts from multi-year allocations to single year allocations. This creates a short-term budget savings. Since FY 2009, RA contracts between RD and rental housing owners have been for one year terms. During the prior several years RD converted RA contracts from five-year contracts, then two-year contracts, then one-year contracts. For example, if Congress goes back to FY2008 without adjusting for the budget changes made to realize past budget savings, it will dislocate over 100,000 residents.

Moreover, the conversion to annual contracts has added to the cost of the program cost as operators and RD have to reprocess RA contracts each year. It has also added uncertainty, chilling private capital participation. CARH believes it is important for Congress to authorize RA contracts for 20 years, subject to annual appropriations, to alleviate the administrative burden and uncertainty, without adding to program cost. For FY 2012 CARH urges full funding at the FY 2010 level of $971 million. We also urge in that amount Congress include funding for preservation RA, which allows RD to extend affordability and preserve existing Section 514 and 515 properties.

The Administration's FY 2012 budget request also eliminates the Multi-Family Housing Revitalization Program ("MPR"). The MPR program has operated as a demonstration program since being authorized by Congress in Fiscal Year 2006. The intended effect of the MPR program is to restructure selected existing Section 514/515/516 loans and grants expressly for the purpose of ensuring that sufficient resources are available to preserve the rental complexes for the very low, low and moderate income residents who live in these complexes. Expectations are that properties participating in this program will be revitalized and the affordable use will be extended without displacing residents because of increased rents. The Administration's budget justification states that owners are able to prepay their Section 515 loans. This is false and contradicts court precedent and RD's own regulations. The Administration also uses as a justification that MPR has funded the most cost-effective repairs. This too is false. There is nothing remarkable to distinguish the approximately 400 MPR approvals to date from more than 15,000 other Section 515 projects. Owners who participate in MPR receive no benefit, no fees and in fact must navigate complicated income tax issues that result from any mortgage restructuring. MPR is a difficult program but an important tool for some properties to protect residents. CARH supports permanent authorization and we suggest this can be achieved on a revenue neutral basis. Our suggested permanent authorization language is as follows:

> ()In General. The Secretary is authorized to make available financial assistance for the preservation and revitalization of the Section 514, 515, and 516 multi-family rental housing properties to restructure existing USDA multi-family housing loans and grants, for the purposes of ensuring the project has sufficient resources and to preserve the project for the purpose of providing safe and affordable housing for eligible residents.
>
> ()Assistance. Such assistance may include, but not be limited to:
>
> () reducing or eliminating interest;
> () deferring loan payments;
> () subordinating debt to new debt from the Secretary or other agencies or parties;

() reducing or re-amortizing loan debt; and

() other financial assistance including advances, payments and incentives (including the ability of owners to obtain reasonable returns on investment).

()Long term use. The Secretary shall as part of the preservation and revitalization agreement obtain a restrictive use agreement consistent with the terms of the restructuring. Such term shall not be less than 30 years from the provision of execution of the agreement.

()Fee. The Secretary may approve and collect a fee from a participating owner, equal to no more than 10% of the cost of the assistance to that owner under this program.

() Existing Authority. The Secretary presently has issued regulations that include some of these forms of assistance, but not as part of this program. Nothing herein shall be construed as limiting the Secretary's existing authority in any way.

We appreciate the Committee's efforts to balance the needs of rural America's elderly, disabled and working poor with our ongoing budget issues. The rural programs have been and remain our most efficient federal rental housing programs and a resource rural America cannot afford to lose. We understand that the RD Under Secretary has been emphasizing RD's business programs and business development in rural communities. We appreciate the emphasis on business because rural housing preservation creates the same kinds of good construction jobs as RD business programs and also provides a place for people who work in businesses to live. However, housing needs to be re-established as a rural priority.

United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	**2. Organization or organizations you are representing:**
Katherine M. Alitz	Council for Affordable and Rural Housing
3. Business Address and telephone number:	
[redacted]	
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	**5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?**
☐ Yes ☑ No	☐ Yes ☑ No
6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.	
7. Signature: Kate Alitz	

Please attach a copy of this form to your written testimony.