THE FUTURE OF HOUSING IN AMERICA: OVERSIGHT OF THE RURAL HOUSING SERVICE

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND INSURANCE

OF THE

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U.S. HOUSE OF REPRESENTATIVES

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THE FUTURE OF HOUSING IN AMERICA: OVERSIGHT OF THE RURAL HOUSING SERVICE

Tuesday, May 19, 2015

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING
AND INSURANCE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2220, Rayburn House Office Building, Hon. Blaine Luetkemeyer [chairman of the subcommittee] presiding.

Members present: Representatives Luetkemeyer, Pearce, Hurt, Stivers, Barr, Rothfus, Williams; Cleaver, Green, Ellison, Beatty, and Kildee.

Ex officio present: Representative Waters.

Chairman LUETKEMEYER. The Subcommittee on Housing and Insurance will come to order. Without objection, the Chair is authorized to declare a recess of the subcommittee at any time.

Today's hearing is entitled, "The Future of Housing in America: Oversight of the Rural Housing Service."

Before I begin, I would like to thank the witnesses for appearing before the subcommittee today. I look forward to your testimony.

I realize that we don't have—there are only two clocks here that tell time for the witnesses and/or the rest of the members of the subcommittee. We will try and give you a little heads-up whenever we get down to the 30-second mark. But as everybody knows, you have 5 minutes to ask your questions. And at that point, we will try to be a little bit liberal because of the lack of clock time to actually know when you are going to be gaveled out. But as far as that goes, our witnesses are here today and we certainly welcome them.

I would like to recognize myself for 3 minutes to give an opening statement.

Like many of my colleagues, I represent a rural area. My hometown has 336 people. It is a place where it takes several jobs to make a living, and where the incredible benefits of living in rural America far outweigh the challenges.

These aren't areas that easily attract major construction projects or real estate investors. There is limited housing, particularly for those in need of affordable rental housing. That is why the mission of the Rural Housing Service (RHS) is important. That is also why this subcommittee will dedicate time today and in the future to examine the objectives, successes, and opportunities for improvement of RHS.

Last week, I met with a REALTOR® from Miller County, Missouri. The bulk of her business is with RHS. This isn't a REALTOR® making a living off of million dollar home sales. This is someone who has spent her adult life in my community and has focused solely on helping qualified borrowers in Miller County get into a home they can afford and have the opportunity to live the America Dream.

It sounds like the process of dealing with RHS can be a big nightmare. There is little to no continuity across government programs, and there seems to be a significant lack of flexibility for RHS customers. Its systems are outdated and incredibly inefficient. The real estate agent from Miller County tells each of her customers to photocopy and file every check sent to RHS because RHS loses, in her experience, an average of at least one mortgage check a year per household.

It is 2015, and we have a program that operates like it is 1975. A status quo isn't acceptable. Rural Americans deserve more. RHS should heed suggestions immediately by GAO and increase interagency collaboration and consider consolidation where appropriate. It is incumbent upon this committee to ensure that RHS is also appropriately managing risk.

RHS oversees a $120 billion portfolio in direct loans and loan guarantees, but doesn't have a chief risk officer or modern underwriting systems in place. That is why GAO is currently studying the RHS risk management practices in addition to specific housing assistance programs and duplication of Federal housing programs.

Today's hearing will allow those concerned with the future of housing—members of this committee, and people across rural America—to better understand the challenges facing rural housing and the opportunities to improve a system plagued with inefficiencies. We continue to see throughout the Nation an overwhelming need for affordable housing, and we need to ensure that RHS is doing everything in its power to fill that need.

I want to thank the witnesses for appearing today. We look forward to your testimony.

The Chair now recognizes the ranking member of the subcommittee, the gentleman from Missouri, my colleague and friend, Mr. Cleaver, for 5 minutes for an opening statement.

Mr. CLEAVER. Thank you, Mr. Chairman.

Housing is always an important discussion for me, for a number of reasons. Some of them, maybe the majority of them, are from my own personal life experience. I often say to groups in both the urban part of my district, Kansas City, Missouri, and in the rural parts of my district, the eastern part, that there is a symbiotic relationship between urban and rural.

I actually wish—and this will never happen during my lifetime—that all congressional districts could be designed where there is an urban and a rural component. Because I think we would have far fewer political conflicts. And one of the unintended blessings for me when the district lines were redrawn is that I was given 3 rural counties, counties that were previously represented by Congressman Ike Skelton, who had been here 34 years and was born and raised in one of those counties, Lafayette County.

So I am very, very happy whenever we get into these issues. I think my district represents a microcosm of the Nation. I think everybody is there.

The RHS program, which is operated by the USDA, provides the kinds of housing options that do not exist outside of rural America. The 502 Guaranteed Program offers borrowers an opportunity for homeownership with no money down. And it keeps rural families where they desire to live, in rural America.

In my own district, 346 loans were administered in Fiscal Year 2013. And Missouri ranked as 7th in the Nation in administering the Guaranteed Rural Housing Program. The Section 502 Direct Loan Program is one of only a few programs in the Nation which is targeted to low- and very-low-income rural families.

And contrary to what perhaps many urban dwellers believe, people in rural areas are in many instances struggling like people in the urban core. Given the lack of credit options, the unacceptable rates of poverty, and the limited housing choices facing many in the rural areas, we must continue to keep the USDA housing programs well-funded and productive.

In fact, I think we need additional funding. And, of course, I agree with the Chair that there are some things we can do better to streamline the programs that we are operating. But I am not so sure that we cannot do both: streamline the programs; and make sure that adequate funding is there.

Finally—and I guess I do need to mention this just because it makes me feel good—the central collection and service center for this program operates in our State, in St. Louis, Missouri. Why did I mention that? Because I can, and because I want everybody to know.

So I want to thank the witnesses. And I am very, very interested in having a dialogue with you as we move through this hearing.

Thank you, Mr. Chairman.

Chairman LUETKEMEYER. I thank the gentleman.

We will now turn to our witnesses. Today, we welcome the testimony of Mr. Tony Hernandez, the Administrator of the Rural Housing Service at the U.S. Department of Agriculture; and Mr. Mathew Scire, the Director of Financial Markets and Community Investment at the the U.S. Government Accountability Office.

Each of you are recognized for 5 minutes to give an oral presentation of your testimony. And without objection, each of your written statements will be made a part of the record.

Mr. Hernandez, we will start with you. You are recognized for 5 minutes. Welcome.

STATEMENT OF TONY HERNANDEZ, ADMINISTRATOR, RURAL HOUSING SERVICE (RHS), U.S. DEPARTMENT OF AGRICULTURE

Mr. HERNANDEZ. Thank you, Mr. Chairman. I am glad to be here. Chairman Luetkemeyer, Ranking Member Cleaver, and members of the subcommittee, thank you for the opportunity to testify regarding the work we do to support rural families and communities.

As Administrator, I have the privilege of managing programs that turn dreams of homeownership into reality. We provide rental housing that families can afford. And we develop facilities like hospitals, fire stations, and schools that are essential to a thriving rural America. Our housing programs only serve rural families with limited incomes, a segment market that private lenders and landlords rarely reach.

Through mortgage lending and guarantees and rental assistance to private property owners, we help sustain and grow rural economies. To do this effectively, the majority of our staff lives and works in the areas they serve. We are a storefront operation.

Our staff works in America's small rural towns. They focus our programs on the specific economic challenges and opportunities within their arena. This intimate hands-on approach is what makes us unique and effective. We provide the support and direct oversight necessary to serve families with limited resources.

We remain committed to continuous enhancements of our service to the public through predictability, consistency, accuracy, and enhanced communication. These four elements are guiding our process improvements at the Rural Housing Service. During my tenure, we are embracing innovation improvement through automation and streamlining. We are utilizing technologies to create efficiencies that benefit rural families, our lenders, our staff, and ultimately, the taxpayers.

In April, we modernized the Guarantee Single Family Loan Program by implementing a paperless operation. Field offices are now able to transact business with approved lenders electronically. This has resulted in significant savings of paper, postage, and most importantly, time.

We estimate that more than $4 million nationwide will be saved in just 1 year through paperless processing. Similarly, we have begun rolling out new assessment and underwriting tools in our multi-family program. These will improve our transfer process from a willing seller to a willing buyer. It will be more transparent and attract more nonprofits to partner with us. This will extend the value of the Federal investment to over 400,000 rural rental properties.

Our goal for 2016 is providing more than 170,000 rural residents the assistance needed to become homeowners through 25 billion direct loans and guarantees. Multi-family housing programs request just over $1 billion, with the fund—the renewals of nearly 250,000 rental assistance agreements and support over 5,000 new units.

Funding alone cannot ensure long-term viability to address programmatic challenges. In the multi-family housing program, we propose administrative tools that provide management flexibility to better administer the program.

In the Single Family Housing Guarantee Program, we propose a user fee to support technology and maintenance costs associated with the automation. We also request delegated loan approval authority for selected high-performing lenders.

Although rural America lags in terms of recover from the recession, the delinquency in foreclosure rates in our housing portfolio remains very low. This is a testament to our prudent underwriting and strong loan servicing and our careful oversight.

As of March, the foreclosure rate of the guaranteed loan program was 1.5 percent, the lowest it has been in nearly 5 years. Even in the direct loan portfolio, more than 9 out of 10 families served succeeded in homeownership. Our success is due in part to the strength of our hardworking people in rural America.

I believe, and I am sure that many of you do too, that rural Americans deserve an opportunity to own or rent a decent, safe, and affordable house. Since the passage of the Housing Act of 1949, 3.8 million rural Americans have received housing loans and accumulated assets through equity in their homes.

Our single family housing program fills a gap in the private market. We are one of the most critical resources available to help smaller, poorer, and more rural communities gain access to mortgage credit. There is a strong and consistent demand for our programs. We change people's lives every day.

Congress has had the foresight to strategically place comprehensive programs for rural America in one agency, USDA. We take seriously the charge to help address any challenges faced by rural residents in need of safe and affordable housing.

Thank you for the opportunity to serve in this agency that uses our programs to support our affordable housing in rural America. I am happy to answer your questions at this time.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Hernandez can be found on page 44 of the appendix.]

Chairman LUETKEMEYER. Thank you, Mr. Hernandez.

Mr. Scire, you are now recognized for 5 minutes. Welcome.

STATEMENT OF MATHEW SCIRE, DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE (GAO)

Mr. SCIRE. Chairman Luetkemeyer, Ranking Member Cleaver, and members of the subcommittee, thank you for the opportunity to be here today to discuss our work involving the Rural Housing Service.

My statement focuses on issues involving program overlap, improper rental assistance payments, and management of the Farm Labor Housing Program, as well as preliminary observations from ongoing work, assessing risk management in RHS's Single Family Loan Guarantee Program.

In response to a statutory mandate, GAO has identified Federal programs or activities that are fragmented, overlapping, or duplicative. In our 2012 report, we included an analysis of housing programs and activities and reiterated a recommendation that Congress require USDA and HUD to examine the benefits and costs of merging these programs that serve similar markets and provide similar products.

Later in 2012, we identified opportunities to build on existing coordination efforts among the various agencies. For example, we recommended those efforts be expanded to include evaluating specific opportunities for consolidation that would require statutory change. Such an evaluation would be an important step in enhancing the efficiency and effectiveness of Federal support for housing.

Nonetheless, we recognize that consolidating programs carry certain implications for users, existing programs, personnel, portfolios, and associated information systems; thus, any evaluations would involve complex analyses, trade-offs, and difficult policy decisions.

Meanwhile, RHS needs to continue focusing on improving the management of its ongoing programs. In this regard, I can report that it has taken some important steps to address recommendations in our recent studies of rental assistance and farm labor housing.

With regard to the latter, RHS has improved the specificity of compliance review information it maintains in information systems. It has established deadlines for spending obligated funds. And it has sought authority to use the HHS new hires database to verify tenant income.

But it has not completed action on other important recommendations. For example, it could do more to use existing data to target assistance to areas of greatest need. It could better ensure that requirements for tenant eligibility are met across the Farm Labor Housing portfolio. And it could complete its efforts to establish the use of civil money penalties to better enforce program regulations.

In the area of rental assistance payments, RHS has sought authority to use the new hires database and taken other steps, but could do more to implement our recommendations. For example, it should seek OMB review of its move to a $100 threshold for considering a payment to be improper. It could also seek authority for using SSA benefits information.

Finally, we are currently looking at the management of the RHS loan guarantee program for single family loans for the subcommittee. Though this work is still under way, there are a few preliminary observations which I would like to highlight today.

It is important to know that RHS has in place policies and practices and key risk management functions, including underwriting, loan approval, and lender oversight. Also, RHS is taking steps to improve its risk management practices. For example, it is developing an econometric model for estimating program costs and is considering the appointment of a chief risk officer.

Nonetheless, there are some areas we are exploring where there may be more RHS can do to manage risk, for example, by better defining key benchmarks, establishing procedures for its credit policy committee, and documenting lines of authority and communication across its risk management structure.

As we complete our work, we will consider the need for recommendations addressing these and other issues. Looking forward, we are glad to help the subcommittee in its oversight of these important housing programs.

This concludes my opening remarks. Thank you again for the opportunity to speak today. And I would be glad to answer any questions you may have.

[The prepared statement of Mr. Scire can be found on page 52 of the appendix.]

Chairman LUETKEMEYER. Thank you, gentlemen. I will now recognize myself for 5 minutes for questions. Let me start with Mr. Hernandez.

Mr. Hernandez, Mr. Scire has indicated—and we have discussed a little bit ourselves—that with regard to some of the duplicative overlapping with other agencies, one of the problems with that is the cost to continue to have those programs be available and then overlap and what have you.

So with HUD having such a large portfolio and overlapping in so many of the areas—I think the data from Mr. Scire's testimony showed that in 2009, 74 percent of HUD borrowers also met the same eligibility for the RHS Single Family Guarantee Program. If that is the case, make the case for why we need to continue with RHS?

Mr. HERNANDEZ. Great question, Mr. Chairman.

What is nice about USDA and Rural Development is that our focus is just on rural folks. We only deal with people in rural America. And as you know, in rural America the salaries and the wages are much less. We have programs that are designed just for folks in rural America if they can qualify.

Chairman LUETKEMEYER. Okay. Let me interrupt there. I understand that part. Why is HUD encroaching on your area? Should we back them off?

Mr. HERNANDEZ. I have an answer for you, sir. Let me get there.

Chairman LUETKEMEYER. Okay. I would love to hear it.

Mr. HERNANDEZ. Okay. What we are trying to do is make sure we have a product that provides the right type of product for our folks. Our folks' incomes are about $29,000 for the direct program, and about $50,000 for the guarantee. At the same time, these individuals or families cannot afford a downpayment, and FHA requires a 3.5 percent downpayment. They also have an up-front MIP cost, which makes it unaffordable for a lot of the customers in rural America.

And that is why Congress created us. They are trying to say, do you have a product that really meets the needs of rural America? Ours does. Ours is zero percent down, with no closing costs.

We actually have our lenders in the guarantee program certify that borrowers cannot get conventional lending. Some of our folks qualify for FHA, and we tell them they should go to FHA. But if you don't have a downpayment or can't afford a mortgage insurance premium (MIP) as high as FHA requires, that is why Congress created us, to have a product that meets their needs.

So we both provide loans, but we have different customers. Our customers are those who cannot afford a downpayment or an MIP.

Chairman LUETKEMEYER. My point though, Mr. Hernandez, was that 2009 data show that 74 percent of HUD borrowers also met your eligibility requirements.

Mr. Scire, can you give me an explanation of that comment?

Mr. SCIRE. What we did was look at program data from both RHS and FHA, including income for the borrowers and where the property is located. And that is what that number represents; it is the percentage of FHA borrowers who were in RHS-eligible—actually, the most rural RHS-eligible areas, and borrowers who also met the RHS income test.

Chairman LUETKEMEYER. Okay. So Mr. Hernandez says there is a niche for RHS. Would you agree with that, then?

Mr. SCIRE. I think that is uncertain. And I have not seen any data that would demonstrate what proportion of RHS borrowers would be unable to obtain an FHA-insured mortgage, for example.

So within the guaranteed program, it is less and less obvious with time that what RHS is offering is unique. The 3.5 percent downpayment is certainly something that distinguishes the RHS-guaranteed product from the FHA. And if I am a rural resident with lower income, I might want to go with the RHS product. But that doesn't mean that I couldn't get another product with a little downpayment.

Chairman LUETKEMEYER. Okay. I only have a minute left. So let me switch gears a little bit to the risk management portion of this.

Mr. Scire, you indicate that there are some problems there but the agency is making some progress. Can you elaborate just a little bit?

Mr. SCIRE. There are some things that we—of course, our work is still ongoing. But the first thing we wanted to look at was to see what sort of policies and practices they have in place. And they do meet a lot of what you would expect for a credit program.

Chairman LUETKEMEYER. Well, if we have a 1.5 percent past due ratio—I believe that is what Mr. Hernandez testified—do we have a problem?

Mr. SCIRE. I would look very carefully at those estimates. I don't know whether that is an indicator of strength in the program—

Chairman LUETKEMEYER. Let me take a timeout here. Mr. Hernandez, what is your loss ratio?

Mr. HERNANDEZ. We have for historic losses 2.2 percent—

Chairman LUETKEMEYER. 2.2 percent.

Mr. HERNANDEZ. —Mr. Chairman. What I am trying to say is that not only do we offer a product that meets the needs, it also doesn't cost the government or the taxpayers anything.

Chairman LUETKEMEYER. Okay. Just a second. My time is almost up here.

Mr. SCIRE. That is less certain.

Chairman LUETKEMEYER. Is that an acceptable level?

Mr. SCIRE. I think that the long-term costs of the program are uncertain.

Chairman LUETKEMEYER. Okay. My time has expired. Thank you very much.

I now yield 5 minutes to the distinguished—Mr. Kildee first? Okay. We will go with Mr. Kildee, the distinguished gentleman from Michigan, for 5 minutes.

Mr. KILDEE. I started to get a little worried when you began to excise the distinguished part when you discovered it was going to be me.

Chairman LUETKEMEYER. You would be surprised what I can determine from behind.

Mr. KILDEE. First of all, thank you both for being here. And I do have a couple of questions for each of you.

I want to start with Mr. Hernandez and ask you a bit more about how your agency works with partners on the ground. I think obviously the importance of the program speaks for itself. And I want to get into some of the details in terms of some of the analysis that has been done.

But I wonder if you could talk to us about how your agency collaborates with other stakeholders and industry partners on the ground to maximize the resources that you have?

Mr. HERNANDEZ. Great. Thank you very much. It is a great question. In order for us to be successful, we have to have key partners and stakeholders. We work a lot with nonprofits. We require homebuyer education as part of it. That is why we use metrics to measure the success of the program. It is not just making a loan that is effective. It is how do you keep people in the home.

And the way we do is we work with packagers or nonprofits to do homebuyer education. That is a growing need. In order to have successful programs, you have to have the right partners.

When Congress reduced our budget level, we lost about 20 percent of our staff. Which means the staff we had to go out and find customers were lost. Also, the staff who actually do the loans directly were lost.

So the good apart from that was that we had an opportunity to look at how we do business better. And so that is where we spent so much time doing what we call "business process improvement"—trying to find better ways to do that.

One of the things that came out is, how do we work with partners? And how do we work with nonprofits, so they can help us find additional customers so we can close loans? We call those packagers. We have a new rule coming out right now that will allow us to actually compensate nonprofits so they help us do the work. So we have a two-pronged strategy of trying to find the customers. We do it, they do it. We don't have enough staff. So really, it requires us to have strategic partnerships.

And with that, that is how we get better loan performance. It is kind of nice. Our performance right now with the Single Family Direct is 2 to 3 percent. That is very, very good performance. That is first-year delinquencies, sir. That means we are picking the right folks in the first year and they do not lose their homes, 9 out of 10 people. These folks make $29,000, sometimes a family of 3 or 4 makes $29,000.

And with the partnership that we have, we are actually keeping them in the homes. With the guarantee program, we have the lowest—as of March, we had the lowest delinquency rates of 1.56 percent. It is the lowest in our history, very, very good performance, which contributes to the success of our program. Not only are we managing the program well, it is also not costing us.

We are very fortunate in the guarantee program with our partners as well, it is real truth-in-lenders and nonprofits, they are helping us find ways to get more homeownership. So we are trying to find strategic partnerships, sir. That is what we do.

Mr. KILDEE. Thank you again, Mr. Hernandez.

Mr. Scire, I wonder if I could just get you to comment a little bit further on the questions about performance? You indicated that it was unclear to you what their performance was on the direct loan, or on the guaranteed program. Could you expand on that? Because I am a little bit confused about what data you might be looking at and—

Mr. SCIRE. The question was whether it was good or bad. And so, I would want to compare that with some other cohort to tell you whether or not it is relatively good or bad, so—

Mr. KILDEE. But how would it compare to—if, in fact one of the potential recommendations would be to merge this program with other existing programs, wouldn't it make sense before coming to that conclusion to compare the performance of this program—

Mr. SCIRE. Absolutely.

Mr. KILDEE. —to the program with which you might merge it?

Mr. SCIRE. Absolutely. When we talk about opportunities for consolidation and coordination, we are not necessarily assuming that the best practices are at FHA. Some of the better practices might be at the Rural Housing Service. But then, why wouldn't FHA take advantage of those?

But to get back to the question about comparative performance, the analysis has not been done yet that would hold constant some of the factors that could explain the loan performance you are seeing with RHS versus FHA. And that is one of the areas where we think actually some of the benchmarking RHS does can be improved. Because it is important to control, for example, when the loan was made, where it was made, and some other borrower characteristics. That might explain more of the differences you are seeing in loan performance than the operation of the RHS program.

Mr. KILDEE. Okay. One of the things—and this relates to not just this program, but others—that I would really encourage anyone who is analyzing these programs to look at, and this is very rarely attempted, is to try to measure the positive externalities, even considering the risk and potential default. But to measure the positive externalities of homeownership programs on housing and neighborhoods that have nothing to do with the programs directly, but actually receive pretty big benefits in terms of equity preservation and stability in these communities.

We talk about all sorts of ways of measuring these programs. And especially in the rural environment, supporting homeownership has value that goes well beyond the recipient of the support that got them into a home in the first place in terms of maintaining some degree of stability in the market. I know that is difficult to do, but I would certainly encourage you to do that.

And I wonder, Mr. Hernandez, if you could comment quickly on the loan origination process and how you think that works and results in positive outcomes for you?

Mr. HERNANDEZ. Yes, sir. What is nice about the direct program is we have storefront operations. So folks can either come directly to us in each of our offices in the rural areas, or importantly, right now we are working with our partners to create what we call "electronic submission by nonprofits" so they can help us submit loan applications.

We still underwrite them, we still make the decision. But with the delinquency in industry standard, anything below 5 percent is very good in performance. We are at 2.3 percent. We are doing very well. And the guarantee, our lenders do it. We try to monitor our lenders. And we have the lowest first-year delinquency of 1.5 percent. It is very, very good, and we are going to try to get more of those lenders.

Mr. KILDEE. Thank you very much. Mr. Chairman, thank you for the additional time.

Chairman LUETKEMEYER. And with that, we go to the gentleman from Virginia, Mr. Hurt.

Mr. HURT. Thank you, Mr. Chairman. I want to thank the Chair for holding this hearing.

I come from a rural district, Virginia's fifth district, and it geographically largest district in the State of Virginia. So we know rural, and we also believe that a huge part of what we need to be doing here in Washington is adopting policies that give greater access to capital all across Virginia, all across rural Virgnia. Because obviously, the people you serve need better jobs, need better income. And that is obviously a part of what I think the focus on our committee should be. And I think it is.

I guess my question is, building on the chairman's questions about sort of the differences between now—I guess this agency was created back in the 1940s—and then. And then also, the difference between what your agency does in the context of HUD and VA programs.

I guess my question is, it sounds like you are supportive of the idea of consolidation and trying to streamline things. But from my understanding, the Administration began this or indicated that it was interested in a single family housing task force back in 2011. And I guess my question is, what is the progress, Mr. Hernandez, of this consolidation review?

And why on earth is it taking so long to develop some clear understanding of where we can streamline these programs and make them serve the taxpayers, as well as the target of the benefit. Once you answer, I would like to get Mr. Scire's comments as well.

Mr. HERNANDEZ. Sure. Great. Thank you, Congressman. What is really nice about our program is we are in—as stated before, we are for rural folks only. What we are interested in doing is trying to create the products and programs and process that focus on delivering a better service to customers. We participate with the Joint Federal Housing Subcommittee looking for ways to streamline and align to a similar process if there is opportunity. But because we have different missions—HUD is urban, that is why they call them "Housing and Urban Development." We are focused just on rural America.

And as you know, representing a rural district, rural is different than urban. You have to find different ways to provide service to folks because they live so far away. So how do we find an outreach model with partners to provide service?

Mr. HURT. Do you support the idea that the Administration sort of led the way in 2011 in terms of consolidating and making these programs more efficient between the agencies?

Mr. HERNANDEZ. What we support right now, sir, is providing better service to our customers. And right now, consolidation—

Mr. HURT. That doesn't sound like consolidation.

Mr. HERNANDEZ. No. Not necessarily, sir. Sometimes you look at, how do you do better alignment. Some people have better core expertise. Ours, we probably have the best guarantee product in the country right now, better than anybody else. We have some best practices that maybe some other agencies should come to us.

But what we are trying to do is, how do we make a better program and reach out to customers better, are we doing a great job? And that is why we need your help. We have come forward this year to help address this.

Let me give you an example. One of our biggest barriers, the difference between when we were created and now, is we do everything manually. Mr. Chairman, you had a great example. We are on manual process. Manual process, sir. Now, I have been in the housing industry for over 30 years. You cannot be making copies of checks and sending them out.

We just came to the 21st Century on December 1st. We now have an electronic system for all of our guarantee programs. We save $5 million a year. We save time. We can give a response now in 48 hours. We couldn't do that back in 1930. The rest of the industry was there. We are there now. It actually saves money.

What is great about our program is it does not cost the taxpayer any dollars. It pays for itself. We have a zero subsidy program, sir. What a wonderful program to create opportunities, open doors, have strategic partnership, and it doesn't cost the taxpayer any money—

Mr. HURT. That is what they said about Fannie Mae and Freddie Mac.

Mr. HERNANDEZ. I don't know about—

Mr. HURT. Until it cost us $200 billion.

Mr. SCIRE. I see the light is turning yellow. If I could?

Mr. HURT. Mr. Scire, please.

Mr. SCIRE. There is a lot there. The task force is limited. It is not really looking at statutory changes that might be needed for doing further consolidation. So we think its charge could be expanded.

But I think what you heard just now is part of the dilemma—this notion that HUD is "urban." HUD does far more in rural areas than does RHS. So HUD would deny the notion that they are solely focused on urban areas.

And the idea that there is a zero cost to this program remains to be seen. I would point out that there is a big difference here between the FHA and the USDA program, which is that FHA is required to maintain a reserve. So actually, it is more likely to have a zero cost than the Rural Housing Service.

But the first step in any of this process is to admit there is a possible problem here. And so I think it would be important for USDA and HUD to open up to the notion that there is overlap. And I look forward to them entertaining that idea.

Mr. HURT. Thank you. My time has expired.

Chairman LUETKEMEYER. Thank you. With that, we will go to the ranking member, the gentleman from Missouri, Mr. Cleaver, for 5 minutes.

Mr. CLEAVER. Thank you, Mr. Chairman.

Mr. Scire, even if some shoes are cute but too small, won't they hurt?

Mr. SCIRE. Naturally.

Mr. CLEAVER. Yes. And more is not always better, do you agree?

Mr. SCIRE. Not always, no.

Mr. CLEAVER. Yes, yes. The point here is HUD operates more programs in the rural areas than the housing program that operates in Mr. Hernandez's department.

Mr. SCIRE. Yes. I am limiting my remarks there to the 502 Guarantee Program.

Mr. CLEAVER. Okay. Same thing, 502, 504, 514, 516 programs. They have a potpourri of programs. I think the Housing Act was passed in 1937. HUD was created in 1965—1965, Lyndon Johnson's Great Society; am I correct?

Mr. SCIRE. Yes.

Mr. CLEAVER. Do you agree then that HUD almost automatically leans urban?

Mr. SCIRE. No, I don't. I think that HUD would disagree with that assertion also. They see themselves as serving the entire country. So that is a distinction I think between the Rural Housing Service and HUD, that the Rural Housing Service is limited to the "rural areas." In fact, much of the Nation—

Mr. CLEAVER. I would disagree with the Secretary, or you for that matter, that HUD does not lean urban. And I can give you some examples. A quick one would be—

Mr. SCIRE. I am not sure what "lean urban" means actually.

Mr. CLEAVER. Lean means that—

Mr. SCIRE. What we base it on is where they are. And actually, the work that they do and the products they offer are all across the country. And they are not as concentrated in rural areas, but they actually serve more borrowers in the single family guarantee space than does RHS.

Mr. CLEAVER. HUD has limited experience in administering programs that are designed exclusively for rural areas.

Mr. SCIRE. No, that is not correct. HUD actually does have programs that are designed for rural areas.

Mr. CLEAVER. And as I say, they have limited experience.

Mr. SCIRE. Okay.

Mr. CLEAVER. If I didn't say "limited experience," I apologize. But I meant limited experience. Do you agree with that?

Mr. SCIRE. It is not the largest part of their portfolio, programs targeted to rural areas, but they do have some programs that are targeted to rural areas.

Mr. CLEAVER. But limited experience in working in the 502 program?

Mr. SCIRE. They don't work in the 502 program at all.

Mr. CLEAVER. So they have no experience?

Mr. SCIRE. I am not sure what you are asking about, operating in the 502 program. They do operate a single family loan guarantee program which is very similar to the 502 Guaranteed Loan Program.

Mr. CLEAVER. Yes. One of the things that makes Washington operate with an odor is that some people automatically on one side—that we are supposed to say everything that HUD is doing is great, and the other side is saying HUD is not supposed to be great. And I think that is why we don't make the kind of progress we need.

I think that the chairman is right. And I think we need to look at these programs. But what I would also like to make sure we understand and acknowledge is that what HUD does is dramatically different than what is done in rural areas. And it was intended to be that way. As Mr. Hernandez said, they are the United States Department of Housing and Urban Development. And they lean urban. HUD leans urban.

Why do we say urban America? CDBG grants, for example, in our State, the people who get the annual allocation are in: Kansas City, the largest city; Saint Louis, the second largest city; Springfield, the third largest city; and Independence, the fourth largest city.

If you live in rural America, the money goes to the State, and you have to compete with other small communities to get CDBG dollars or 108 loan moneys. So we lean urban with HUD—

Mr. SCIRE. I just don't agree with the concept of leaning urban. And I don't think that HUD would agree with that. But clearly, HUD does operate in the same markets that USDA operates in terms of single family loan guarantees.

Mr. CLEAVER. If a HUD Secretary believes that, he or she should go.

Thank you, Mr. Chairman.

Chairman LUETKEMEYER. Thank you, Mr. Cleaver.

I now recognize the gentleman from New Mexico, Mr. Pearce, for 5 minutes.

Mr. PEARCE. Thank you, Mr. Chairman. I appreciate you having this hearing. We share the concern of Mr. Cleaver there, that if we are going to do something, we remember the rural areas. Mr. Hurt mentioned that he represents the largest rural district in Virginia. My district is almost twice the size of all the State of Virginia. I represent more dirt than anybody here. And so I just want to keep you aware that we watch for the rural piece of this.

Mr. Hernandez, you had mentioned that quite possibly there are some best practices in your agency which other agencies should come and take from you. Could you give me two or three of those?

Mr. HERNANDEZ. One of those, sir, is how we do our guarantee program. We never own the property. What we do is we provide through our lenders guaranteed lending; we guarantee 90 percent of the loans, and they provide the loans. If a loan should go bad—

Mr. PEARCE. I am just asking for the program, not the full explanation on it.

Mr. HERNANDEZ. It would be the guarantee programs, sir.

Mr. PEARCE. Okay. Any other ones, sir?

Mr. HERNANDEZ. The other would be how we work with our packagers, how we provide—

Mr. PEARCE. Okay. In your testimony, on page two, you talk about Rita Fincher of Park Hills, Missouri. Do you ever track how much you invest in—and I appreciate the story you are telling here of helping someone out of homelessness—any of those projects? For instance, what was the total expenditure on that one, since you mentioned it in your testimony?

Mr. HERNANDEZ. I don't remember the exact dollars. But we do track it by—

Mr. PEARCE. Just roughly how much?

Mr. HERNANDEZ. Depends on—up to $20,000.

Mr. PEARCE. Up to $20,000. Okay. And for that, what did you actually do?

Mr. HERNANDEZ. Sometimes, we do safety.

Mr. PEARCE. On this case. You brought it up in your testimony. So what were you actually doing?

Mr. HERNANDEZ. We were actually trying to repair the roof, do some safety. Bathrooms, safety. Most of the time—

Mr. PEARCE. Okay. But you are saying in here that you got her out of homelessness. So what did you actually do? It sounds like you did more than safety. I am just trying to let you tell your story here.

Mr. HERNANDEZ. Sure. We helped move her into a house that she could own long-term. So she actually became a homebuyer, is what we are trying to get to.

Mr. PEARCE. Okay. By giving her cash assistance?

Mr. HERNANDEZ. Homebuyer education with our partner. Getting her to find a house that she could afford, helping her with jobs in the area so that she then qualifies for a house, and then getting her in a house. And what is nice about the program, sir, is if she has difficulty making the payments, we work with her to make sure she stays and is successful.

Mr. PEARCE. Okay. And also in your answer to one of my questions, you mentioned that your agency is constantly looking for ways to streamline. Could you give me a couple of those ways?

Mr. HERNANDEZ. Perfect, sir. What I had proposed is actually what we call "delegated underwriting." Right now, we review every loan manually, one at a time. That is not where the industry is. What we are trying to do is just give delegated authority to the top-performing lenders. That will streamline the process, the decision much faster.

The second part of that is having a way to generate dollars to improve technology. So we have a proposal that asks for up to a $50 flat fee per loan closed only. That is for automation. Another example would be, we are working with reducing our time for loss mitigation. It used to take us 230 days to assign a loan, sir. We do it in our processing less than 19 days.

So with all the investment in technology, business improvement, retraining of staff, we are providing better service every day.

Mr. PEARCE. Okay. Just to put it in context, you mention in your statement that in 2014 you helped 146,300 families, and 870 built their own homes. And keep in mind there are 46 million people on food stamps. So I don't know exactly how many of those are in the rural areas. But in my rural area, our average income is about $30,000, $31,000, $32,000. So we have a lot of need there.

And so when I sit here and I see that our kind of bragging point is that we helped 146,000 people, that feels like a small number, sitting up here listening. I don't mean to diminish it, but just so that you would understand.

Now, the GAO had suggested in 2010 or 2012 different changes. Have you all looked at those? And what have you done?

Mr. HERNANDEZ. Yes, sir. As a matter of fact, as Mr. Scire has indicated, we are making significant progress in a lot of the areas that we have identified. We are both aligning with HUD in the places where it is appropriate. We are also building on our best practices in different places. So we are making progress.

Mr. PEARCE. Have you thought about converting your 521 program to just a voucher program?

Mr. HERNANDEZ. We looked at that. And the reason—the way we are created, our focus is on rental assistance, sir. We provide a subsidy to a project. We are not like HUD. HUD has something called a Section 8. It costs more to do that. We are looking for a way that is more streamlined and effective. And we believe our rental assistance is the best way to go, sir.

Mr. PEARCE. Thank you, Mr. Chairman. I yield back.

Chairman LUETKEMEYER. Thank you. With that, we go to the gentlelady from Ohio, Mrs. Beatty, for 5 minutes.

Mrs. BEATTY. Thank you, Mr. Chairman, and Ranking Member Cleaver. I am still trying to figure out if my cute shoes today hurt or if they are comfortable. But thank you for that.

But thank you, Mr. Cleaver.

I am from Ohio. And my Third Congressional District does not have a lot of rural. But in the great State of Ohio, maybe my colleague Mr. Stivers and others have more of that rural.

But I come with some 20 years of experience, housing experience. More specifically, you mentioned Section 8 with public housing, working with Section 8. So I am not quite as familiar with some of the intimate details with rural housing, but some of the information that I received talks about how in rural housing, you can give direct funds to someone to buy a home.

That would be somewhat unheard of or a disclaimer in public housing. If someone gave you a loan, then you wouldn't be able to qualify and you wouldn't be able to get it unless you are part of the self-sufficiency move out. So I see them as quite different.

So I guess my question to you is, given the current existing shortage of the number of available and affordable rental units in both rural housing and HUD or urban housing supply, and the longstanding underfunding of Federal affordable housing programs, could you describe to me any concerns you would have with consolidating rural housing and HUD programs, as some had suggested?

Mr. HERNANDEZ. Sure. There are concerns when you look at consolidation. What you are looking for is, what is the best way to meet the customer's need? What we have found is that rental assistance and counseling is very good. About 30 years ago, they had a strategic decision they made. They said, we are going to invest in rental assistance. We have 14,000 properties, 400,000 families, whose incomes are between $10,000 and $12,000; 60 percent of those folks are elderly and disabled and live in rural America. They want to stay there.

So we, with your help, created a policy and a program called Rental Assistance. And that program works very well. The challenge we have is those properties are coming to maturity right now. We have 11,576 properties whose contract with us and through Congress is coming to an end. That means the subsidy, which is 30 percent of their income that they pay for rent, will go away unless Congress decides to help us find a way to address this challenge.

So we have folks who potentially could be homeless. We are looking for the opportunity today to recommit to providing affordable housing and rental housing in rural America. To do that, we have to address our maturing mortgages problem and challenge that we have.

To do that, we use rental assistance. Now, the reason rental assistance is a great tool is because it is not a Section 8 product. It stays with the building. So we reinvest in that building, we modernize that building. We have the private sector providing the services. We are a guarantee. We provide a loan. So the private sector is providing the service. It is a partnership that Congress created here for us to provide service to them. And that is what we do today.

So those owners today, we are working with them to preserve as many of those properties as possible. And to do that, we have to find ways to reduce the cost.

Mrs. BEATTY. Are you familiar—on the HUD side, we had something like that, and it was called "Project Base." And it was a 20-year program that was developed. And then in more recent years, unlike what you just described, the Federal Government took away project base. It was even with the homes.

So, for example, if I owned several homes, then the public housing authority through HUD would give me the money to fix it up and I got it. Now, it is a lot different in terms of that. If a tenant does something to your home, you are responsible for fixing it up and there are no dollars for renovating. So there is a difference.

When you are in urban areas—it is always quite interesting to me. And I don't know if either one of you gentlemen can help me out. But if we are talking about rural and we are talking about farmers, it is a subsidy. And when we are talking about rural and we are talking about housing, it doesn't have the negative connotation that as soon as we go to urban, people make it like they are getting a handout or that they are getting welfare.

But you make it sound so eloquent. And oftentimes in this same committee when we are talking about urban or inner city, it just seems like a more negative connotation to lifestyles and individuals. So I would be interested in your comments on that.

Mr. SCIRE. In the single family arena, one might ask the question, why isn't it that a lower-income household who wants to buy a home in an urban area shouldn't have access to the no-downpayment mortgage that the Rural Housing Service offers, for example.

In the multi-family arena, I think the programs are—there are a lot of similarities, but they are not quite as similar as in the single family arena. And here, RHS can offer a 1 percent loan for a builder to construct a building and have rental assistance with it too. So it really makes that property possible.

I am not so sure you could find those same kinds of provisions in an urban area.

Mrs. BEATTY. Thank you.

Chairman LUETKEMEYER. Thank you.

With that, we go to the gentleman from Texas, Mr. Williams, for 5 minutes.

Mr. WILLIAMS. Thank you, Mr. Chairman. And thanks to both of the witnesses for being here. We appreciate it.

Mr. HERNANDEZ. Sure.

Mr. WILLIAMS. This committee, as you probably know, spends a lot of time discussing taxpayer risk. Whether that is Fannie Mae, Freddie Mac, or rural housing programs, Congress has the responsibility at the end the day to make sure that taxpayer risk is minimized or eliminated.

In addition, making sure programs are run efficiently and reach those who most need them is something that I hear from my constituents back in Texas quite a bit.

So my first question to you, Administrator Hernandez, is the Rural Housing Service currently has a portfolio of $120 billion, and a 2012 GAO report entitled, "Housing Assistance, Opportunities Exist to Increase Collaboration and Consideration Consolidation," found that FHA, for example, served a significantly larger number of rural communities than the RHS, as we talked about this morning. Yet, RHS has a much larger workforce serving a smaller population.

So my first question would be, can you tell me how many Federal employees work for RHS?

Mr. HERNANDEZ. Sure. We have about 1,500.

Mr. WILLIAMS. Say it again?

Mr. HERNANDEZ. RHS: I have 100 in D.C., and I have 500 in St. Louis. That is what I have. Now, we have other staff within rural development, sir. The way it works, rural development is more than just RHS. Rural development includes utilities, broadband, and small business. My RHS, I only have a total of 600 employees for RHS nationwide.

Mr. WILLIAMS. Okay. Second, please help me understand how this workforce will change over the next decade, especially as Federal budgets get smaller and smaller?

Mr. HERNANDEZ. What is nice about our programs is we do rural development. We do community development that includes more than just housing. As you know, we have, I think, over 11 different offices in Texas. We are a storefront operation, sir. So we are different than any other Federal agency. People can come to us to ask.

And the way we are getting better, sir, is we are automating and streamlining the process. That is what makes our programs more effective and more efficient. So what we are trying to do is find ways to build on the success that we have had in the past.

Mr. WILLIAMS. But how are you going to change? You are going to have to change because budgets are going to get smaller.

Mr. HERNANDEZ. Right. And the way we have been changing is doing business process improvement, sir. In most every program we have we are trying to find a way with less staff, how do you do it better? That requires partnership and commitment with Congress and us to provide appropriate dollars for automation. Because we can't be everywhere. But our customers should be able to come to us either through a portal and find a way to find service that way.

So we are looking for your help to do that, both on the single family side and the multi-family side.

Mr. WILLIAMS. Sometimes, like the private sector, you have to do more with less and give good service.

Mr. HERNANDEZ. We have been very good at doing more with less. We have lost close to 20 percent of our staff in the last 4 years, sir, and we are producing more with less staff. We can do even more with your help as you help us support a number of our proposals that provide more integrity, more streamlining, and more effectiveness to the program. But that requires an investment and a continued support for affordable housing.

Mr. WILLIAMS. Next question: I know we talked today about how there are more than 330,000 units maturing by the year 2024.

Mr. HERNANDEZ. Yes; 11,576, sir.

Mr. WILLIAMS. I'm sorry?

Mr. HERNANDEZ. 11,576 properties.

Mr. WILLIAMS. By 2024?

Mr. HERNANDEZ. Yes, sir.

Mr. WILLIAMS. Potentially.

Mr. HERNANDEZ. Sure.

Mr. WILLIAMS. Owners of these units must decide to move out of this program?

Mr. HERNANDEZ. That is correct.

Mr. WILLIAMS. So my question is, if fewer and fewer people are in the program but the need is still there, who fills the void? Can the private sector—you talked a little bit about the private sector. I am a private sector guy. I believe the private sector can do almost everything. Okay?

Can the private sector come in and offer a viable option for affordable rural housing, if you come to Congress and ask for help with some ideas?

Mr. HERNANDEZ. Great question. The reason Congress—

Mr. WILLIAMS. That is why I asked it.

Mr. HERNANDEZ. It is a great question, sir. The reason the private sector does not provide it, sir, is we are in a market that the private sector does not serve. It is riskier to lend in rural America. It is riskier for developers to be in rural America. It is hard to get workers in rural America.

And that is where Congress says, we have a good idea. Where it says, we are going to provide a guarantee to reduce the risk, and encourage the private sector. What is nice about our programs is that it is the private sector that is operating the buildings, not the government. It is the private sector.

So in partnership with the private sector, we are providing a service that would not be provided unless we had a partnership. So sir, we are building on your success on how to partner with the private sector. And we are doing it through guarantees, low-interest loans, and incentives to bring the private sector to provide a service that would not be there unless the government and the private sector partnered together.

Mr. WILLIAMS. That is good. Don't give up on the private sector.

My next question is to you, Director Scire. As we heard in your testimony this morning, housing assistance programs are fragmented across multiple Federal agencies, some 116 in total. In 2011, this Administration announced it was going to begin to examine consolidating homeownership loan programs.

So my question is, in your opinion, would reducing the number of housing assistance programs hurt Americans living in rural areas, or potentially help them by offering more efficiently run programs?

Mr. SCIRE. It has the potential to streamline the operations of these programs. I think that it is also important that you carefully look at whatever change you might decide upon so that it wouldn't have a detrimental effect on those with the greatest need.

So I don't think that necessarily reducing the number of programs somehow must have a negative effect on those who are served.

Mr. WILLIAMS. So it could potentially be a positive thing?

Mr. SCIRE. It all depends on how this is designed. But again, I think the first step is recognizing that there is some overlap here and there are some opportunities. And that is why we recommended that these task forces be expanded to include looking at those things requiring statutory change.

Mr. WILLIAMS. Thank you. I yield back.

Chairman LUETKEMEYER. Thank you. With that, we go to the gentleman from Pennsylvania, Mr. Rothfus, for 5 minutes.

Mr. ROTHFUS. Thank you, Mr. Chairman.

This is a great discussion. And I appreciate the witnesses being here this morning. As I look at some of the challenges our Nation is facing over the coming years, the need to adopt some efficiencies within our government agencies, much like we have been seeing happening in the private sector as companies in the private sector find redundancies and decide to put certain offices together and save on some overhead and a lot of further collaboration.

As the ranking member mentioned, he would like to see a lot of districts have a combination of both the urban and the rural. That pretty much describes my district. I go right down to the City line in Pittsburgh, and then I stretch out to the Ohio border and all the way east to Johnstown, covering about 120 miles of southwestern Pennsylvania. So we have many of these issues, both from an urban perspective and from a rural perspective.

Mr. Hernandez, I understand that HUD and VA and USDA and Treasury all agreed to work toward meeting some GAO recommendations and report on ways to consolidate potentially duplicative housing programs. Have the agencies gotten together to discuss the GAO recommendations?

Mr. HERNANDEZ. Yes, sir. As a matter of fact, we meet monthly, looking for opportunities to align together to save money, and streamline process. An example of that, we are working with the VA right now. Since they have more foreclosures—they have about 1,000 per month. We have only have 1,657 for the whole year. That is all we have. The VA has close to 1,000 every month.

Our core experience is not in doing REO property. That is not what we are good at. We are good at doing loans. And so we are trying to partner with people who have some other core expertise. We are working with VA right now to see if maybe they can be the guys who work with us in our REO and our direct program, rather than us trying to recreate a new wheel.

Mr. ROTHFUS. Have the agencies developed a list of objectives on where they might be able to—

Mr. HERNANDEZ. I think what we identified—we identify the opportunities, rather than objectives; where can we find opportunities to work together? And they are in a number of areas: REO; appraisal; standard evaluating servicing practices; doing inspections of properties on the multi-family side.

We have identified opportunities. An example of where we have gotten together and learned together is how we do a best practice in using a handheld device to inspect multi-family properties. It came out of working together. Somebody else does it, and we say, how do we build on that? So we are now coming out with our new handheld devices to inspect multi-family properties. Because we don't have enough people anymore. It takes a while to drive in Texas to go find those places.

Mr. ROTHFUS. Mr. Scire, would you agree with Mr. Hernandez's description?

Mr. SCIRE. I agree that those task forces have focused more on how to improve processes. And I think that over time, that will result in benefits as a consequence. But they are not focusing on opportunities for consolidation.

I think what will happen over time is that as these programs become more and more alike, because of this alignment of processes and so forth, it will make the transition a little easier. But I really—they are not focusing—the part of the charter is not to focus on these opportunities that would require statutory changes.

Mr. ROTHFUS. Mr. Scire, you talked a little bit about improper rental assistance payments at RHS in your testimony. Could you talk a bit about what leads to improper payments going out the door?

Mr. SCIRE. There could be a lot of reasons. Some are because of processing, that a payment is made that is incorrect. But the focus typically is more on the calculation of what the payment should be. And there it is important to understand and verify the tenant's income. Because the payments on rental assistance, for example, are based in part on the tenant's income.

Mr. ROTHFUS. Can RHS do anything to recoup the improper payments that have gone out?

Mr. SCIRE. There is more that it can do. And it has begun exploring hiring a contractor to go after some of these improper payments. It is a real challenge. Because each payment may not be that great, but there may be lots of them.

Mr. ROTHFUS. Let me ask a final question for Mr. Hernandez. Again, as we look at those challenges over the next 5 to 10 years, and ways to have government be more efficient and accountable, if we ever found the office of RHS somehow under the same agency of HUD, are there things that folks at RHS could be teaching HUD?

Mr. HERNANDEZ. There are best practices in every agency. One of the opportunities we have is trying to find a way to address this cost or improper payments. One of our proposals that we have is to ask for what we call the "new hires database." We do not have statutory authority to do that. We have been trying to get statutory authority for years and years. We have come and asked Congress, please give us the authority to improve the integrity of the program. And so far, we haven't been successful in getting that passed.

Mr. ROTHFUS. But the concept is there are similar operations going on in the housing space and to have the cross utilization and collaboration that may be there, I think could lead to more effective government.

Mr. HERNANDEZ. Effective government is great and we all want that. But to do that, sometimes we have to partner together. And sometimes, the answer is not obvious. Consolidation doesn't mean it is right. It is one of the options that people look at. The focus is on the customer.

Mr. ROTHFUS. There is a lot of consolidation happening in the private sector. Because, again, there is a discipline of the market where folks in the private sector have to try to make ends meet with what they have.

Mr. HERNANDEZ. Sir, we have consolidation that happens in RHS every year. As budgets are reduced, our same staff do this, work for multiple programs. It is really important that you understand that my staff who do RHS also do utilities, also do community facilities, also do small business. We have consolidated to provide services to our customers.

Mr. ROTHFUS. I yield back.

Chairman LUETKEMEYER. Thank you. I now recognize the ranking member of the full Financial Services Committee, Ms. Waters from California, for 5 minutes.

Ms. WATERS. Thank you very much. I wanted very much to come in and participate in this hearing, because we have been talking about the problems of rural housing for a long time. But I am dumbfounded as I watch what we do in this committee. And I don't understand why particularly those representatives who have rural areas in their district don't understand how they can do more to help their rural communities.

I am not going to talk a lot about consolidation, because I don't think that should even be considered. As we look at the needs of rural housing, I think we should be talking about how do we not complicate their problems by consolidating in HUD with anything else.

I can recall that we did a bipartisan effort when we talked about an exception to the QM rule for the banks that dealt with rural housing and providing those mortgages. And while some of us had been against balloon payments for years because we thought that disadvantaged homeowners—you made us understand why this was important to rural communities. We get that.

And one of the reasons I wanted very much to be able to support that is because I am amazed at what a lack of reputation rural communities have, not only in housing, but in health care services, or you name it. If it wasn't for urban legislators who fight for money and don't mind being called tax-and-spend liberals, the rural communities wouldn't get anything because rural representatives don't fight for them enough.

And I am against complicating their needs by talking about throwing them into HUD that does not have enough money to do anything. As a matter of fact, HUD has millions of people on waiting lists across the country. And so to talk about supporting RHS just doesn't make good sense.

So I want to just say to Mr. Hernandez and Mr. Scire, first, do you understand how consolidation is going to make it better for rural housing? Are you able to articulate that somehow consolidation is going to do what we have not done all these years for rural housing? If so, tell us right now.

Mr. HERNANDEZ. Madam Congresswoman, we are committed to trying to find the best delivery process we have. We believe the programs in USDA focused on rural Americans as the best way to provide services. Our focus is only on those folks who have limited income in rural America. Only in rural America.

Congress will change the definition of rural America. We will do whatever Congress wants to do on that definition. But we are focused, laser focused on how to improve people's lives.

And as you know, housing is a conduit to family, neighbor, and community. That is why we put so much focus on it. So with Congress' help, we are improving our processes, automating our processes. We have legislative proposals that will fix and streamline things, but we need support from Congress to do that. And one happens to be—

Ms. WATERS. So how does consolidation help you?

Mr. HERNANDEZ. I don't think consolidation is going to help us solve—

Ms. WATERS. That is all I want to hear.

Sir, how does consolidation help?

Mr. SCIRE. Well, consolidation would make this delivery system more efficient.

Ms. WATERS. You have not said anything.

Mr. SCIRE. And so—

Ms. WATERS. Tell me what you mean.

Mr. SCIRE. —for USDA, I think that how you consolidate makes a big difference as to whether it could help or hurt. And so there is a way to do this where it can actually have USDA provide greater focus on where the greatest need is.

Ms. WATERS. Okay. You are in front of a committee now of people who care about these issues. Tell us how you do that?

Mr. SCIRE. We haven't done the analysis to tell you exactly how to do it.

Ms. WATERS. Of course you haven't.

Mr. SCIRE. But I can easily imagine where you would have—

Ms. WATERS. No, no, no. No imagination today. Facts.

Mr. SCIRE. —where you would want USDA to focus—

Ms. WATERS. I can imagine a lot of things.

Mr. SCIRE. —its direct guarantee program—

Ms. WATERS. Just one moment.

Mr. SCIRE. —as it is, the guarantee program is—

Ms. WATERS. How does consolidation help rural housing? Don't give me your imagination. Give me some facts.

Mr. SCIRE. The fact is that if USDA were able to focus more on those areas of greatest need, consolidation could actually—

Ms. WATERS. Taking many back my time, Members, there it is. Now, for those of you—I don't have any rural areas. But I have often thought it is not fair that we don't pay the attention that we—I have often wanted us to come together on a good approach to dealing with urban and rural and being fair to both. And you guys are missing out because you have people with imaginations who come in here and tell you they could imagine something, rather than facts.

I yield back the balance of my time.

Chairman LUETKEMEYER. Thank you. With that, we go to the gentleman from Kentucky, Mr. Barr, for 5 minutes.

Mr. BARR. Thank you, Mr. Chairman.

And I can tell you that there is an instance that affects my district where I don't have to imagine, where there are actual facts that demonstrate the problem of duplication and overlap.

As you know, if Congress had not passed a grandfather extension in the 2014 Farm bill, there would have been 921 communities that would have lost their eligibility for USDA rural housing programs, including two in my district: Nicholasville, Kentucky; and Georgetown, Kentucky.

As the dynamics of rural America change, especially in the prevalence of rural communities that are near the statistical area of a metropolitan area, the problem becomes distinguishing between what is rural and what is non-rural. And we have rural places that are near urban areas. As a result of those changes, and because of the complexity of this distinction between rural and non-rural, we had a situation where if Congress had not intervened to clarify what these rural places were, these rural places would have been excluded from the rural housing programs for which Mr. Hernandez is part of the administration.

So my question would be, what is the recommendation for a rural definition that would ensure that rural communities in metropolitan statistical areas are not excluded? And wouldn't it be more sensible if you had a single agency responsible for all low-income housing so that as populations shift and change and rural/non-rural boundaries become a little bit more difficult to distinguish, wouldn't it make a lot more sense if you had a single administration of these programs?

Mr. Hernandez, as you answer these questions—you and I have had this conversation. The Federation of Appalachian Housing Enterprises, Inc. (Fahe), in my district, which does some good work, it just doesn't make sense that Congress has to intervene so that certain rural places have to be eligible for one program versus HUD in a nearby urban area.

Mr. HERNANDEZ. Sure. Mr. Chairman, what is nice about what we do is that we have what we call a "storefront operation" in the private sector, and I have been in the private sector many times. I love it. And I love to come back to the government because people like the know what is the difference between the two.

Sometimes in government, we like to say everything has to be like this, one way. What is nice about the private sector is we have different ways to get outcomes. And Congress was very smart and they created agencies to provide different services. Sometimes overlapping doesn't mean it is bad. They are trying to find what is the best way to provide a service.

In working with Fahe, we are working with them because we need to have a partnership that helps us reach out where we cannot do anymore. So Congress decided they wanted to have a definition for rural in character. Whatever you want it to be, we will implement it.

Mr. BARR. What does RHS do better than FHA?

Mr. HERNANDEZ. We do lots of things better for all industry. Our performance right now on our single-family loans, multi-family loans, our performance is very, very good, in some cases, better than FHA, and better than VA, depending on the type of product.

But see, you can't compare apples to apples all the time. I know everybody wants to. This is loan making. So that is why we use metrics like first-year delinquency. Ours is better than—

Mr. BARR. And speaking of metrics, sir, do you measure how many 502 direct and guaranteed loans are converted into self-sustaining, non-guaranteed, non-USDA loans?

In other words, you get people into housing with no downpayment. Are you measuring how many of those are able to refinance later and be self-sufficient, independent of the government?

Mr. HERNANDEZ. We are working with folks. We have a graduation program. So if people get a direct loan, that is where we are the lender—

Mr. BARR. I would be interested in those numbers.

Mr. HERNANDEZ. Sure.

Mr. BARR. And let me ask the GAO witness here—

Mr. HERNANDEZ. I will get you some numbers.

Mr. BARR. Do they provide that data?

Mr. SCIRE. We haven't gotten data on that. But we haven't asked for it, either.

Mr. BARR. See, you can measure success in different ways. And certainly, one way you measure success is you put a roof over someone's head. I think that is one way to measure success. Another way to measure success, though, is that if you have a no-downpayment loan that is assisted by the government, eventually that individual builds up some equity, refinances, and becomes independent of the government. Do we measure that?

Mr. HERNANDEZ. One of the things that we are doing right now is we are getting data from RHS that would allow us to do an analysis of what explains the loan performance for RHS and compare that with FHA so that we can see whether or not its processes actually do result in a better outcome.

Mr. HERNANDEZ. Mr. Chairman—

Mr. BARR. Yes, sir.

Mr. HERNANDEZ. —part of what we are trying to do is have better technology so that we can analyze our data. That is why one of our proposals is asking for a flat fee so we can generate the automation and the analysis. We are actually doing this analysis right now we call an "econometric model," how to better perform our mortgages, how can we slice and dice? To do that takes investment.

Mr. BARR. But I didn't hear the answer to the question. Do we measure whether or not the individuals move off of—

Mr. HERNANDEZ. I don't have the data for you, but I can get the data that we do have.

Mr. BARR. That is important. Because to me, that is success. If we are moving people from dependency on the government to independent, self-sufficiency, that to me is success. That would be a program that I would be interested in supporting.

The other thing I want to mention is rural America has been hit hard in terms of credit availability since the passage of the Dodd-Frank Act. The American Bankers Association did a survey in 2014 which found that two-thirds of private sector financial lenders say that they would restrict lending as a result of the Qualified Mortgage Rule. Maybe more people are dependent on these kinds of programs because we are limiting credit availability as a result of the Qualified Mortgage Rule in rural places.

I yield back.

Chairman LUETKEMEYER. Thank you. The gentleman from Minnesota, Mr. Ellison, is next for 5 minutes.

Mr. ELLISON. I would like to thank the chairman and the ranking member.

Mr. Hernandez, I am concerned about the lack of affordable rental housing for extremely low-income families. The experts say that 80 percent of the families earning below about $30,000 a year pay more than half of their income on housing and utilities. And as you pointed out, housing is a platform from which family success can take off. And I agree with that.

And yet, our Congress has been moving backwards. There is a shortage of about 7 million affordable rental homes for low-income families. And the House HUD budget bill wouldn't even renew all the vouchers that families are using this year, let alone restore any of the 85,000 vouchers lost to sequestration.

So I have a bill out there. And I would like to talk to you a little bit about it. It is called the Common Sense Housing Investment Act, H.R. 1662, that would provide an additional $20 billion a year for affordable rental housing. If my bill were to pass, what additional funds for Section 8 housing trust fund low-income housing tax credit and public housing, what would that mean for rural America? Are you familiar with my bill, by the way?

Mr. HERNANDEZ. I am not, sir.

Mr. ELLISON. Let me just tell you what we would do. We would convert the mortgage interest deduction into a mortgage interest credit, a 15 percent mortgage interest credit. There would be a cap of $500,000 of deductible mortgage interest. That is essentially how the bill would work.

Mr. HERNANDEZ. Great.

Mr. ELLISON. And it would—we would provide about $20 billion a year for affordable rental housing.

Let me just make this observation. The United States of America spends a whole lot of money on housing. Mostly it is for the well-to-do in the mortgage interest and homeownership area. We literally subsidize people who don't need it and we talk about consolidation for people who do.

And so I guess if we were to convert mortgage interest deduction to a mortgage interest credit, cap it at interest on mortgages of $500,000, 15 percent mortgage interest credit, we would have extra money to put into housing. We wouldn't be subsidizing the incredibly well-to-do anymore. But they still would get something out of it because it would be a mortgage interest credit.

How would it help rural housing if we had $20 billion more for affordable rental housing?

Mr. HERNANDEZ. Mr. Ellison, one of the opportunities we have is—the rental assistance we provide for rental housing needs is so high that our budgets allocation is just minimal. We are barely meeting it. So we have lots of folks who are rent-burdened, as you have indicated.

Mr. ELLISON. Yes.

Mr. HERNANDEZ. They are paying more than their income, which means they have to make other choices. They cannot save for school, they cannot pay for health care, or other things like pharmacy or food. So anything that provides the opportunity for folks to have more discretionary dollars so they can make better choices. So in your bill you may want to look at where is the rental assistance part—

Mr. ELLISON. Right.

Mr. HERNANDEZ. —how do you support rental assistance. Because that is a key part for us, is rental assistance. We do not do Section 8. We only do rental assistance. And our vouchers are different than HUD's, because we believe in a different way to provide assistance to folks in a different way.

Mr. ELLISON. Right.

Mr. HERNANDEZ. So without reading your whole bill completely, I think it would provide some assistance to us to provide more services to folks in rural America who need help.

Mr. ELLISON. Yes. Let me tell you, there are more than, I guess—I think you might have pointed out already that loans—you have loans on more than 11,500 properties representing nearly 333,000 units that will mature by the year 2024 that—and many may be lost and you provide housing to families on wait list, assist with the oversubscribed 515 program.

Mr. HERNANDEZ. That is true.

Mr. ELLISON. Yes.

Mr. HERNANDEZ. Mr. Ellison, we have approximately 6 million units where people are overburdened. And they are paying more for their rent than they can afford right now. And they do it because they have a nice play to live. That is what we are trying to do, is get Congress to recommit to affordable housing in rural America.

Mr. ELLISON. One thing about it, I am a rural legislator. My family is rural in background. My grandfather comes from a farm in Georgia, my mother comes from a farm in Louisiana, and I am from Minnesota.

And I can tell you that if you don't provide some sort of a good, solid program in rural America, folks will move to the urban area. They leave the housing choice they may want, and it just leads to overcrowding in the urban areas. So everyone needs to be about health and rural housing so people can be supportive.

So that is one reason why, in keeping with what Ranking Member Waters said, we urban Members are—first of all, a lot of us are directly connected to rural America. But more than that, we want people to be able to live where they want to live. You know, some people like hearing the birds sing out there in rural America. And that is where their livelihood is. So thank you very much, Mr. Hernandez.

Chairman LUETKEMEYER. Thank you. That concludes our first round of questioning. I have had a request for a second round. I am going to defer my questions to the end.

And with that, we will go to the ranking member of the subcommittee, Mr. Cleaver, for his questions in the second round.

Mr. CLEAVER. Thank you, Mr. Chairman. I may not take the full 5 minutes.

I have been on this committee since 2004, and on this subcommittee since 2004. And on May 25, 2011, Peter Carey, the President/CEO of Self-Help Enterprises, and a board member of the Housing Assistance Council, and a board member of the National Rural Housing Coalition, in testimony he provided to this committee said, "HUD has limited experience in administering programs directed exclusively to rural areas. It is likely that rural housing programs would be force-fit—he probably knew that somewhere in the future somebody would do the shoe analogy—it would be force-fit into the HUD delivery system, which would change the ability of those programs to reach rural communities. HUD lacks the administrative system to deliver effective rural programs. Its programs' consistency and interest lie elsewhere."

Do either of you disagree with that?

Mr. HERNANDEZ. I believe that USDA is focused on doing rural services. And so what we are trying to do is find ways to streamline our processes, improve our focus, and capitalize on our storefront operation, which makes it nice. We have offices that work directly with Tom Crew in—they are there. So that is Tom Fern and the State director. So we have a State director in every place. That is a storefront. That is a retail operation.

Other Federal agencies don't do it. That doesn't mean it is wrong. I am just saying we have developed, with Congress' input, a way to reach out to customers and solve it. So you may not just want a cookie-cutter delivery system. And that is what consolidation is about, cookie-cutter, everybody should be the same. We have found a way that provides better service, changes people's lives, and uses the tools that you have given us.

And that is why we come back and say we need some additional tools. Because we have a delivery system that is changing people's lives. We can measure the performance. We can measure the success. But to do that, we have to change. We are proposing how to change. But to do that, we need your help to enhance our delivery system. We are focused in rural America, with storefront operations and products that meet the needs of those with limited income.

Remember, these folks are only making $29,000. For rental housing, it is $11,000, $12,000. These are limited income folks who have smaller choices. And that is why we partner with the private sector, to reduce the cost on us. The guaranteed program, we have zero cost to the taxpayer. What a great program. And we are using the private sector to make it happen. We have a specific role.

So what you have asked us to do is to be creative, be strategic, and find ways to partner. And we are doing that, but we need your help on some legislative proposals. Our proposals, there are about seven of them in there. We would love for you to look at it.

If you only pick two out of the multi-family, the ones we would like—they are all important. But if you only pick two, we need the partial budget authority. When Congress goes to a continued resolution, we don't get dollars. That means we actually distribute close to $90 million every month in rental subsidy. But if you don't give us the authority to do partial year contracts, by law you tell us we have to fund the whole year by law. So we are asking for some management flexibility to do that. To do that, you have to change the law.

The other thing we are asking for is access to the new hires database. We want the program integrity to be better. You tell us you want it to be better. Here is the opportunity. Support legislation that allows us the authority to access data that is there. It is sitting there. We are just waiting to get to it so we can improve the integrity of the program. We need your help there.

On the single-family program, we need help to do delegated authority to streamline the process, make it easier for the private sector to provide service so we can monitor and provide good oversight. We can't do it without you. Oh, we need your help and this partnership is so important. This is the great time for Congress to recommit for another 30 or 40 years of affordable housing in rural America.

Mr. CLEAVER. Good sermon. I mean, I am into sermons.

Given the current existing shortage and the number of available and affordable rental housing units in both RHS and HUD and the longstanding underfunding of Federal affordable housing programs, what are your concerns if there is some kind of a consolidation brought forth?

Mr. HERNANDEZ. My first concern is who would be hurt, rather than served better. So I looked back at my maturing properties. I have 11,576—400,000 households. That is a lot of people. Consolidation, whatever you call it.

And I am trying to get us not to think about a solution before you define the problem. A lot of times people jump to the solution. Apparently, you think consolidation is a solution. I am not sure what the problem is yet. To me, the problem is, how are we serving customers better?

So my first concern is, are we going to be better off than we were before? And so you have to rely on what is the best strategy, what is the outcome we are looking for. I am looking for better, safer, and more decent housing in partnership with the private sector. We just guarantee loans. We don't manage these properties. So who is going to be hurt?

So, define the problem better. I think Congress has the opportunity to help better define what you are trying to achieve here. And I want to be a partner to help you define the problem so we can collectively find a better solution.

Mr. CLEAVER. Thank you, Mr. Hernandez.

Chairman LUETKEMEYER. With that, we go to the gentleman from Kentucky, Mr. Barr, for a final question.

Mr. BARR. Thank you, Mr. Chairman.

So back to Mr. Hernandez's testimony about underfunding of rural housing. We know the impact of the Budget Control Act and sequester. Between 2010 and 2015, the overall USDA budget has been cut by about 14 percent. Rural housing loans and grants have been cut by $208 million, or about 54 percent, during that time period.

These figures actually though would have been far worse for rural housing if Congress had actually enacted the President's budget. The President's budget request consistently proposed significant cuts that even exceeded the cuts that happened during the sequester. In fact, this year President Obama proposed an additional $27 million in reductions above and beyond what we are already looking at.

So with our country facing an $18 trillion national debt, I certainly agree we have to get our fiscal house in order and we have to be fiscally responsible about deploying these taxpayers resources. So I am—as a fiscal conservative, I am very sensitive to that.

But my question is, given your testimony here today, why do you think the President and his budget people put such a low priority on rural housing?

Mr. HERNANDEZ. Mr. Chairman, we place a high priority on housing. As a matter of fact, as I stated before, housing is a conduit to family, neighborhood, and community. So Congress reduces our budget. Whatever you give us, we would administer. Or if you want to give us more dollars, we will administer those dollars. And the President is very committed to doing affordable lending—

Mr. BARR. But the President's budget proposes to cut it far more than what we have.

So my question to you is why are your priorities not the same as the President's priorities?

Mr. HERNANDEZ. Our priority is to administer the dollars that are given to us. Whatever dollars you give me, I will administer, sir.

Mr. BARR. Let's go back to this duplication issue. Because as I pointed out with my question earlier about Georgetown, which is a suburb of a metro area, and Nicholasville, which is a suburb of a metro area, without congressional intervention, they would have been reclassified and would have been ineligible for your programs in rural housing. We had to intervene because we wanted to keep those communities eligible for rural housing. But obviously, because of changes in population, you are getting overlap. And I don't think I heard your answer to the question.

If you have one agency, you don't have to have Congress doing this song and dance and switching communities back and forth between rural and non-rural. You have one administration. Isn't that more efficient? Isn't that a better steward of the taxpayer resources?

Mr. HERNANDEZ. No, it is not.

Mr. BARR. I know you say we don't want a cookie cutter. And maybe you are right. Maybe it is your agency that does a better job. You talk about how you all are innovative and you are doing a better job. And your testimony to me earlier was you are doing better than FHA. So maybe it is your model that should replace FHA. Is that your testimony?

Mr. HERNANDEZ. Mr. Chairman, what we are trying to do is we have to—don't look at agencies first. What you do is you look at customers. What customers are you trying to focus on? What we have learned great from the private sector is if you focus on the customer first before you reorganize, consolidate, focus on the customer. Let me just—Mr. Chairman—our customers are different than FHA. We compare to FHA because we don't have any other comparison. FHA does a great job. But their are customers are different than ours.

Mr. BARR. Okay. So let's—and my friend, Mr. Cleaver, was asking a great line of questioning earlier about HUD and whether they serve rural communities or not.

My question to you is, since it is different and you need different models, should HUD and FHA get out of rural lending?

Mr. HERNANDEZ. Should we get out of it?

Mr. BARR. Should FHA get out of rural lending?

Mr. HERNANDEZ. I only talk about USDA because that is what I know. You might want to FHA about their programs. We do more than housing. We are a community development agency just for rural America. So I do jobs, housing, transportation, education, health care, and public safety. Does that mean you want to consolidate to all one agency, just one? No. What you try to do is, who can deliver the service better to the customer. That is what the private sector has done so well.

Mr. BARR. If you can do it better, why is FHA in the rural places of America?

Mr. HERNANDEZ. They offer services to different customers, sir. Our customers cannot qualify—

Mr. BARR. Okay. Mr. Scire, you—

Mr. HERNANDEZ. Wait. I am not done yet—

Mr. SCIRE. They serve the same customers.

Mr. HERNANDEZ. No. What we are going to talk about—

Mr. SCIRE. I think what we haven't seen is—

Chairman LUETKEMEYER. The gentleman from Kentucky controls the time.

Mr. BARR. Sorry. Mr. Scire, I know you wanted to jump in on that.

Mr. SCIRE. We are hearing a little bit of a fantasy here, that there are differences in the customers who are served between FHA and the Rural Housing Service in terms of single family. What we saw was that the FHA is in rural areas. They are serving the same income base.

What we don't know and what USDA does not know is how many of the borrowers it has could qualify for an FHA-insured mortgage. So is there really something needed here that they are offering—and I am just talking single-family guaranteed right now. And RHS can't tell you that statistic because it doesn't know.

And so that is what we are trying to get at here. And I agree they should start out with, how can you serve housing needs first? But you have to begin at the basis of understanding who you are serving. And I think there is a bit of a denial going on here as to who RHS is serving.

The storefront notion, by the way, is a bit of a fantasy, as well. Borrowers who are trying to get an RHS-guaranteed loan and an FHA-guaranteed loan are going to the same place. They are not necessarily going to a USDA office. The direct single family is different. The multi-family is different. I don't advocate one, and GAO does not have the answer to how to do this. We think the agencies should take a serious look at opportunities for consolidation. Right now, they are not.

Mr. BARR. Okay. My time has expired.

Thank you, Mr. Hernandez. Thank you, Mr. Scire.

Chairman LUETKEMEYER. Okay. Mr. Pearce has a question.

Mr. PEARCE. Thank you, Mr. Chairman.

Mr. Cleaver mentioned how long he had been on the committee. And I have been here almost the same length of time. And Mr. Hernandez, I just had to make the comment that I have heard a lot of witnesses, but I think you just outpreached the preacher. And we will watch the instant replay to see if you actually finished ahead of him. But you gave it a good run.

My question for you, sir, Mr. Hernandez, is in the whole definition of "rural" that the Consumer Financial Protection Bureau (CFPB) came up with, did they approach you when they had that definition? Because my State was severely impacted. We have one county that just has one road going north and south and it is kind of a square county and the town sits right in the middle of it. So you have about 2,500 people or something in the town and about 10,000 square miles. And they put them in the same category as New York City. And so I thought that maybe wasn't slicing the pie quite well enough.

And so, Mr. Cordray and I dusted it up quite a bit. But did they ever approach you?

Mr. HERNANDEZ. I was not privy to any of those discussions on that.

Mr. PEARCE. Did you approach them? In defense of your customer base, did you write a letter and say hey, this is crazy? That is what I said, but you might say it in better terms.

Mr. HERNANDEZ. What Congress has asked us to do is use a number of tools to help you determine rural—

Mr. PEARCE. I guess my question is, did you try to get into that discussion? Because it was a fairly significant disadvantage into at that rural areas because they got defined completely differently.

When you describe your customer, who is your customer?

Mr. HERNANDEZ. It depends on the program. The first program, if you look at the direct program, those folks are only making $29,000 or less. We have a great program—

Mr. PEARCE. I don't need all of the definitions. The customer is, in your mind, the one who is receiving help from you?

Mr. HERNANDEZ. Yes.

Mr. PEARCE. Yes.

Mr. HERNANDEZ. That could be a single family person, it could be a multi-family household.

Mr. PEARCE. Yes. But as a person who represents 600,000, 700,000, which we all do, I would just encourage you to pencil in to your definition of customer those people who pay the bills.

Mr. HERNANDEZ. Oh, we do, sir.

Mr. PEARCE. Oh, you do?

Mr. HERNANDEZ. Sure.

Mr. PEARCE. I haven't detected that in your testimony. I have been on your side on a lot of stuff today here. But I really think that it is a one-dimensional look. And as somebody who is just trying to find the best, most effective way to govern—

Mr. HERNANDEZ. Sure.

Mr. PEARCE. —it is not as effective when you sit here and say that the recipient is a total consuming view that we have.

Now, my last question is—and thank you, Mr. Chairman, for indulging me through this—are there disadvantages in the programs? Have you found harm done in any of the programs where you try to help people and instead harm results?

Mr. HERNANDEZ. Harm?

Mr. PEARCE. Let me help you out. And I will finish up with this. Because I really do think it is important for you to think about this other thing. And I think it was one of your programs. The first year I was in Congress, in 2003, we went down to Las Cruces, New Mexico, went about 40 miles south of there and gave a check to a woman. And it came from USDA, about $4,000. She had the downpayment.

About 4 years later she came up and said, if it hadn't been for you—she said, I had a home before but I was encouraged to buy a home that I could never pay for. And I only could do it because of the government guarantee, and now I have lost everything.

So just as we are running down that pathway—and I appreciate the prose that you use when you talk about your programs. But understand that there is a downside to that when we are encouraging people to do something they cannot do.

So I thank you very much, Mr. Chairman, I appreciate the—

Chairman LUETKEMEYER. Thank you. Let me just wrap up here with a few comments and a couple of questions.

Mr. Hernandez, I have heard from a number of people in the housing industry who use RHS services. They have concerns, and I think it would be beneficial for you to meet with them. Would you be willing to do so?

Mr. HERNANDEZ. I would love to meet our partners and stakeholders.

Chairman LUETKEMEYER. Okay. I have some requests, and they are kind of concerned that they haven't been able to meet with you. So if you would be willing to do that, I would certainly pass that on.

Also, I think to Mr. Barr's line of questioning, I don't know that we want to do away with anybody. But I think any time you have—and GAO has eloquently talked about this and documented it. Any time you have a plethora of different programs and policies, some of which—in fact, with HUD they don't even know how many they have and what they have—overlap, there are bound to be some inadequacies, there are probably some holes, and some people are falling through the cracks.

I don't know why it wouldn't be something we shouldn't consider to try to figure out how we can provide a better safety net, a better program, whether it is to consolidate, whether it is to come up with a whole new group. Our job here is to find ways to streamline the process, to find dollars. And you have talked about that.

One of the questions I have is when you talked—somebody alluded to it a while ago too, when you talk about the employees, if you proportion out the employees versus what HUD has, you guys are about double-staffed compared to what they are. Are you looking to try and do away with some of these employees?

Mr. HERNANDEZ. We have been—

Chairman LUETKEMEYER. Versus the amount of money that you are overseeing. Let me put it that way.

Mr. HERNANDEZ. We are trying to make sure we have the right staff in the right place to provide better service. And that is why we focus more on business process we are engineering.

So we are looking for ways to focus on the real problem, which is how do you deliver a service—

Chairman LUETKEMEYER. No, that is not my question. You have been very good today with going around the answer that we are trying get to and get to your speech.

My question is, are you looking for ways to trim your employee base?

Mr. HERNANDEZ. Looking for—no, I am not looking for ways to trim employees. I am looking for ways to provide better service. Where should I have—

Chairman LUETKEMEYER. So you are not looking to provide the same service with fewer employees?

Mr. HERNANDEZ. We do that today, sir.

Chairman LUETKEMEYER. That is the problem. See, that is the problem, Mr. Hernandez. You are not listening to us.

Mr. HERNANDEZ. Okay.

Chairman LUETKEMEYER. We are looking to try to find a way to deliver the same product or a better product with the same number of people, and then for it to be at less cost. And you haven't said—you haven't told us that yet today.

Mr. HERNANDEZ. Let me share how we are doing that, sir. We have asked for automation. We have a number of proposals to change the way we do business. A lot of times people say do this differently. And I say wait a minute, before you start—

Chairman LUETKEMEYER. You just told me, though, you weren't looking to cut people.

Mr. HERNANDEZ. I am looking at where is—

Chairman LUETKEMEYER. I am looking at ways for people who can be innovative and find ways to reduce your staff to be at the same levels of FHA. That is our—yes, HUD. That is my question. Because—

Mr. HERNANDEZ. The question I think you are trying to get me to answer is how do you best allocate resources and deliver goods and services. That is what we are doing. We are evaluating business processes—

Chairman LUETKEMEYER. Let me ask Mr. Scire.

Mr. Scire, do you understand my question? We seem to have—if you look at the total dollars, $120 billion versus a trillion, the number of employees, 600 versus I think it is 2,400 and something here. It looks like they have about twice as many people as they need compared to the number of dollars that are invested. Is there something inherent in there that is a reason for that?

Mr. SCIRE. This is part of the reason why we make a recommendation for them to look at opportunities. Because there is somewhat of a legacy here, where RHS used to have far more of its activity in direct lending, which does require a lot of personnel. But they are moving more and more and more toward guaranteed lending, just like FHA. You require fewer people to do that.

Chairman LUETKEMEYER. Okay. I know that you have a lot of recommendations in your report. Mr. Hernandez, have you read the reports that—

Mr. HERNANDEZ. Yes, sir.

Chairman LUETKEMEYER. Are you going to implement some of those recommendations?

Mr. HERNANDEZ. Yes. We are partnering with GAO to make sure we identify the right ones to implement. What is nice about his report is he talks about how there is overlap, not necessarily duplication. So where is the appropriate overlap? Where should it be? Just because you have it, doesn't mean it is wrong.

Chairman LUETKEMEYER. Okay. Mr. Scire, are they working with you?

Mr. SCIRE. Yes, I thought so up until this moment. I think that all our recommendations should be implemented, not just some. So I—

Chairman LUETKEMEYER. Mr. Scire, as someone who has spent some time on the other side as a banker, there are times when recommendations don't fly. But quite frankly, I understand your point of view.

But my question basically is to Mr. Hernandez and to you. Are you guys working together to try and find some ways to—

Mr. SCIRE. Yes, absolutely.

Chairman LUETKEMEYER. —find efficiencies, cut out the waste? Because I understand there is always going to be some parochial interest here. There is not going to be—

Mr. SCIRE. We have the same objective here. And that is how to improve the way government works. I think that we are a little less parochial, and so we can look across agencies and see where there are opportunities. And that is where we think that it is time to take a more serious look at those possibilities.

Chairman LUETKEMEYER. And I think that is what we are trying to do here, to find ways to get rid of the overlap, get rid of the waste, and find ways to use the same amount of dollars more efficiently and effectively.

With that, we have been graced with the presence of the gentleman from Texas, the distinguished Mr. Green, if you would like to ask some questions, or you can make a comment or two, sir.

Mr. GREEN. Thank you, Mr. Chairman. I think I am making history today. I have located myself in a bipartisan position.

Chairman LUETKEMEYER. It graces you. It looks good on you, sir.

Mr. GREEN. With your consent and permission, may I stay, or do I need to go over and find my nameplate across the room? Am I okay?

Chairman LUETKEMEYER. No, you are fine. You are the new and improved version of Mr. Hurt. How is that?

Mr. GREEN. I am very comfortable.

Chairman LUETKEMEYER. Go right ahead.

Mr. GREEN. Thank you very much. And I thank the witnesses and the ranking member as well, Mr. Chairman. I regret my being tardy, but I did have another event that necessitated my attention with the Secretary of Labor and it took a little longer than we thought it would.

I am one who probably does not represent what would be styled a rural area in the United States of America. Houston, Texas, for the most part is what I represent, and a couple of other smaller cities. But I am very much concerned about people. This is my country. I love my country.

And I think these programs that we are discussing are programs that have been implemented to be of help to people. They did not occur haphazardly, capriciously, and arbitrarily. They were thoughtful programs and I think that they still have some meaningful rewards that we can reap from them.

But I do understand that we have had some level of improper payments with RHS. And my concern has more to do with what corrective measures can we take, as opposed to whether we should eliminate programs. I have found that acquiring these programs is much harder than eliminating them. Once they are gone, they are gone forever for the most part. So would you kindly give me a response?

Mr. HERNANDEZ. Sure, Mr. Green. What we are trying to do is try to find ways to prevent what we call "improper payments" first. And that is why one of our proposals is to do what we call the new hires database. So we are asking for authority to access a database that is operating today. HHS has this database. If we can address that, access it, we can make better decisions at the property level. It is not us, it is not our staff who will do it. It is the private sector property managers who use the database to make sure folks are not getting into properties for which they are not eligible. So I am trying to prevent it on the front end.

Now, sometimes people get through and are not eligible. We find them on the back end. So we are working with some of the recommendations that GAO has given us to try to better perform on the back end side; putting better regulations, better training, looking at the calculations differently and better to make sure we identify the problems we find.

Most of my life, just like yours, we try to prevent problems. And so that is why our legislative proposals say, would you please give us statutory authority so we can have access to the new hires database. That is one of their recommendations. We are trying to follow the recommendation. For 4 or 5 years, we have been asking for this. And every year the report comes back saying that they are still not doing it. It is true, because we can't get the legislative authority to access the database. We need your help. We want your help so we can perform better there.

So please look at that legislative proposal and see if you agree with it this year. We are willing to spend time with you to help educate you on how it works. Together, we will show you the benefits of that legislative proposal so we can perform better on the multi-family side.

Mr. GREEN. Have you requested elimination as a solution?

Mr. HERNANDEZ. I don't understand the question, sir.

Mr. GREEN. Elimination of a program.

Mr. HERNANDEZ. No. What we have asked for is, how we improve different programs and streamline the process, partner more with different Federal agencies, align more to reduce the cost, and use technology in a way that allows us to do more with less people.

Because we have less. We have 20 percent fewer people than we had before. So we are doing more with less. But to do that, we have to have some technology to replace that.

Mr. GREEN. Thank you. And I thank you, Mr. Chairman. I do want to simply say this in closing, Mr. Chairman. I don't want anyone to assume that I have realigned myself by taking a certain seat. I am still the same Al Green who arrived here in 2005.

Thank you much.

Chairman LUETKEMEYER. Duly noted, sir.

With that, we certainly, again, thank the witnesses for their testimony today. Again, we are on a fact-finding mission here with this committee with regard to what is going on with rural housing. Part of the job of Congress is not just to legislate, but also to provide oversight.

And part of that oversight means we are responsible for looking into the activities of the different branches of government, or in areas where this committee has jurisdiction, making sure things are done properly, making sure that the Department is being a good steward of the taxpayers' dollars, and that the laws and rules are being properly adhered to and administered.

So, again, don't take anything we say out of context. We are just trying to do our job. With that, again, thank you for being here today.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

With that, this hearing is adjourned.

[Whereupon, at 11:46 a.m., the hearing was adjourned.]

A P P E N D I X

May 19, 2015

FINANCIAL SERVICES COMMITTEE

"THE FUTURE OF HOUSING IN AMERICA: OVERSIGHT OF THE RURAL HOUSING SERVICE"

MAY 19, 2015

CONGRESSMAN RUBEN E. HINOJOSA'S REMARKS FOR THE RECORD

THANK YOU CHAIRMAN LUETKEMEYER AND RANKING MEMBER CLEAVER FOR HOLDING THIS IMPORTANT HEARING TODAY AND THANK YOU TO OUR PANELISTS FOR YOUR TESTIMONY.

I WOULD LIKE TO TAKE A MOMENT TODAY TO TALK ABOUT THE RURAL HOUSING SERVICE AND THE CRITICAL MISSION AND ROLE IT SERVES IN EXPANDING HOMEOWNERSHIP, BUILDING WEALTH, PROVIDING OPPORTUNITY AND STRENGTHENING OUR MOST UNDERSERVED COMMUNITIES.

RURAL COMMUNITIES ACROSS OUR NATION FACE SERIOUS PROBLEMS WHICH ARE DIFFERENT THAN THOSE FACED BY URBAN AREAS. RURAL AREAS FACE LESS OPPORTUNITIES, LOWER INCOMES, HIGHER POVERTY RATES, HIGHER RISKS OF POVERTY, POOR QUALITY HOUSING, AND LESS ACCESS TO AFFORDABLE HOUSING AND CREDIT.

RURAL COMMUNITIES ARE FOUR TIMES MORE LIKELY THAN URBAN AREAS TO HAVE AT LEAST 20% OF THEIR POPULATION LIVING IN POVERTY. POVERTY IN RURAL AREAS TENDS TO BE MORE PERSISTENT THAN URBAN AREAS. MORE THAN 88% OF THE NATIONS "PERSISTENTLY POOR" COUNTIES, DEFINED AS HAVING AT LEAST A 20% POVERTY RATE AT EACH OF THE LAST FOUR U.S. CENSUSES – ARE RURAL, INCLUDING COMMUNITIES FOUND IN MY OWN DISTRICT.

RURAL COMMUNITIES ARE ALSO IN MANY INSTANCES LIMITED TO POOR QUALITY HOUSING WITHOUT ACCESS TO ANY SUBSTANTIAL CITY SERVICES. SADLY, I SEE THIS ACROSS MY DISTRICT IN COMMUNITIES COLLOQUIALLY REFERRED TO AS "COLONIAS" WHERE MANY FAMILIES LACK ACCESS TO THE

MOST BASIC OF COMMUNITY SERVICES SUCH AS SAFE DRINKING WATER.

RURAL COMMUNITIES ARE ALSO BESET BY A LACK OF ACCESS TO AFFORDABLE HOUSING CREDIT. RURAL AREAS EXPERIENCE HIGHER BANKING CONCENTRATION THAN URBAN AREAS, RESULTING IN LESS COMPETITION AND CONSUMER CHOICE, HIGHER PRICES, AND ULTIMATELY LESS ACCESS TO AFFORDABLE MORTGAGE LOANS. COMPARED TO RURAL HOUSING PROGRAMS, LOCAL BANKS ARE OFTEN UNABLE TO PROVIDE LOW INCOME BORROWERS – WHO MAY NOT HAVE ENOUGH SAVINGS TO CONTRIBUTE TO A LARGE DOWN PAYMENT – WITH LOW COST MORTGAGES THEY NEED.

FOR 60 YEARS, THE USDA'S RURAL HOUSING PROGRAMS HAVE BEEN THE MOST EFFECTIVE TOOLS IN HELPING LOW-INCOME, RURAL FAMILIES ATTAIN HOMEOWNERSHIP AND CLIMB OUT OF POVERTY. I STRONGLY OPPOSE THE CONSOLIDATION OF RURAL HOUSING PROGRAMS FROM THE USDA, WHERE THEY HAVE A PROVEN TRACK RECORD OF SUCCESS WITHIN AN AGENCY THAT FUNDAMENTALLY

UNDERSTANDS THE NEEDS OF RURAL COMMUNITIES, TO HUD, WHICH LARGELY OPERATES UNDER A LIMITED UNDERSTANDING OF THE NEEDS OF RURAL COMMUNITIES AND SERVES DIFFERENT DEMOGRAPHICS WITH DIFFERENT NEEDS.

WHILE HUD DOES NOT HAVE A PRESENCE IN RURAL AREAS AND HAS NEVER DELIVERED A DIRECT LOAN PROGRAM AIMED AT RURAL COMMUNITIES, USDA RURAL DEVELOPMENT IS AN AGENCY FOCUSED SOLELY ON RURAL NEEDS, AND HAS A NETWORK OF 400 OFFICES LOCATED IN SMALL TOWNS AND FARMING COMMUNITIES.

OUR RURAL COMMUNITIES FACE SIGNIFICANT AND UNIQUE OBSTACLES THAT ARE BETTER SERVED BY AN AGENCY DEDICATED TO SUCH NEEDS. CONSOLIDATING RURAL HOUSING PROGRAMS INTO THE LARGER HUD BUREAUCRACY THAT DOES NOT HAVE A RURAL FOCUS WILL RESULT IN FEWER RESOURCES FOR AMERICANS AND COMMUNITIES IN THE MOST NEED.

For release only by the
Subcommittee on
Housing and Insurance

RURAL HOUSING SERVICE

Statement of Tony Hernandez, Administrator
Before the Subcommittee on Housing and Insurance
Committee on Financial Services

Chairman Luetkemeyer, Ranking Member Cleaver, and Members of the Subcommittee, thank you for the opportunity to testify before this committee regarding the work we are doing to ensure rural families have access to safe and affordable homes.

Rural communities are often isolated from population centers and product markets. They benefit most from initiatives integrating local institutions and businesses with State and Federal agencies that have intimate knowledge of local needs. Congress had the forethought to strategically place comprehensive programs for rural America in one agency: Rural Development. My Agency – the Rural Housing Service – is one of three within the Rural Development mission area. We seek to help address the unique challenges faced by rural residents as they relate to safe and affordable housing and community facilities and services. The Rural Housing Service administers programs that can make the dream of homeownership a reality, provide access to a safe and affordable rental home, and help develop community facilities and services like hospitals, fire stations, libraries, and schools. As the only federal department with the primary responsibility of serving rural areas, the presence of USDA field offices in every State and several territories helps us to serve the specific needs of local communities.

USDA Rural Development employees are able to identify a wide range of community and economic development resources for locally elected officials, business owners, families, farmers and ranchers, schools, nonprofits, cooperatives and tribes. We utilize a network of approximately 400 field offices throughout the Nation to serve rural America. Our staff are members of the communities they serve and possess expert knowledge of the economic challenges and opportunities that exist in their particular region. This intimate, hands-on approach enables us to provide the technical assistance and oversight often necessary for communities with limited means.

I can assure you that USDA Rural Development has done much with the resources and authority Congress has provided. Since 2009, Rural Development has directly invested in or guaranteed more than $169 billion in broadband, business, housing, water, community facilities, and electric infrastructure projects that benefit not only rural communities, but our overall economy.

In housing specifically for Fiscal Year (FY) 2014, we helped more than 146,300 families with modest incomes purchase, refinance or repair their homes. Additionally about 870 families built their own homes through the Mutual Self-Help Housing program, earning "sweat equity" in their homes through contribution of their own labor. This program is highly-valued in tribal communities as it allows tribal members to increase the volume of construction of homes on reservations. More than 85 percent of our borrowers were first-time homebuyers. We also helped more than 7,000 very low-income rural families repair their homes through our home repair loan and grant program. Roughly two-thirds of that total was to elderly households who received grants to remove health and safety hazards from their homes. In addition to providing homeownership opportunities, we continued to support more than 678,600 low- and very-low income households with safe and affordable rental housing through the Rural Rental Housing and Farm Labor Housing Programs. We also provided 33,000 very-low, low and moderate-income families with safe and affordable rental housing through the rental housing loan guarantee program. We revitalized more than 10,000 units of multifamily housing and continued to support 252,000 rural families with limited means pay rent. Finally, we helped develop critically needed new housing for more than 615 farm worker families and served 13,900 families through existing farm labor housing. These farm workers, who, despite being essential to the agriculture industry, have historically struggled with severe poverty and substandard housing conditions.

We are proud of our accomplishments. Without our programs, people like Rita Fincher of Park Hills, Missouri, to whom we provided a Single Family Housing Direct loan would be living in substandard housing…or homeless. Ms. Fincher lived in a small, dilapidated mobile home. Rural Development State Office in Missouri, working with a local realtor, the hometown bank, a church, and numerous neighbors and friends was able to get Ms. Fincher a safe and affordable home. Today, Ms. Fincher is happy with her house, volunteers at the local church, and will probably sing and play the guitar or piano with you if you stop in to visit.

While this success and thousands more like it across the country are admirable, let me assure you that we are not content. We know that we can continue to improve our service in rural areas. Over the past 18 months, the Rural Housing Service has been embracing innovation and improvement through automation and streamlining of processes. We are utilizing technology to create efficiencies that benefit rural families, our lenders, our staff and ultimately taxpayers. In April we modernized the Section 502 Guaranteed Single Family Housing Loan Program by implementing a paperless operation. Field Offices are now able to transact business – collecting underwriting documentation, issuing Conditional Commitments, and delivering Loan Note Guarantees – with approved lenders via a web-based interface. This has resulted in significant savings in paper, postage and time. We estimate $4.2 million will be saved in just one year using the process nationwide. Similarly, we have begun rolling out new assessment and underwriting tools in our multifamily program to make our transfer process more transparent and predictable so that nonprofits and others are willing to partner with us to extend the affordable use of our portfolio of Section 515 rental properties.

We are committed to continuing our automation efforts and improving our program delivery. The continued development of automation enables us to better manage our workloads, understand housing trends and risks, improve communication with stakeholders, staff and clientele, and ensure accountability. We truly believe that our housing programs are an important element in the Rural Development mission of increasing economic opportunity and improving the quality of life for rural Americans.
Our goal for 2016 is providing more than 170,000 rural residents the assistance needed to become homeowners through $25 billion in single family direct loans and guarantees. This includes $900 million in single family direct loans to ensure that the very-low and low-income rural borrowers with the ability to repay mortgage debt are provided access to affordable mortgage financing. The multi-family housing programs request of $1.45 billion will accommodate the renewals of more than 255,000 rental assistance agreements and support about 5,200 new rental assistance units for preservation of the existing rental portfolio.
Funding alone cannot ensure long-term viability to address programmatic challenges. We included seven legislative proposals in the Fiscal Year 2016 budget.

1. Section 502 Single Family Housing Guaranteed Loan Program User Fee
   This proposal will (1) charge a Guaranteed Underwriting User Fee; and (2) allow the User Fee to be retained for Administrative purposes related to the enhancement and maintenance costs for the Guaranteed Underwriting System (GUS) and supporting systems. The goal of this proposal is to ensure that GUS capability keeps pace with changing industry standards so the 502 Guaranteed program, through ongoing technology enhancements, benefits from superior risk management, improved program oversight and more efficient application processing.
2. Section 502 Single Family Housing Guaranteed Loan Program – Delegated Lender Authority

This proposal is to provide statutory authority for the guaranteed loan program to delegate loan approval authority to preferred lenders. This authority is similar to current practices at the Federal Housing Administration and the Department of Veteran's Affairs, and is already available in the Section 538 Multi-Family Guaranteed Loan program.

3. Section 515 Multi-family Housing Preservation and Revitalization Program (MPR)
   This proposal seeks permanent authority for the program, which has been a demonstration program since 2006. By reducing preservation costs, MPR helps reduce the need to invest additional rental assistance to support the project's additional debt-service needs. Advantages include greater program certainty in program funding for tenants in need of affordable housing; a certain funding source for rehabilitation and repairs for borrowers; and a permanent program for the agency to make long-term strategic plans.

4. Rental Assistance Program – Eliminate Automatic Renewals
   Both the Housing Act and the Regulation language at 7 CFR 3560.255(a) direct Rural Development to automatically replenish Rental Assistance agreements to the extent that sufficient funds are available. The agency estimates rental needs on an annual basis; however, Rural Housing Service has processed a second obligation in the same 12-month period in approximately 3 percent of the renewals in a fiscal year. With this proposal, the agency seeks to eliminate the automatic renewal process. Properties will receive an allocation for up to one-year period and will be renewed on the funding anniversary date. This change will enable the agency to more confidently estimate renewal needs for budgeting purposes.

5. Rental Assistance Program – Minimum Rent Requirement
   This proposal will allow Rural Development to charge a minimum rent of up to $50 for all of its multi-family housing programs.

6. Rental Assistance Program – Selective Renewal of Rental Assistance Agreements
   This proposal will provide management flexibility to effectively utilize Rental Assistance during times of budgetary uncertainty. At this time, the agency has no ability to prioritize or determine renewals for properties in most need. Appropriation language currently requires the agency to provide full funding to agreements on a first-come-first-served basis, until all Rental Assistance funds are expended.

7. Process Improvement Income Verification of Rural Housing Service Programs
   In response to the Inspector General's findings of fraud, waste and abuse within the Multi-family Housing program, Rural Development is requesting the authority to access both the Internal Revenue Service and the Department of Health and Human Services' income verification databases for use by the multi-family and the single family housing programs. The primary cause for errors is related to information received from applicants that Rural Development cannot verify by an independent source. This proposal addresses that need. Over time, once fully implemented, this proposal is expected to save $20 million a year.

We believe these proposals will continue to strengthen the availability and integrity of rural housing programs.

Since passage of the Housing Act of 1949, nearly 3.85 million rural Americans have received housing loans and have accumulated assets through equity in their homes. The Single Family Housing programs fill a gap in the private market and are among the most critical tools available to help smaller, poorer, and remote rural communities gain access to mortgage credit and achieve the dream of homeownership.

Despite serving very-low- to moderate-income families with zero down-payment loan products, the performance of our program is strong. Although rural America lags in recovery from the 2008 recession, the delinquency and foreclosure rates in our housing portfolio are modest. This is a testament to our prudent underwriting, strong loan servicing and loss mitigation strategies, and careful oversight that includes individual loan review by agency staff.

As of March, the foreclosure rate of the guaranteed loan portfolio is 1.37 percent, the lowest it has been in nearly 5 years. Even in the direct loan portfolio, which serves households with average incomes of $29,500, more than 9 out of 10 families served succeed in maintaining homeownership. The total net delinquency rate of the direct program is 11.55 percent. This includes delinquency workout agreements (about 3 percent of the portfolio) whereby special servicing options offered by the agency allow borrowers at any stage of a delinquency to resolve their issues. Many of the families that are delinquent will utilize these options and remain successful homeowners.

We are undertaking an in-depth review of our data to further help us improvements for enhancing Single Family Direct program delivery and performance. By the end of FY 2015, we will implement an automated underwriting system, permit third parties such as certified loan packagers to submit applications electronically, and move to electronic customer files. These improvements will provide underwriting consistency nationwide and the ability to seamlessly transfer work between States when needed. These improvements will relieve the field staff's operational workload during high-volume periods, enabling States to fully utilize program funds, and expand outreach efforts to communities in need. We are also addressing the loss claims payment and Real Estate Owned (REO)/Foreclosure processes by streamlining business practices and eliminating operational redundancies both within and among States.

The growth in our programs and improved efficiencies are balanced with risk mitigation strategies that include a tiered review process to assess compliance with underwriting standards and program regulations through pre- and post-closing reviews. These procedures are supplemented with Management Control Reviews (MCRs) that examine policies and procedures for making and servicing loans and are performed on all programs on a 5-year cycle, and State Internal Reviews (SIRs) that evaluate program delivery within each State and are also completed every 5 years. Together, the Single Family Direct and Guaranteed housing programs support the specialized needs of smaller, segmented rural markets and economies and offer service along a continuum to meet the needs of very low income to moderate income rural Americans, conveying to them financial security and upward mobility and helping achieve the "American Dream" of home ownership.

We also recognize that home ownership is not possible for many rural families. We are just as committed to providing decent, safe, and affordable housing options to those residents. The average income of Multifamily Housing program households is approximately $12,000 per year. Many are elderly and disabled. Our Section 515 Multifamily Housing program helps to avert homelessness for this population. Our Section 514 Farm Labor Housing Programs provide critically needed housing for farm laborers, especially those who move from place to place to find work and suffer some of the worst housing conditions and are essential to maintaining a dependable and viable agricultural workforce.

The Multifamily Housing Direct Loan Portfolio (Section 515 and Section 514 Farm Labor housing) has averaged very stable delinquency rates of 2.4 percent and 3.4 percent respectively over the past 10 years. These rates are comparable to the affordable housing industry as a whole. The Section 514 delinquency rate runs slightly higher because of the small portfolio of loans (620), half of which are seasonal. Many of these residents are migrant workers who occupy the housing for 6 to 8 months and then move on to follow the harvesting of crops. As a consequence, these properties do not have consistent rental income, and owners may be late in making mortgage payments. Despite serving extremely low income tenants, we consistently average a noteworthy low foreclosure rate of 0.5 percent. Even more impressive is that there are no delinquencies in the guaranteed portfolio.

Preservation of these critically needed multi-family units is essential for continuing to meet the rental housing needs of rural America, especially since no new rental properties have been developed under Section 515 since 2011. The agency faces several challenges to accomplishing this goal:

- Prepayment of mortgages by owners for varying reasons, resulting in the removal of government affordability requirements on these properties;
- Aging properties that need repairs to prevent physical deterioration. (A 2004 Comprehensive Property Assessment study commissioned by USDA estimated the total cost of needed repairs at $2.6 billion over 20 years); and
- Maturing mortgages that are nearing the end of their terms. We estimate that loans on more than 11,500 properties representing nearly 333,845 units will mature by the year 2024.

In addition to the legislative proposals mentioned above, we are pursuing several additional strategies to preserve the availability and affordability of the portfolio of multi-family housing. The condition of the property and the interests of the owner dictate which strategies will work best. These can range from debt deferrals to revitalization and extension of affordable housing use restrictions through our Multi-family Housing Preservation and Revitalization (MPR) demonstration program. We are also working with willing borrowers to extend the life of affordable housing use restrictions through re-amortizations of existing loans. Owners wishing to exit the program can sell or transfer the property to an interested party thereby enabling the property to remain in the program and affordable for tenants. We allow tenants in maturing properties to take their rental assistance with them to other eligible Rural Development properties after pay off. We also are helping owners restructure their loans. This is usually accompanied by an infusion of cash from other sources such as the Low-Income Housing Tax Credit. These funds are used to rehabilitate the property, resolve physical deterioration, and improve energy efficiency.

As we have in the Single Family Housing programs, we are adopting an intense review of our data to identify and undertake improvements to the transfer process in our Multi-family Housing programs. We are implementing a process that is predictable and transparent so that other investors are willing to partner with us to make needed repairs and extend the affordable use of Section 515 properties. Improvements include the roll out of a new Preliminary Assessment Tool (PAT) that provides interested developers the ability to develop transfer proposals that will comply with RD underwriting thresholds and guidelines and includes relevant policy guidance. In addition, we are developing a new underwriting tool to improve consistency and accuracy. Furthermore, we are hiring National office underwriters to assist field staff with loan underwriting and processing.

Combined, the Multifamily Programs have an outstanding balance of nearly $12 billion. We manage portfolio risk through both careful underwriting and servicing of loans. The Section 515 and 514 regulations provide for monitoring of borrower and property performance on a routine basis. Rural Development conducts monitoring with an emphasis on working with borrowers who own properties that require additional oversight and possible workouts due to financial management, physical or ownership problems. Management Control Reviews (MCRs), desk reviews, and on-site reviews are conducted regularly. Triennial supervisory visits to review management company operations, physical inspections, and Civil Rights Compliance Reviews are also conducted. These efforts serve to safeguard the portfolio of rural rental properties.

Finally, Rural Development has established a committee to explore the function and implementation of a Chief Risk Officer. We appreciate Congress' support for this position and look forward to the Chief Risk Officer's role in coordinating the mission area's larger risk management strategy.

I am proud to serve as Administrator for an agency that uses mortgage finance and refinance, as well as rental subsidies to ensure affordable housing in rural America. We are making it possible for many rural families to climb into the middle class by using our programs as a ladder of opportunity to success. Thank you for the chance to testify today and for your support of rural housing programs. We look forward to working together to fulfill the promise of rural communities. I am happy to answer your questions at this time.

United States Government Accountability Office

GAO

Testimony
Before the Subcommittee on Housing and Insurance, Committee on Financial Services, House of Representatives

For Release on Delivery
Expected at 10 a.m. ET
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RURAL HOUSING SERVICE

Progress on GAO Recommendations and Preliminary Observations on Loan Guarantee Risk Management

Statement of Mathew J. Scirè, Director
Financial Markets and Community Investment

GAO-15-625T

May 19, 2015

GAO Highlights

Highlights of GAO-15-625T, a testimony before the Subcommittee on Housing and Insurance, Committee on Financial Services, House of Representatives

RURAL HOUSING SERVICE

Progress on GAO Recommendations and Preliminary Observations on Loan Guarantee Risk Management

Why GAO Did This Study

RHS, an agency within USDA, administers a number of direct loan, loan guarantee, and grant programs that support affordable housing and community development for rural residents. According to USDA financial and budget data, RHS manages a portfolio of almost $120 billion in housing loans and loan guarantees and administers more than $1 billion in rental assistance payments each year. GAO issued three reports since March 2011 on RHS housing assistance programs (see GAO-11-329, GAO-12-554, and GAO-12-624) and has ongoing work in this area.

This testimony is based on those three reports and ongoing GAO work. It discusses (1) prior GAO findings on the extent to which the housing programs of RHS and HUD overlap and related implications for program collaboration and consolidation; (2) the status of GAO recommendations on the rental housing assistance program and farm labor housing loan and grant program; and (3) preliminary observations from the ongoing review of risk-management practices for the single-family loan guarantee program. To update the status of recommendations, GAO reviewed RHS policies, procedures, and reports. For its ongoing work, GAO reviewed federal requirements and leading practices for risk management and compared them with RHS policies, procedures, and practices. GAO also interviewed RHS officials.

GAO makes no new recommendations in this testimony, but may consider making additional recommendations once its ongoing work is complete.

View GAO-15-625T. For more information, contact Mathew Sciré at (202) 512-8678 or sciremj@gao.gov.

What GAO Found

Overlap in housing assistance programs—particularly those of the Department of Agriculture's (USDA) Rural Housing Service (RHS) and the Department of Housing and Urban Development (HUD)—highlight opportunities for increased collaboration and consolidation. GAO's August 2012 report found overlap in the products offered and populations (income groups) and geographic areas served by RHS and HUD single-family mortgage guarantee programs. GAO also found selected multifamily housing programs served similar purposes. The report made three recommendations to RHS. RHS generally agreed with the recommendations and implemented one by formalizing collaborative efforts with other federal agencies on single-family housing programs. However, RHS and other federal housing agencies have not yet taken other recommended steps to build on interagency efforts—for example, by evaluating specific opportunities for consolidating similar housing programs, including those that would require statutory changes.

RHS generally agreed with and has addressed some of GAO's prior recommendations for the rental assistance and farm labor housing programs, but others require further attention. Specifically, RHS implemented three of the seven recommendations GAO made in May 2012 to enhance the agency's efforts to identify and reduce improper rental assistance payments. Additional steps are needed to implement the remaining recommendations, which address shortcomings in the way RHS estimates and reports on improper payments. RHS also addressed three of the seven recommendations GAO made in March 2011 on oversight of the farm labor housing program. Further actions are required to implement the other four, which address weaknesses in RHS controls for ensuring tenant eligibility, among other issues.

Ongoing GAO work indicates that aspects of RHS's risk management for the single-family mortgage guarantee program broadly align with federal requirements, while others are not fully consistent with requirements and leading practices. For example, RHS has policies and procedures for a number of risk-management functions addressed in Office of Management and Budget guidance (such as determining borrower creditworthiness and overseeing lenders). However, GAO's ongoing work indicates that, contrary to federal internal control standards, RHS does not have written policies and procedures for a committee responsible for evaluating credit quality issues and addressing them through policy changes. Also, certain benchmarks RHS uses to help assess the performance of its guaranteed portfolio have limitations that diminish their value for assessing risk and are not fully consistent with leading practices for successful performance measures. These shortcomings may limit the effectiveness of RHS's risk-management efforts.

Chairman Luetkemeyer, Ranking Member Cleaver, and Members of the Subcommittee:

I am pleased to be here today to discuss our work on the Rural Housing Service (RHS), a component of Rural Development within the Department of Agriculture (USDA). Among other responsibilities, RHS provides housing assistance to low- and moderate-income rural Americans through a number of direct loan, loan guarantee, and grant programs. These programs support homeownership, promote the development and rehabilitation of rental properties, and help make rents affordable. According to RHS financial and budget data, the agency manages a portfolio of almost $120 billion in single- and multifamily housing loans and loan guarantees and administers more than $1 billion in rental assistance payments each year.

RHS is one of several federal agencies—including the Departments of Housing and Urban Development (HUD), Veterans Affairs (VA), and Treasury—with programs or activities that support housing. For example, HUD insures mortgages for single- and multifamily properties through the Federal Housing Administration (FHA) and administers rental assistance programs. The fragmented and overlapping nature of federal housing assistance stems partly from distinctions between urban and rural areas that existed when federal housing programs were created. However, the rural America of today is different than when the federal government first began to provide housing assistance to rural residents in the 1930s. Today's constrained budget environment makes it especially important that federal housing programs adapt to changing conditions, reduce waste, and effectively manage risk in order to deliver housing assistance as efficiently and effectively as possible.

My testimony today is based primarily on three reports we issued between March 2011 and August 2012, as well as an ongoing study that we are conducting at the request of this Subcommittee.[1] (For a list of recommendations from the three issued reports and their status,

[1]See GAO, *Rural Housing Service: Opportunities Exist to Strengthen Farm Labor Housing Program Management and Oversight*, GAO-11-329 (Washington, DC.: Mar. 30, 2011); *Rural Housing Service: Efforts to Identify and Reduce Improper Rental Assistance Payments Could be Enhanced*, GAO-12-624 (Washington, D.C.: May 31, 2012); and *Housing Assistance: Opportunities Exist to Increase Collaboration and Consider Consolidation*, GAO-12-554 (Washington, D.C.: Aug. 16, 2012).

see app. I.) This body of work addresses both program-specific issues and broader issues affecting multiple housing programs. I will discuss (1) our prior findings on the extent to which there is overlap in the single- and multifamily housing programs of RHS and HUD, including geographic areas served, and related implications for program collaboration and consolidation; (2) the status of our recommendations on RHS's Section 521 Rental Assistance Program and Section 514 and 516 Farm Labor Housing Loan And Grant Program; and (3) preliminary observations from our ongoing assessment of risk management practices for RHS's Section 502 Single Family Housing Guaranteed Loan Program.

To conduct our previously issued work, we relied on several analytical methods, including analyzing RHS budget, financial, and program data; reviewing RHS policies and procedures and comparing them to federal requirements; and comparing the geographic locations and populations benefiting from RHS programs to those benefiting from other selected housing agency programs. We also interviewed RHS and other government officials and industry representatives. Our prior reports each include a detailed description of our scope and methodology. To update the status of our prior recommendations, we reviewed updated RHS policies, procedures, and reports. For this testimony, we also reviewed information on RHS's estimates of improper rental assistance payments reported in fiscal years 2013 and 2014. To conduct our ongoing work, we reviewed federal requirements and leading practices for risk management and compared them with RHS policies, procedures, and practices. We also interviewed RHS officials. We performed the work on which this testimony is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The federal government plays a major role in supporting housing. Federal housing assistance includes, but is not limited to, the following categories:

- Homeownership programs, often called single-family housing programs, provide mortgage insurance, loan guarantees, and direct loans to support the purchase or refinance of a home, as well as grants or loans for home repairs or modifications.

- Rental housing programs, often called multifamily programs, provide loans, interest rate subsidies, loan guarantees, tax incentives, or a combination of these to promote the development and rehabilitation of privately owned rental properties.

- Rental assistance programs, which make rents affordable to eligible households by paying the difference between the unit's rent and 30 percent of a household's adjusted income. These programs include (1) tenant-based rental assistance that provides vouchers for eligible tenants to rent privately owned apartments or single-family homes and can be applied to different properties if tenants move, and (2) project-based rental assistance that is attached to specific properties and available to tenants only when they are living in units at these properties.

In the 1930s, when most rural residents worked on farms and rural areas generally were poorer than urban areas, Congress authorized separate housing assistance for rural areas and made USDA responsible for administering it. Specifically, in 1937 the Bankhead-Jones Farm Tenant Act authorized USDA to provide long-term, low-interest loans to farm tenants and sharecroppers so that they could purchase and repair farms, including homes on farms. The Housing Act of 1949 authorized new rural lending programs through USDA and made farm owners eligible for assistance for dwellings and other farm buildings. Amendments added in 1961 made nonfarm properties eligible for single-family loans and created the farm labor housing program. A 1962 amendment created the rural rental housing program.

The housing programs that RHS currently administers include, but are not limited to, the following:

- The Section 502 Single Family Housing Guaranteed Loan Program (single-family guarantee program) provides guarantees on mortgage loans to households with low and moderate incomes in rural areas.[2]

- The Section 521 Rental Assistance Program (rental assistance program) provides rental subsidies to help very low- and low-income

[2]To be eligible for an RHS-guaranteed single-family mortgage, the borrower's income must not exceed 115 percent of the area median income.

rural tenants afford decent rental housing.[3] The properties in which the tenants live were created through other RHS programs that provide low-interest loans for the development of multifamily housing.

- The Section 514 and 516 Farm Labor Housing Loan and Grant Program (farm labor housing program) provides direct loans and grants for the development of on-farm and off-farm housing for farmworker tenants. The farm labor housing program is the only RHS program that does not have to meet rural eligibility criteria—that is, it funds properties in both urban and rural areas.

Opportunities Exist to Increase Collaboration and Consider Consolidation of RHS and HUD Programs

Our prior work assessing fragmentation, overlap, and duplication in selected housing programs concluded that increased collaboration or even consolidation of certain housing programs (including RHS programs) could make the programs and program administration more effective.

In an August 2012 report, we found that overlap exists between selected single-family federal housing programs—particularly those of RHS and HUD—in the products offered and populations (income groups) and geographic areas they served.[4] For instance,

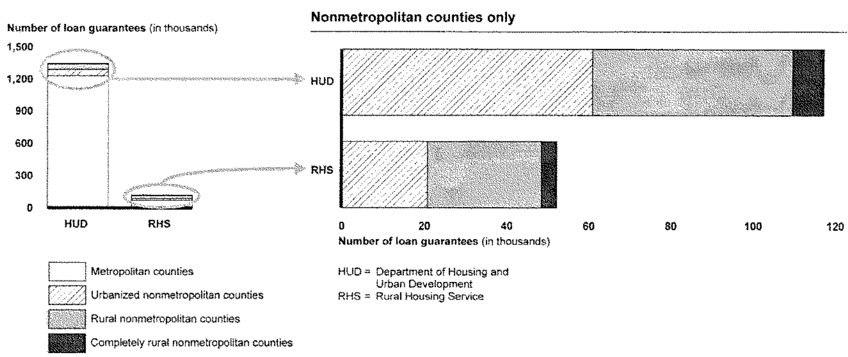
- RHS, HUD, and VA all guarantee single-family mortgage loans for homeowners.
- According to fiscal year 2009 loan data, 74 percent of HUD borrowers fell into the low- to moderate- income category and therefore met the income eligibility requirement for the RHS single-family guarantee program in fiscal year 2009.
- Also according to fiscal year 2009 data, HUD served a larger number of low- and moderate-income households in nonmetropolitan counties, including those parts of the county considered by USDA's

[3]Very low income is defined as below 50 percent of the area median income; low income is from 50 to 80 percent of area median income.

[4]GAO-12-554.

Economic Research Service to be rural or completely rural (see fig. 1).[5]

Figure 1: Number of Single-Family Loan Guarantees Servicing Low- and Moderate-Income Borrowers, Fiscal Year 2009



Source: GAO analysis of agency data. | GAO-15-625T

Note: Low- and moderate-income borrowers are those with incomes at or below 115 percent of area median income.

HUD and VA single-family programs are not restricted geographically. In contrast, eligible areas for RHS programs are "rural," as defined by

[5]RHS had a higher proportion of guarantees in nonmetropolitan counties than HUD had in those areas. Our analysis categorized areas on a rural-urban continuum that USDA's Economic Research Service developed (counties are categorized by degree of rurality). The rural-urban continuum codes form a classification scheme that distinguishes metropolitan counties by the population of their metropolitan area, and nonmetropolitan counties by degree of urbanization and adjacency to a metropolitan area or areas. A county may include both RHS eligible and ineligible areas.

statute.[6] However, in our August 2012 report, we found that RHS can operate in virtually all areas of the United States, and 37 percent of the population as of 2011 was eligible for rural housing programs on the basis of geography alone.[7] Over the years, we have found that the methods for identifying eligible areas results in similar areas being treated differently. For example, in our August 2012 report, we reiterated a finding from a 2004 report that the definition of rural used to determine eligibility for rural housing programs can lead to similar areas receiving different eligibility determinations.[8] Our 2004 report recommended that Congress consider certain changes to the definition to better ensure that RHS made more consistent eligibility determinations for rural housing programs.[9] We maintain that these changes would improve the consistency with which RHS determines eligibility for such programs. In addition, the changes would help target the programs to more rural areas—for instance, by

[6]Section 520 of the Housing Act of 1949, as amended, defines rural for most RHS housing programs. The definition is largely based on population, but also considers other factors, such as proximity to metropolitan areas and access to mortgage credit. Currently, rural areas are any open country or any place, town, village, or city that is not part of or associated with an urban area and that (1) has a population not in excess of 2,500 inhabitants; or (2) has a population in excess of 2,500 but not in excess of 10,000 if it is rural in character; or (3) has a population in excess of 10,000 but not in excess of 20,000, and (A) is not contained within a standard metropolitan statistical area, and (B) has a serious lack of mortgage credit for lower- and moderate-income families, as determined by the Secretaries of USDA and HUD. Any area classified as "rural" or a "rural area" prior to October 1, 1990, and determined not to be "rural" or a "rural area" as a result of data received from or after the 1990, 2000, or 2010 decennial census, and any area deemed to be a "rural area" for purposes of title V of the Housing Act of 1949, as amended, under any provision law at any time during the period beginning January 1, 2000, and ending December 31, 2010, shall continue to be so classified until receipt of data from the 2020 decennial census, if such area has a population in excess of 10,000 but not in excess of 35,000, is rural in character, and has a serious lack of mortgage credit for lower- and moderate-income families.

[7]At the time we conducted this analysis, the statutory definition of rural was more restrictive in certain ways than the current definition.

[8]GAO, *Rural Housing: Changing the Definition of Rural Could Improve Eligibility Determinations*, GAO-05-110 (Washington, D.C.: Dec. 3, 2004).

[9]In GAO-05-110, we suggested that Congress consider (1) including density measures, rather than the metropolitan statistical area (MSA) criterion, in the statute to better reflect where people live; (2) phasing out grandfathering of communities; and (3) eliminating the "lack of credit" requirement. Although Congress considered these changes in an oversight hearing held in March 2005, it did not implement any of the suggested changes to the definition of rural.

eliminating "grandfathered" eligibility for places that had become part of metropolitan areas.

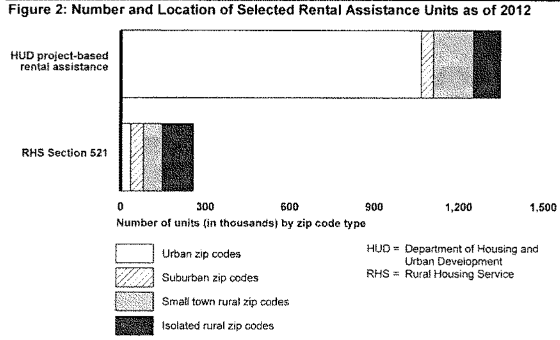
Agencies have started to work on better coordinating their single-family programs. In February 2011, the administration announced a task force to evaluate the potential for coordinating or consolidating homeownership loan programs at HUD, USDA, and VA. But, in our August 2012 report, we found that opportunities existed to increase collaboration among the agencies and potentially realize efficiencies. The single-family task force's efforts as of 2012 had not yet incorporated key collaborative practices we identified in previous work.[10] We concluded that practices, such as identifying goals and resources and defining strategies and outcomes, would be important as the task force moved forward. We recommended that HUD, USDA, and VA, and the Director of the Office of Management and Budget (OMB) take steps to establish a more rigorous approach to collaboration. For example, as a first step, agencies could define and articulate goals or common outcomes for their collaborative efforts. HUD, USDA, and VA generally agreed with the recommendation; however, HUD and OMB stated that actions should wait until after the housing markets stabilized. In 2014, representatives from HUD, USDA, VA, and other agencies addressed our recommendation by signing a Joint Federal Housing Agencies Working Group Organization Charter. The charter stated that the purpose of the working group included promoting coordination and consistency in federal housing programs. It also set membership rules, voting procedures, and meeting schedules.

Our August 2012 report also found overlapping purposes in selected RHS, HUD, and Treasury multifamily programs, but differing products, areas served, and delivery methods. For example, RHS, HUD, and Treasury provide financing for development and rehabilitation of multifamily housing for low- and moderate-income households, but RHS-financed properties were more concentrated in rural areas, while properties financed through HUD and Treasury programs were more concentrated in urban and suburban areas. But for rental assistance programs, while RHS had a much higher proportion of assisted units in small town rural zip codes and isolated rural zip codes (rural zip codes) than HUD had in those areas, HUD had a greater number of assisted

[10]See GAO, *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, GAO-06-15 (Washington, D.C.: Oct. 21, 2005).

units in rural zip codes than RHS.[11] Specifically, as of 2012, HUD provided assistance to 235,828 units in rural zip codes and RHS to 176,957 (see fig.2).[12]

Figure 2: Number and Location of Selected Rental Assistance Units as of 2012



Source: GAO analysis of agency data. | GAO-15-625T

Note: Data on HUD programs are as of February 2012. Data on the RHS program are as of May 2012.

We also found that agencies had been working to coordinate multifamily programs. More specifically, HUD, USDA, and Treasury had been working to consolidate and align requirements in rental housing programs through the Interagency Rental Policy Working Group established by the White House's Domestic Policy Council in 2010. Although the working group's efforts were consistent with many key collaborative practices, our August 2012 report found that the group had not taken full advantage of opportunities to reinforce agency accountability for collaborative efforts or

[11]As we previously noted, project-based rental assistance is attached to specific properties and available to tenants only when they are living in units at these properties. RHS rental assistance is largely project-based.

[12]For this analysis, we compared the locations of all properties financed through the selected HUD, USDA, and Treasury programs using the USDA (Economic Research Service) categorization of zip codes—urban, suburban, small town rural, and isolated rural.

expanded the scope of its evaluation to include proposals that would require statutory action.[13] We recommended that the Rental Policy Working Group take steps to document collaborative efforts in strategic and annual plans to help reinforce agency accountability for these efforts. As of May 2015, this recommendation has not been implemented, and RHS indicated that it was seeking ways to formally document the results of interagency collaboration.

We also found that consolidation of similar RHS and HUD housing programs may offer an effective means for achieving long-term cost savings. We first suggested in 2000 that Congress consider requiring USDA and HUD to examine the benefits and costs of merging programs serving similar markets and providing similar products.[14] In our August 2012 report, we found that in subsequent years, certain aspects of the RHS and HUD homeownership programs grew more alike (for example, as RHS shifted from single-family direct loans toward loan guarantees). However, we indicated that the current statutory framework imposed additional challenges on the agencies' ability to consolidate similar programs. For example, HUD has noted that without legislative changes, any efforts to merge the programs likely would result in a more cumbersome delivery system. Thus, any evaluations of which programs, products, systems, and processes to retain, revise, consolidate, or eliminate would involve complex analyses, trade-offs, and difficult policy decisions. We concluded that the single-family task force offered opportunities for these agencies to identify potential areas for consolidation or greater coordination and which actions would require statutory change. We recommended that to build on efforts already under way to coordinate, consolidate, or improve housing programs, and help inform Congress's decision-making process, HUD, Treasury, USDA, and VA should evaluate and report on the specific opportunities for consolidating similar housing programs, including those that would require statutory changes. HUD, USDA, and VA generally agreed with the recommendation. However, the recommendation has yet to be implemented.

[13]For additional information on efforts of the working group, see GAO, *Managing for Results: Implementation Approaches Used to Enhance Collaboration in Interagency Groups*, GAO-14-220 (Washington, D.C.: Feb. 14, 2014).

[14]See GAO, *Rural Housing: Options for Optimizing the Federal Role in Rural Housing Development*, GAO/RCED-00-241 (Washington, D.C.: Sept. 15, 2000).

Additional Actions Are Needed to Address GAO Recommendations on Improper Rental Assistance Payments and Oversight of Farm Labor Housing

In our prior work on RHS's rental assistance and farm labor housing programs, we concluded that RHS could take additional steps to enhance program oversight and efficiency.[15] Our May 2012 report on improper rental assistance payments made seven recommendations to RHS, three of which are implemented. In a March 2011 report on oversight of the farm labor housing program, we made seven recommendations to RHS, three of which are implemented. Further actions are needed to address the remaining recommendations. The following discussion addresses selected recommendations from these reports. (See app. I for a full list of the recommendations from these reports and their status.)

Improper Rental Assistance Payments

In our May 2012 report, we found that RHS had made annual estimates of improper payments in its rental assistance program and taken steps to reduce such payments.[16] RHS generates these estimates as part of annual improper payment audits. From fiscal years 2007 through 2010, RHS reduced its reported error rate (total amount improperly paid divided by program outlays) from 3.95 percent (representing $35 million in errors) to 1.48 percent (representing $15 million in errors). RHS's error rates reported in fiscal years 2013 and 2014 were 1.79 and 1.99 percent, respectively.

However, we also found that RHS's reported error rates might understate the magnitude of the problem for several reasons, including the following:

[15] See GAO-12-624 and GAO-11-329. RHS generally agreed with the recommendations we made in these reports.

[16] An improper payment is defined by statute as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. Our report focused on RHS's compliance with requirements contained in the Improper Payments Information Act of 2002 [Pub. L. No. 107-300, 116 Stat. 2350 (2002)], the Improper Payments Elimination and Recovery Act of 2010 [Pub. L. No. 111-204, 124 Stat. 2224 (2010)], and associated OMB guidance. After the issuance of our report, Congress enacted the Improper Payments Elimination and Recovery Improvement Act of 2012 [Pub. L. 112-248, 126 Stat. 2390 (2013)], which required agencies to make additional efforts to identify, recover, and prevent improper payments.

- RHS had not estimated improper payments due to unreported tenant income because it lacked the authority to match data on tenant income against federal wage and benefits databases.
- RHS had not estimated improper payments made on the behalf of deceased tenants because it had not completed steps to gain access to the Social Security Administration's (SSA) Death Master File, which could be used to match data to detect such payments.[17]
- In 2008, RHS began excluding improper payments of less than $100 from estimated error rates. However, RHS did not submit this change to OMB, which is responsible for approving agency methodologies for estimation.

Our May 2012 report also found that RHS had not fulfilled all OMB reporting requirements for improper payments. For example, USDA's Performance and Accountability Reports (1) did not contain a description of steps the agency took to ensure managers were accountable for reducing and recovering improper payments; and (2) did not fully discuss whether the agency had the internal controls, human capital, information systems, and other infrastructure to reduce improper payments.

To address limitations in RHS's detection and estimation of improper payments, in our May 2012 report we suggested that Congress consider amending the Social Security Act to grant RHS access to the National Directory of New Hires database (New Hires database) for purposes of verifying tenant incomes.[18] Although USDA drafted legislation to obtain this access, and a bill was introduced in the 113th Congress (2013–2014) to provide access, these proposals were not enacted.[19] We continue to believe that providing RHS with this access would strengthen the accuracy and integrity of RHS's payment process.

[17]The Death Master File is a national database of deceased individuals who had Social Security numbers and whose deaths were reported to SSA.

[18]The Department of Health and Human Services maintains this national database, which compiles information reported by employers to state workforce agencies and information from federal agencies. It contains information on newly hired employees, quarterly wage information for each job held by an employee, and unemployment insurance information on individuals who have received or applied for unemployment.

[19]See *Housing Assistance Eligibility Verification Act of 2013* [H.R. 2729, 113th Cong. (2013)].

In addition, we recommended that USDA do the following:

- Draft proposed legislation to grant RHS access to SSA benefits data for income verification purposes. USDA has not yet drafted this legislation. USDA officials told us that they wanted to obtain access to the New Hires database before pursuing access to the SSA benefits data.
- Complete steps to use SSA's Death Master File to identify improper payments made on behalf of deceased tenants. RHS officials told us in March 2015 that they now conduct prepayment checks against the Death Master File to avoid making improper payments to deceased tenants and that they planned to use the file to help detect improper payments in future audits.
- Submit RHS's methodology for estimating improper payments, including the use of the $100 exclusion threshold, to OMB for review. As of March 2015, RHS officials said they had prepared a draft request to USDA's Office of the Chief Financial Officer to request an OMB review of the methodology. However, RHS has yet to submit the methodology to OMB for review.

Our May 2012 report also made two recommendations to address shortcomings in RHS's reporting on improper payments. First, we recommended that RHS complete steps to ensure agency manager accountability for reducing and recovering improper payments and include a discussion of these steps in USDA's Performance and Accountability Reports. RHS addressed this recommendation in USDA's fiscal year 2012 Annual Financial Report (AFR)—the report in which USDA now reports improper payment information. Second, we recommended that RHS discuss internal controls, human capital, information systems, and other infrastructure in USDA's Performance and Accountability Reports. However, RHS has not included this discussion in the AFRs. In March 2015, RHS officials told us that the discussion was not applicable to the rental assistance program because the improper payments stem from the actions of private property managers (who request RHS rental subsidies on behalf of tenants), not from insufficient RHS resources for internal controls and infrastructure. We disagree that RHS internal controls and resources are not applicable to the rental assistance program because RHS has processes, people, and data that it uses to prevent and detect improper payments. We maintain that RHS should provide the required discussion in the AFR to better inform Congress and OMB of its capability to reduce improper payments.

Oversight of Farm Labor Housing Program

In a March 2011 report, we found that RHS could strengthen its management processes in several areas to more effectively implement and oversee the farm labor housing program. As the only federally assisted source of housing for farmworkers, the program plays an important role in constructing and rehabilitating housing. However, we concluded that a number of RHS management processes hindered the agency's ability to provide farmworkers with access to decent and safe housing and ensure compliance with program requirements, as follows:

- The enforcement mechanisms RHS used may not be effective in bringing borrowers—that is, the recipients of the program's loans and grants—into compliance in a timely manner.[20] Forms of borrower noncompliance varied in severity—from mortgage default or health and safety violations on a property to failure to submit annual budget documentation.[21] We concluded that some RHS enforcement actions were too mild (servicing letters), and others too severe (acceleration of the loan payments) to have the intended effect of returning borrowers to compliance. We recommended that RHS implement enforcement actions that could be tailored to the severity of the borrower's noncompliance. The agency agreed with this recommendation and published a proposed rule to establish civil money penalties as a "mid-level" enforcement mechanism. But according to USDA, a regulatory change is needed before Rural Development can use the services of USDA Administrative Law Judges to adjudicate civil money penalty cases.
- Although RHS staff must ensure that borrowers (or their management agents) verify tenants' income levels, the processes RHS used for verifying income were inconsistent among state offices that help

[20]The farm labor housing program may award both loan and grant funds to one recipient. Therefore, we refer to recipients as borrowers, as RHS does in its management handbooks and regulations.

[21]We previously reported that penalties in federal award programs should correspond to performance. See GAO, *Grants Management: Enhancing Performance Accountability Provisions Could Lead to Better Results*, GAO-06-1046 (Washington, D.C.: Sept. 29, 2006).

implement the program.[22] For example, some state offices used third-party income verification systems, such as a wage matching system, while other states did not have access to these verification tools. We recommended that USDA seek legislative authority to gain access to the New Hires database for data matching purposes and noted that we first recommended granting such access in 2004.[23] USDA agreed with our 2011 recommendation and, as discussed previously, proposed legislation to obtain this access. Although the legislative proposals have not been enacted, we maintain that providing RHS access to the database would improve management of the program.

- Although borrowers must verify the legal residency of tenants, we found inconsistencies in the methods RHS used to ensure borrower compliance.[24] The Citizenship and Immigration Services division of the Department of Homeland Security operates the Systematic Alien Verification for Entitlements (SAVE) program, which provides an online service for verifying legal residency documentation. This service is available, upon request, to all federal, state, and local benefit-granting agencies. As part of supervisory reviews of borrowers, we found that staff from some RHS state offices used SAVE to check whether borrowers were verifying residency status, while staff from several other offices either did not or were unaware of the program. We recommended that to better ensure that requirements for tenant eligibility were met, RHS should require staff to use the SAVE program to verify tenants' residency status during supervisory reviews. As of April 2015, RHS had not implemented this recommendation.

[22]Although state office responsibilities may vary, these offices typically accept, review, and service loans; monitor budgets; conduct fiscal and physical inspections; and engage in limited policy making and oversight of local field offices. The state office also ranks, scores, and forwards eligible applications it receives for funding to the national office. According to RHS's asset management handbook, field office staff are to provide consistent, effective oversight of properties financed by RHS to ensure that they are operated in accordance with applicable regulatory and administrative requirements.

[23]GAO, *Rural Housing Service: Updated Guidance and Additional Monitoring Needed for Rental Assistance Distribution Process*, GAO-04-937 (Washington, D.C.: Sept. 13, 2004).

[24]Only U.S. citizens or permanent residents are eligible for RHS farm labor housing units.

Preliminary Observations on Risk Management of RHS's Single-Family Loan Guarantee Program

As requested by this Subcommittee, we are conducting ongoing work on RHS that focuses on RHS's methods of estimating credit subsidy costs and risk-management practices for its single-family guarantee program.[25] In relation to risk management, we have been examining the extent to which RHS's practices are consistent with key federal requirements, including those in OMB Circular A-129 (Policies for Federal Credit Programs and Non-Tax Receivables) and federal internal control standards.[26] Overall, our work as of May 2015 indicates that while aspects of RHS's risk-management practices broadly align with selected federal requirements, other aspects are not fully consistent with requirements and leading practices. Our preliminary observations are summarized below.

RHS has policies, procedures, and practices for a number of risk-management functions addressed in OMB Circular A-129. Examples include the following:[27]

- RHS has procedures for determining borrower creditworthiness, including an automated underwriting system that helps lenders determine whether applicants qualify for an RHS-guaranteed mortgage. The procedures also require RHS field staff to perform several steps. For example, RHS field staff must review every loan application and associated loan documentation (such as the property appraisal) before the lender closes the loan.[28] If the documentation is satisfactory, RHS issues a conditional commitment to guarantee the loan, which may require the lender to satisfy certain conditions before proceeding to loan closing. Once the lender closes the loan and submits the closing package to RHS, RHS field staff must conduct a

[25]The credit subsidy cost for loan guarantees is the net present value of the difference between projected cash flows to and from the government over the lifetime of the loans.

[26]GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

[27]While we are not testing RHS's compliance with the policies and procedures as part of our ongoing review, we are reviewing audits by USDA's Office of the Inspector General that have included compliance testing and are reviewing information on RHS's actions to address the Inspector General's recommendations.

[28]Lenders must submit more documentation to RHS for loans that are manually underwritten than for those underwritten using the automated system and for which the system provided an "accept" decision.

final review to determine whether the lender met the conditions before issuing the loan guarantee.

- RHS has policies and procedures for overseeing lenders that underwrite or service RHS-guaranteed mortgages. For example, lenders must meet eligibility standards prescribed in regulation and apply to RHS for approval. RHS procedures require RHS field and contractor staff to conduct periodic desk or on-site reviews of lenders and servicers, and RHS has developed risk-based criteria to guide the selection of lenders and servicers for review. RHS staff must prepare written reports on their findings, and the lenders and servicers must respond in writing to any report recommendations. RHS also has documented procedures for reviewing lender loss claims on guaranteed loans that have defaulted.

- RHS has established a risk appetite—the amount and type of risk an organization is willing to accept in pursuit of its objectives—for the single-family guarantee program. According to RHS officials, the program's risk appetite is expressed primarily through the goal of making each annual cohort of loan guarantees "subsidy-neutral," while keeping guarantee fees at a level affordable to low- and moderate-income households. In the budgetary context, subsidy-neutral means that, initially, the present value of lifetime estimated cash inflows (for example, guarantee fees) equals the present value of lifetime estimated cash outflows (for example, loss claims).[29]

Our ongoing work indicates that RHS also has been making a number of enhancements to its risk-management practices. Chief among these is the development of an econometric model intended to support analysis of RHS's guaranteed portfolio and help estimate credit subsidy costs for the single-family guarantee program. According to RHS officials, the model will help the agency better estimate the effects of market and policy changes on portfolio performance and improve management of program risks. RHS expects that development of the model will be completed in December 2015. RHS also has proposed regulations that would strengthen its authority to require lenders to indemnify (compensate) RHS for loss claims on defaulted loans that were not properly underwritten. Current regulations authorize RHS to seek indemnification within 24 months of loan closing when RHS concludes that the lender did not

[29]Actual subsidy costs may differ from the initial estimates.

comply with the agency's underwriting standards. In March 2015, RHS issued a proposed rule that, among other things, would increase the indemnification period to 5 years.[30] Additionally, Rural Development is exploring the appointment of a Chief Risk Officer, in response to a congressional report directive and consistent with OMB Circular A-129 requirements.[31]

Based on our ongoing work, we have found elements of RHS's risk management that are not fully consistent with federal requirements and leading practices, which may limit the effectiveness of RHS's overall risk-management efforts. Examples include the following:

- **Limitations in performance benchmarks.** While RHS uses a number of benchmarks to assess the performance of its guaranteed portfolio, two key benchmarks have limitations that diminish their usefulness. In particular, these benchmarks are not fully consistent with certain attributes of successful performance measures—such as objectivity and reliability—that we identified in prior work.[32] According to RHS officials, since 2004, they have compared the overall delinquency and foreclosure rates for RHS's portfolio with corresponding rates for FHA's insured portfolio of 30-year fixed-rate mortgages.[33] RHS has established performance goals stating that RHS should be within a specified range of FHA's delinquency and foreclosure rates at the end of each fiscal year. Although RHS generally has met these goals, using FHA's performance as a benchmark may not provide objective and reliable information for risk management. The weakness in the benchmark is two-fold. First, a simple comparison of two portfolios ignores potential differences in their composition—for example, in the age and geographic distribution of loans—that may influence loan performance and make

[30]See 80 Fed. Reg. 11950 (Mar. 5, 2015). In cases in which RHS determines that fraud or misrepresentation occurred in the origination of the loan, the existing regulation authorizes RHS to seek indemnification regardless of when the loan was closed. The proposed rule would clarify that RHS could seek indemnification in those cases regardless of when the loan was closed or when the default occurred.

[31]See H.R. Rep. No. 468, 113th Cong., 2nd Sess. at 37-38 (2014).

[32]GAO, *Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures*, GAO-03-143 (Washington, D.C.: Nov. 22, 2002).

[33]RHS generally guarantees only 30-year fixed-rate mortgages, while FHA guarantees 15-year and 30-year fixed-rate and adjustable-rate mortgages.

comparisons of the portfolios invalid.[34] Second, it implies that FHA has been effectively managing its risk. However, FHA has at times exhibited shortcomings in this area. For example, in a 2006 report, we found that FHA had not developed sufficient standards and controls to manage risks associated with the substantial proportion of FHA-insured loans with down-payment assistance.[35]

- **Lack of formal procedures for a key committee.** RHS does not have written procedures for a key part of its risk-management structure. Specifically, since 2009 RHS has had a Credit Policy Committee that, according to RHS officials, meets regularly to detect, discuss, and analyze credit quality issues and address them through policy changes. According to federal internal control standards, agencies should have effective control activities, including policies and procedures, to help mitigate risks and should document significant events. However, the Credit Policy Committee operates without policies and procedures describing its purpose, scope, membership, or decision-making process. RHS also has not defined the roles and responsibilities of committee members and does not prepare minutes of meeting discussions and results.
- **Key relationships not documented.** RHS has not documented the relationships between the agency components that have risk-management functions and responsibilities. OMB Circular A-129 states that federal credit agencies should codify clearly defined lines of authority and communication. RHS's risk-management structure is decentralized and complex. According to RHS officials, it involves staff in 47 state offices; the Centralized Servicing Center and National Financial and Accounting Operations Center in St. Louis, Missouri; and USDA headquarters. Although RHS has basic organizational charts for these components of the risk-management structure, it has not documented the lines of authority or communication among them.

[34]For example, if a portfolio were concentrated in a strong housing market or included a high proportion of recent loans that had had little time to default, it would have a lower foreclosure rate than a portfolio with the opposite characteristics, all other things being equal. Therefore, not accounting for the different composition of the two portfolios could lead to incorrect conclusions about how well the portfolios were being managed.

[35]GAO, *Mortgage Financing: Additional Action Needed to Manage Risks of FHA-Insured Loans with Down Payment Assistance*, GAO-06-24 (Washington, D.C.: Nov. 9, 2005).

As we complete our ongoing work, we will determine whether additional actions are needed by RHS to rectify these issues. We will consider making recommendations, as appropriate, in our final report.

In conclusion, our reviews of RHS housing assistance programs since 2011 have identified a number of areas in which RHS could strengthen its program oversight and enhance collaboration and consolidation efforts. RHS has made progress in implementing some of our recommendations, but additional actions are needed to address others. Additionally, our ongoing work has identified shortcomings in certain aspects of RHS's risk management for the single-family guarantee program. To operate as efficiently and effectively as possible, it will be important for RHS to sustain the improvements it has made, implement outstanding audit recommendations, and address any future recommendations we may make in a timely manner.

Chairman Luetkemeyer, Ranking Member Cleaver, and Members of the Subcommittee, this concludes my prepared statement. I would be happy to respond to any questions that you may have at this time.

GAO Contact and Staff Acknowledgments

For further information about this testimony, please contact me at 202-512-8678 or sciremj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this testimony include Steve Westley, Assistant Director; Melissa Kornblau, Analyst-in-Charge; Alexandra Martin-Arseneau; Andy Finkel; John McGrail; Marc Molino; Barbara Roesmann; and Julie Trinder-Clements.

Appendix I: Content and Status of Relevant GAO Recommendations

The following table summarizes the status of our prior recommendations to USDA from our August 2012, May 2012, and March 2011 reports that discuss RHS housing assistance programs. We classify each recommendation as either open (the agency has either not taken or completed steps to implement the recommendation) or implemented. The recommendations are listed by report.

Table 1: Status of Recent GAO Recommendations Concerning RHS, May 2015

Product	Recommendation	Status
GAO-12-554: Housing Assistance: Opportunities Exist to Increase Collaboration and Consider Consolidation, (August 2012)		
	To enhance task force efforts to evaluate the potential for coordination or consolidation of single-family housing programs and activities, the Secretaries or other designated officials of HUD, USDA, and VA, and the Director of OMB should take steps to establish a more rigorous approach to collaboration. For example, as a first step, agencies could define and articulate goals or common outcomes and identify opportunities that can be addressed or problems solved through their collaborative efforts. Enhancing the task force's efforts also could entail establishing and implementing a written agreement; specifying roles and responsibilities; establishing mechanisms to monitor, evaluate, and report on results; and reinforcing accountability for collaborative efforts.	Implemented
	To further improve HUD, USDA, and Treasury's efforts through the Rental Policy Working Group to consolidate and align certain requirements in multifamily housing programs, the Rental Working Group should take steps to document collaborative efforts in strategic and annual plans to help reinforce agency accountability for these efforts.	Open
	To build on task force and working group efforts already underway to coordinate, consolidate, or improve housing programs, and help inform Congress's decision-making process, the Secretaries or other designated officials of HUD, Treasury, USDA, and VA should evaluate and report on the specific opportunities for consolidating similar housing programs, including those that would require statutory changes.	Open
GAO-12-624: Rural Housing Service: Efforts to Identify and Reduce Improper Rental Assistance Payments Could be Enhanced, (May 2012)		
	To help estimate, reduce, and recover improper payments in the Section 521 rental assistance program, the Secretary of Agriculture should draft proposed legislation for congressional consideration that would grant RHS access to SSA benefits data for purposes of verifying tenant incomes.	Open
	To help estimate, reduce, and recover improper payments in the Section 521 rental assistance program, the Secretary of Agriculture should submit RHS's methodology for estimating improper payments, including use of the $100 exclusion threshold, to OMB for review.	Open
	To help estimate, reduce, and recover improper payments in the Section 521 rental assistance program, the Secretary of Agriculture should consider examining payment processing errors as part of the next improper payments audit to provide more current information on whether these errors are significant.	Implemented
	To help estimate, reduce, and recover improper payments in the Section 521 rental assistance program, the Secretary of Agriculture should, in conducting the annual improper payments audit, either count all payments made on behalf of tenants with signed but undated Tenant Certification forms as improper or revise the audit procedure to classify such payments as proper when an acceptable certification date can be imputed from other documents.	Implemented

Product	Recommendation	Status
	To help estimate, reduce, and recover improper payments in the Section 521 rental assistance program, the Secretary of Agriculture should complete steps to use SSA's Death Master File—potentially utilizing the batch-processing option offered through Treasury's 'Do Not Pay" web portal—to identify improper payments made on behalf of deceased tenants and use this capability in conducting the annual improper payments audit and for ongoing oversight of program payments.	Open
	To help estimate, reduce, and recover improper payments in the Section 521 rental assistance program, the Secretary of Agriculture should complete steps to ensure that RHS managers are held accountable for reducing and recovering improper payments in the rental assistance program and include a discussion of the accountability steps in USDA's Performance and Accountability Reports.	Implemented
	To help estimate, reduce, and recover improper payments in the Section 521 rental assistance program, the Secretary of Agriculture should include a discussion in USDA's Performance and Accountability Reports of whether RHS has the internal controls, human capital, information systems, and other infrastructure to reduce improper rental assistance payments to targeted levels.	Open
GAO-11-329: Rural Housing Service: Opportunities Exist to Strengthen Farm Labor Housing Program Management and Oversight, (March 2011)		
	To better ensure that Farm Labor Housing (FLH) funds obligated but unliquidated are efficiently used to provide farm labor housing, the Secretary of Agriculture should direct the Administrator of RHS to issue guidance on obligation expiration dates and make all RHS staff in the state and local offices aware of the guidance and how to implement it.	Implemented
	To help ensure that reliable program costs are estimated in future years, the Secretary of Agriculture should direct the Administrator of RHS, on an annual basis, to work with budget staff to investigate key assumptions, including comparing these assumptions to actual program performance, in order to explain unusual fluctuations impacting the credit subsidy rate used in budget formulation.	Open
	To better ensure that requirements for tenant eligibility are met across the FLH portfolio, the Secretary of Agriculture should direct the Administrator of RHS to seek legislative authority to gain access to the Department of Health and Human Services' National Directory of New Hires and make this information available to RHS so that they can assess the accuracy of tenant income documentation during supervisory reviews and other oversight activities.	Implemented
	To better ensure that requirements for tenant eligibility are met across the FLH portfolio, the Secretary of Agriculture should direct the Administrator of RHS to require its loan servicers to use the Systematic Alien Verification and Entitlements program administered by the Department of Homeland Security to verify tenant's residency status during supervisory reviews.	Open
	To help resolve identified borrower noncompliance in a timely manner, the Secretary of Agriculture should direct the Administrator of RHS to implement enforcement mechanisms that can be tailored to the severity of the borrower noncompliance, such as the civil money penalty enforcement provision in its program regulations.	Open
	To better determine and track compliance across the portfolio, the Secretary of Agriculture should direct the Administrator of RHS to implement mechanisms to improve the specificity and timely reporting of its compliance review information—such as findings data and performance grade data in the Multi-Family Housing Information System.	Implemented
	The Secretary of Agriculture should direct the Administrator of RHS to better utilize available data on demand for the FLH program—such as systematically reviewing local market analyses, further analyzing occupancy data on a statewide, regional, or national level, and retaining and analyzing application information—to help target available funding to areas of greatest need.	Open

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HAC

Housing Assistance Council
1025 Vermont Ave., N.W., Suite 606, Washington, DC 20005, Tel.: 202-842-8600, Fax: 202-347-3441, E-mail: hac@ruralhome.org
www.ruralhome.org

STATEMENT FOR THE RECORD
Housing and Insurance Subcommittee
Committee on Financial Services
U.S. House of Representatives
"The Future of Housing in America: Oversight of the Rural Housing Service"
May 27, 2015

Thank you for the opportunity to submit testimony for the record about the Rural Housing Service (RHS) at the U.S. Department of Agriculture (USDA). This statement focuses on the subject of consolidating USDA's housing programs with those of the Department of Housing and Urban Development (HUD). The Housing Assistance Council (HAC) strongly supports USDA's rural housing programs and believes that they should remain at USDA.

The Housing Assistance Council is a national nonprofit organization dedicated to improving housing conditions for low-income rural Americans. Since 1971, HAC has provided financing, information, and technical services to nonprofit, for-profit, public, and other providers of rural housing. HAC exists to meet the housing needs of the poorest of the poor in the most rural places and fulfills its mission by working in close partnership with local organizations in rural communities throughout the nation. These relationships provide HAC with first-hand knowledge of the issues impacting rural areas.

USDA's rural housing programs are essential parts of nationwide rural affordable housing efforts. They are not perfect; HAC and other rural housing stakeholders spend a great deal of time working with USDA to improve its programs. At the same time, HUD programs such as the HOME Investment Partnership program are important for rural America. These facts do not, however, make it appropriate to consolidate the agencies' housing programs.

Rural places

RHS's housing programs address serious needs in rural places. Nearly one-third (29.6 percent) of rural households pay more than 30 percent of their incomes for housing, or live in homes with physical inadequacies. While housing costs are often lower in rural places than urban – 42.6 percent of rural owner-occupied homes are valued at less than $100,000 compared to only 24.5 percent nationwide – rural household incomes continue to lag behind.[1] The Census Bureau estimated the median income in nonmetropolitan areas at $42,881 in 2013, while the national level was $51,939. The high proportion of low-skill and low-paying jobs in rural areas, combined with lower educational attainment levels, are substantial factors in the rural income divergence.[2]

[1] Housing Assistance Council, The Rural Data Portal, http://www.ruraldataportal.org/.
[2] Housing Assistance Council, "Rural Poverty Decreases, Yet Remains Higher than the U.S. Poverty Rate," 2014, http://www.ruralhome.org/sct-information/mn-hac-research/rrn/990-official-poverty-rate-2014.

Building Rural Communities

Southeast Office
600 W Peachtree St., N.W.
Suite 1500
Atlanta, GA 30308
Tel.: 404-892-4824
Fax: 404-892-1204
southeast@ruralhome.org

Western Office
717 K St.
Suite 404
Sacramento, CA 95814
Tel.: 916-706-1836
Fax: 916-706-1849
western@ruralhome.org

Southwest Office
7510 Montgomery N.E.
Suite 205
Albuquerque, NM 87109
Tel.: 505-883-1003
Fax: 505-883-1005
southwest@ruralhome.org

Midwest Office
10100 Ambassador Drive
Suite 310
Kansas City, MO 64153
Tel.: 816-880-0400
Fax: 816-880-0500
midwest@ruralhome.org

HAC is an equal opportunity lender.

Poverty is an ongoing fact of life in some parts of rural America. There are 429 U.S. counties where poverty levels were higher than 20 percent in 1990, 2000, and 2010, and 86 percent of them are rural. Homes in persistent poverty counties lack complete plumbing more than twice as often as dwellings in the country as a whole. Despite lower housing costs in these counties, more than half of persistent poverty county renters pay more than 30 percent of their incomes for housing.[3]

Rural/urban differences

As Mathew J. Scirè pointed out in his testimony for this hearing, the "rural America of today is different than when the federal government first began to provide housing assistance to rural residents in the 1930s."[4] Despite changes over time, however, rural, suburban, and urban places retain clear differences with important ramifications for housing programs. Rural housing issues are not just smaller versions of urban issues.

For example, there are fewer local community organizations in rural areas than in cities. Those organizations, as well as local governments, especially in the smallest towns and the most remote locations, generally have less capacity than their urban counterparts. There are fewer providers of support services for elderly or disabled residents. Private financing is harder to find in rural places. Rural areas lack economies of scale.

Technology's advantages are not always accessible in rural America: even where computers are available, fast and reliable internet connections often are not. Nor can technology replace human beings. Like other social service programs, housing aid is best delivered through a one-on-one interaction with someone who understands their customers' circumstances and local culture.

USDA and HUD programs

In the 1930s and 1940s, Congress authorized the Federal Housing Administration, the Federal Home Loan Bank System, and Fannie Mae, as well as programs such as "slum clearance and urban renewal," public housing, and the Section 502 rural direct mortgage program and the Section 504 rural home repair loan and grant programs. The latter two were, and are, administered by USDA rather than by HUD or its predecessor agencies, because they were intended to meet different needs.

As urban, suburban, and rural places have developed over the years, housing needs have changed, and both HUD's and USDA's housing programs have evolved as well. There are some important distinctions between programs that were not discussed at the hearing.

Notably, USDA offers direct loan programs and HUD does not. RHS's Section 502 direct loan program makes mortgages to low-income first-time homebuyers who cannot obtain credit in the private market; as RHS Administrator Tony Hernandez testified, only 2.9 percent of these loans are

[3] Housing Assistance Council, "Poverty in Rural America," 2012, http://www.ruralhome.org/storage/research_notes/rrn_poverty.pdf.
[4] Statement of Mathew J. Scirè, Director Financial Markets and Community Investment, Government Accountability Office, Testimony Before the Subcommittee on Housing and Insurance, Committee on Financial Services, House of Representatives, "Rural Housing Service: Progress on GAO Recommendations and Preliminary Observations on Loan Guarantee Risk Management," (GAO-15-625T), 2015, http://financialservices.house.gov/uploadedfiles/hhrg-114-ba04-wstate-mscire-20150519.pdf.

delinquent during the first year, while FHA had a 4.3 percent delinquency rate in February 2015.[5] Since their inception, Section 502 direct loans have enabled more than two million families to achieve homeownership. The Section 504 loan program finances essential home repairs for very low-income homeowners, and grants are also available for elderly homeowners who cannot afford to repay loans. The Section 515 program makes loans directly to nonprofits, for-profits, and others to develop rental housing for low-income tenants when financing is not available in the private market. The majority of tenants in Section 515 properties are elderly or disabled, and their annual incomes average about $12,000.[6] Direct loans, as well as grants, are also offered for development of rental housing for farmworkers through the Section 514/516 program, the only federal program targeted specifically to provide decent, affordable housing for farmworkers.

Several other USDA programs work in conjunction with these direct loan programs. Section 521 Rental Assistance, for example, helps keep rents below 30 percent of tenant incomes in Section 515 and 514/516 properties. The Multi-Family Preservation and Revitalization Demonstration Program, along with Section 542 vouchers, enable property owners to repair aging Section 515 rentals and keep them affordable for tenants. The Section 523 program funds local self-help efforts, through which families can help build their own homes, reducing costs and making homeownership possible for hundreds who could not afford it otherwise, even with Section 502 direct mortgages.

RHS's Section 502 mortgage guarantees for homebuyers and Section 538 guarantees for rental property developers do resemble the guarantees offered by the Federal Housing Administration (FHA). The rural programs, however, are targeted specifically for lower-income residents, while the FHA serves anyone who qualifies for a mortgage and purchases a home valued below a certain dollar amount, regardless of their income. Mr. Sciré's testimony, and his answers to questions posed by Subcommittee members, focused on the Section 502 guarantee program.

HUD has no direct loan programs and has limited experience administering programs that are directed exclusively to rural areas. Most of HUD's programs can be used in rural areas as well as in larger towns and cities, but the programs' designs are urban-oriented. Large programs like HOME and the Community Development Block Grant are intended to reach rural areas through state government agencies. HUD's experience is in delivering block grants, guarantees, and rental subsidies, not mortgage loans. HUD works through others: local governments, state and tribal governments, developers, banks, intermediary organizations, and public housing authorities. While the loans and grants offered by the rural housing programs are retail items, HUD is a wholesaler, not a retailer.

USDA's field office network

As Mr. Hernandez explained at the hearing, USDA offers a "storefront" operation. Its field offices are designed to be accessible to rural Americans – located in rural towns rather than large cities and staffed by rural residents. USDA's Rural Development mission area (RD) has 47 state offices and approximately 400 field offices serving all 50 states and the U.S. territories. HUD has far fewer field offices and they are located in major urban centers. In Missouri, for example, HUD has offices in Kansas City and St. Louis. USDA RD has a state office in Columbia and 18 area and sub-area

[5] "FHA Single Family Loan Performance Trends: Credit Risk Report," February 2015, http://portal.hud.gov/hudportal/documents/huddoc?id=FHALPT_Feb2015.pdf.
[6] Tony Hernandez, "Results of the 2014 Multi-Family Housing Annual Fair Housing Occupancy Report," Unnumbered Letter dated February 18, 2015, http://www.rd.usda.gov/files/ulfebruary15.pdf.

offices. In California, HUD has three field offices, located in Los Angeles, San Francisco, and Santa Ana. USDA RD has a state office in Davis and 18 local offices.

Mr. Hernandez's written testimony states that USDA's local staff "are members of the communities they serve and possess expert knowledge of the economic challenges and opportunities that exist in their particular region. This intimate, hands-on approach enables us to provide the technical assistance and oversight often necessary for communities with limited means."[7] Connections with local communities also enable RD staff to develop close partnerships with local entities that help deliver affordable housing to those who need it – nonprofits that administer self-help housing programs, for example, and those who can bring services for seniors to rental housing developments.

It is also important to note that the local USDA offices deliver all USDA Rural Development programs – not only housing, but also economic development, utilities, and community facilities. Housing improvement is inextricably intertwined with these other community improvement efforts. RD's staff understand the relationships among them and can help rural places use these resources together.

Furthermore, since specific plans for consolidating RHS and HUD housing programs have not been proposed, there is no evidence that such a change would reduce costs. Even if RHS's housing functions were removed from RD field offices, the offices would continue to administer RD's community facilities, business, and utilities programs. At the national level, it seems inevitable that expenses would be incurred to move programs and staff from one department to another and to retrain staff.

Needed improvements underway

USDA has significantly streamlined its field office structure over the last two decades. In the mid-1990s the Rural Development mission area was created and field staff from several agencies were combined into the current Rural Housing Service, Rural Business-Cooperative Service, and Rural Utilities Service. There were over 2,000 district and county offices in 1994, compared to about 400 today. Corresponding decreases in staffing levels have been made, at both the field office and national office levels.

RD's field offices and their staff deliver numerous and varied housing programs, including making loans and grants that require working face-to-face with customers. A central office in St. Louis services RHS's financing and direct loans. Thus it is not appropriate to compare RHS's staffing levels to those of FHA, which provides one type of product – loan guarantees.

To further increase the agency's efficiency, as Mr. Hernandez testified, RHS has worked hard over the last 18 months to improve its use of technology. It can now process requests for assistance, and can service its outstanding loans, more quickly. Additional gains are expected in the near future.

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[7] Statement of Tony Hernandez, Administrator, Rural Housing Service, "Statement Before the Subcommittee on Housing and Insurance Committee on Financial Services," 2015, http://financialservices.house.gov/uploadedfiles/hhrg-114-ba04-wstate-thernandez-20150519.pdf.

Conclusion

USDA's housing programs have improved the lives of hundreds of thousands of rural families. It is true that housing is not a major focus at USDA; its rural housing programs are dwarfed by its agriculture and food programs. But rural needs are not a major focus at HUD; HUD's rural spending is dwarfed by its urban activities. USDA understands rural places, has experience with direct loan and grant programs, and has a network of field offices that maintain its longstanding ability to serve rural people, even those who live far from metropolitan areas. It is not surprising, then, that neither USDA[8] nor HUD[9] has supported the idea of consolidating USDA's rural housing programs at HUD. The Housing Assistance Council encourages the subcommittee to reject this idea as well.

[8] Statement of Tammye H. Trevino, Rural Housing Services Administrator, before the House Financial Services Subcommittee on Insurance, Housing and Community Opportunity Hearing on "Legislative Proposals to Determine the Future Role of FHA, RHS and GNMA in the Single and Multi Family Mortgage Market," September 8, 2011, http://financialservices.house.gov/UploadedFiles/090811trevino.pdf.

[9] Written Testimony of Carol J. Galante, Acting Assistant Secretary for Housing – Federal Housing Administration Commissioner, U.S. Department of Housing and Urban Development, before the House Financial Services Subcommittee on Insurance, Housing and Community Opportunity Hearing on "Legislative Proposals to Determine the Future Role of FHA, RHS and GNMA in the Single and Multi Family Mortgage Market," September 8, 2011, http://financialservices.house.gov/uploadedfiles/090811galante.pdf.

NATIONAL RURAL HOUSING COALITION

1331 G Street, N.W., 10th Floor, Washington, DC 20005 • (202)393-5229 • fax (202)393-3034 • http://ruralhousingcoalition.org

Statement Submitted for the Record
Subcommittee on Housing and Insurance
Committee on Financial Services
US House of Representatives
May 26, 2015

My name is Robert A. Rapoza and I am the Executive Secretary of the National Rural Housing Coalition (NRHC), a national membership organization that advocates for better programs and policies to improve housing conditions in rural America. We have testified before this Committee many times in the past and appreciate the opportunity to submit this statement for the record for the Subcommittee oversight hearing on the Rural Housing Service.

Access to safe, decent, and affordable housing can transform lives. Yet, due to lower incomes and higher poverty rates, far too many rural families live in housing that is unaffordable, in substandard condition, or both. According to U.S. Census data, approximately 1.5 million rural homes—or about 5.9 percent—are in substandard condition. Poverty rates in rural America (17.7 percent) are higher and more concentrated than the nation as a whole (15.0 percent). Overall, 82 percent of high-poverty counties—or 571 of the 703 counties with at least a 20 percent poverty rate—are rural. And, 86 percent of the nation's "persistently poor" counties are rural, as well. As a result, more than 8 million families—or 30 percent of all rural households—spend more than 30 percent of their monthly income on housing costs and therefore are considered "cost burdened."

United States Department of Agriculture (USDA) Rural Housing homeownership and rental housing programs have a proven track record of overcoming these barriers to affordable housing in rural America. By providing low-cost loans, grants, and other related assistance, these key programs have not only helped millions of rural families improve their quality of life, but have created thousands of jobs in rural America.

Over the last 40 years, federal rural housing programs have made a significant contribution to improving the quality and quantity of affordable housing in rural America. USDA has financed over 2 million units of home ownership housing and over 500,000 units of rural rental housing, in addition to rental housing for migrant and seasonal farmworkers and thousands of units occupied by low-income families and the elderly, which have been repaired.

All of this is accomplished on a shoestring budget. In Fiscal Year 2014:

- USDA made over 150,000 guaranteed home ownership loans to moderate-income families. The cost of those loans to the federal government: $0;
- USDA made some 6,500 direct home ownership loans to low-income families. The total cost to the federal government: $ 6,400 per unit; and

- USDA provided rental subsidies to over 285,000 very low-income families. The per unit cost for rural rental assistance is less than $4,000, which compares favorably to the annual average cost of a HUD section voucher, which is $8,000.

USDA housing programs have been a great success. They have provided better housing opportunities for rural families at a very low cost to the taxpayer. And these programs are targeted exclusively to rural America.

In recent years, there have been a number of proposals to transfer rural housing programs to HUD. We have opposed those proposals. While HUD is an important agency that has improved housing and communities, it is mostly focused on metropolitan areas and large cities; there is little evidence that HUD has the interest, capacity, or the programs to improve housing conditions in rural America.

A total of 19.3 percent of the US population lives in rural communities. Of HUD's budget of approximately $45 billion, less than 15 percent goes to rural areas This includes housing vouchers, public housing and FHA multi-family programs, as well as block grant and related accounts.

HUD's block grant programs have limited utility for rural communities. There is no set-aside for rural areas under the HOME program. States receive 40 percent of HOME funds which may be used for smaller and rural communities, but may also be allocated to larger cities that receive formula allocations.

Although the CDBG has a Small Cities Block Grant program, which allocates 30 percent of the CDBG appropriations to non-metro areas, there is a significant problem for rural areas from a targeting standpoint. States may award grants to communities with populations up to 50,000. Over 14,000 communities – both rural and large non-metro cities - across the country are eligible for the Small Cities program. This means that small rural communities must compete with larger jurisdictions for funding. Moreover, much of money goes to more rural communities finds its way to infrastructure projects, not housing.

HUD has never delivered a direct loan program aimed at rural communities. HUD works through big city mayors, developers, state government and banks and PHAs employing block grants, guarantees and rental subsidies. In short, HUD is a wholesaler, not a retailer of housing programs.

HUD does not have a presence in rural America. The agency operates in large and medium size cities and does not have a network of field offices that extends beyond metro areas. In many states HUD is closing offices. When rural interests meet with HUD they usually have to fly to get to an area office. They can drive—or in some cases walk—to their nearest USDA rural development office.

HUD's budget is $45 billion, so USDA rural housing budget is not a big addition. It is unlikely that HUD would have to dramatically shift the way it does business to accommodate the retail nature of the RHS program. There is a great danger that in tight budget times the inclination will be to force rural housing into the HUD delivery system thereby eliminating the essential programmatic and operational features of RHS.

Rural programs go to HUD to die. For example, between 2000-2008, HUD administered the Rural Housing and Economic Development (RHED) program, which provided capacity building funding for public and private non-profit organization. In 2010, HUD killed RHED in favor of the Rural Innovation Fund (RIF). Many rural organizations found the targeting in RIF unworkable, possibly because of the software HUD employed, which was designed for use in urban projects. A year later Congress eliminated RIF from the budget.

HUD policies reflect a limited understanding of rural housing issues. For example, in 2012 HUD issued draft rules for the HOME program that would have effectively eliminated home repair in rural Appalachia. It took rural housing advocates a year to persuade HUD to modify their standards to allow some of the poorest communities in the country to get home repair assistance through HOME. However, the final HOME rule still prevents community housing development organizations from using HOME funds for Mutual and Self Help housing, thereby preventing rural families from using their sweat equity to gain affordable housing.

But it is not just HUD. There is ample evidence that without a clear mandate to serve rural communities, housing assistance will go elsewhere. For example, the Low Income Housing Tax Credit, administered by Treasury and the states, provides only about 12 percent of the Credits available to non-metro areas.

USDA Rural Development has a network of over 400 offices located in small towns and farming communities across the country. These offices deliver a range of housing, community facility and economic development programs designed to meet the unique needs of rural America. USDA's housing programs are targeted to low- and moderate-income households. The average annual income a borrower of USDA guarantees is $56,000. The average annual income of a direct home ownership loan recipient is $23,000 and the average annual income of a family receiving USDA rental assistance is $11,000.

While some argue that the home ownership guarantee offer by the Federal Housing Administration is similar to that offered by USDA, it is important to note that the FHA product is not targeted to by income and has a loan limit of $700,000. The rural home ownership guarantee is limited to households with incomes not exceeding 125 percent of median. The average guarantee is $150,000. FHA is not serving the same income base as the USDA home ownership guarantee program.

Not only does USDA assistance build and finance better housing, it improves communities. For example, some 90 organizations across America participate in the Mutual Self-help Housing program. These organizations support groups of eight to 12 self-help families who construct each other's homes, performing approximately 65 percent of the construction labor. Through this "sweat equity," each homeowner earns equity in his or her home, decreasing the cost burden and increasing the investment in their community. For the last three years, self-help housing organizations have constructed about 3,500 homes. This construction has led to over 11,000 jobs, more than $738 million in local income and $77 million in taxes and revenue in rural communities across the country.

We understand that some of the interest in moving rural housing program to HUD is to reduce federal spending. Appropriations for rural housing and community development programs have been on the decline for several years. In FY 2003, spending on rural housing loan and grant programs totaled $342 million. The FY 2015 enacted level is $180 million. We have been extremely disappointed that the Administration has led the way with budget cutting on housing programs. Since 2010 USDA has proposed over $200 million in reductions to rural housing programs.

In fact a bipartisan coalition in Congress has risen year after year to defend rural housing programs against the unwise USDA budget requests. This year, more than 70 Members of the House—led by two Members of the Financial Services Committee -- Reps. Hinojosa and Duffy—wrote to the Appropriations Committee urging a better approach to rural housing appropriations.

There is much USDA should do to improve its administration of the rural housing program. For example, processing times for direct homeownership loans are too long and unpredictable. We have urged USDA to make this program a greater priority and to work with new and innovative approaches using intermediary organizations to facilitate packaging and processing loans.

USDA faces a number of challenges on its rental housing portfolio. The over 400,0000 Section 515 rental units are exclusively targeted to very low- and low-income families, the elderly, and persons with disabilities. A vast majority—94 percent—of Section 515 tenants have very low incomes. Some 61 percent of these households are elderly or disabled, 30.4 percent are headed by persons of color, and 72 percent are headed by women.

A 2004 USDA report on the multifamily portfolio indicated that a minimum of $2.6 billion over the next 20 years is needed to preserve aging Section 515 properties and to rehabilitate or replace obsolete infrastructure. Today, the average Section 515 property is more than 27 years old. Nearly 90 percent are at least 10 years old, and nearly two-thirds are more than 15 years old. In the coming years, 90 percent of all Section 515 units will need additional funds to ensure adequate operation.

Beyond this, an increasing number of Section 515 loans are maturing. As noted by Administrator Hernandez, the number and pace of maturing loans is increasing, thereby threatening a major source of affordable housing for rural families.

USDA needs a better set of policies to assure availability of Section 515 in rural communities. In many small towns, the Section 515 development is the only affordable housing in the community. It is painfully obvious that Congress will not resurrect Section 515 funding any time soon. For theses reasons USDA must do more to renovate and preserve rural rental housing developments and provide a means of long-term rental assistance for families.

In 2004, USDA released a report on the status of its rental housing portfolio, "Rural Rental Housing – Comprehensive Property Assessment and Portfolio Analysis," which documented the need for repairing and preserving the rural rental housing stock financed principally by section 515 loans. Given the number of issues confronting the Department on the management of the portfolio, USDA should look to update that analysis.

Developing housing in rural communities is difficult. Small, more dispersed populations require smaller projects that reduce economies of scale. Limited availability of infrastructure and community amenities is often an obstacle. Incomes are lower, the capacity of local government is uneven, and housing markets are uncertain. Nonetheless, USDA through the Rural Housing Service, and the Farmers Home Administration before it, has delivered millions of units of affordable housing to rural families at very low cost to the federal government. These programs have made life better for rural families and communities across America.

We do not agree with those who suggest that rural housing interests would be better served by HUD. We do agree with the February 2013 report of the Bipartisan Policy Center Housing Commission, which included as its number one recommendation for rural housing:

"1. Support and strengthen USDA's role in rural housing. **USDA has a presence in rural communities that is critical for administering support to vulnerable households. While increased collaboration and efficiency across agencies is important, Congress should not pursue proposals to shift USDA programs to other government agencies where they will be absorbed by other federal programs. USDA is well-positioned to leverage the existing resources and infrastructure of rural service providers that understand the unique conditions of local markets."**

We strongly support the rural housing programs administered by USDA and hope the Committee will agree with us.

Thank you for the opportunity to submit this statement for the record.

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