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Chairwoman Waters, Ranking Member Capito, and members of the Committee, thank you for the opportunity to appear before you to discuss multi-family housing preservation in rural America. This is a critically important issue and in broad terms we believe that the strategy outlined in the Rural Housing Preservation Act of Title VIII of the proposed legislation (H.R. 4868) is very promising. I would like to thank all those involved with this legislation, both in this session of Congress and in previous session, for your hard work. I am pleased to testify before you today on behalf of Secretary Tom Vilsack, Under Secretary Dallas Tonsager, and USDA Rural Development's Housing Programs, and look forward to working with you and the Committee to further the preservation agenda.

At USDA, we advocate a strong national housing policy that both supports the American dream of homeownership and provides affordable rental opportunities. We are greatly encouraged by the committee's focus on legislation that will create national housing preservation standards for all government agencies that specialize in housing assistance, especially in rural communities. We further believe that your goals and ours are the same in both the desire to preserve the nation's existing stock of federally assisted affordable multi-family rental housing and the protection from displacement, of low-income families, especially the elderly and disabled tenants.

For 60 years, our rural housing programs have provided invaluable support for low and very-low income families in rural areas. Key multi-family housing programs currently include the Section 514/516 Farm Labor Housing Program, the Section 515 Rural Rental Housing Direct Loan program, the Section 538 Rural Rental Housing Guaranteed Loan program and USDA's housing voucher program.

The USDA Rural Housing Service multi-family housing portfolio currently accounts for over 15,900 multi-family and farm labor housing properties financed with direct loans and grants for $11.4 billion; and 300 multi-family guaranteed loans for $350 million. In our direct portfolio, we house over 450,000 tenant households across the country, with an average income of $11,000. Within our housing program participants, two of every 3 households are headed by a person who is elderly or handicapped and 1 of every 3 is a minority headed household. Seven of every 10 households participating in our housing programs are headed by a female, 99 of every 100 tenants are low or very low income, but 2 of every 10 receive no deep tenant subsidy, such as RD's rental assistance or HUD vouchers.

In the current economy, the challenges that have faced rural communities for decades have grown more acute. Recent studies show there are 386 persistent poverty counties in the US. (Defined as 20% or more of the population living in poverty over the last 30 years). Of these 386 counties, 340 (almost 90%) are considered rural counties. The same study indicates that persistent poverty and degree of rurality are also linked… the poverty rate is the highest in the completely rural counties. So not only do rural Americans earn less than their urban counterparts, they are also more likely to live in poverty. In addition, more rural Americans are over the age of 65 and have completed fewer years of school, and more than half of America's rural counties are losing population.

Rural Development multi-family housing programs were established because sufficient access to capital and credit was not available to serve the needs of very low-income renters who wished to live and work in rural communities. The need to preserve the nation's existing stock of federally assisted affordable multi-family rental housing and the protection from displacement, of low-income families, especially the elderly and disabled tenants in rural America gave rise to the Multifamily Preservation and Revitalization Demonstration (MPR) Program that began in 2006.

MPR is in its fourth year of existence. To date, RD has obligated over 400 MPR revitalization transactions for Section 515 properties that will affect close to 14,000 tenant households. Currently, our MPR program is authorized as a demonstration program, with no permanent authority.

The lack of permanent authorization makes it difficult for the Agency to promulgate permanent program regulations and to address long term issues. By providing permanent authorization the legislation would dramatically enhance the quality of the MFH stock and protects tenants in rural America.

In rural America, low-income residents continue to be underserved especially given the current economic environment. For example, turbulence in the housing credit investment market has had some effect on rural deals in the preservation pipeline. While the vast majority of approved MPR transactions are now closed, the recent depletion of investors due to market instability has reduced equity that is available to be brought into Low Income Housing Tax Credit (LIHTC) transactions in rural areas. Half of all MPR transactions funded include transfers as part of the revitalization transaction. And because half of all MPR transactions funded have included transfers as part of the revitalization transaction, this has slowed the rate of closing for MPR transactions obligated during FY 2008 and FY 2009 that included a transfer dependent on LIHTC funding.

Passage of the bill offers tools and incentives that will keep property owners interested in staying in the program and fills the void caused by the recession through a new permanent program authority that can be used to revitalize and preserve thousands of rural rental units across the land. Each of the tools this bill proposes offers new benefits that will allow eligible sponsors to rest assured the long term goals of the program have not left them without a responsible strategy, in exchange for their commitment to keeping the units available for eligible tenants. In general, we support the principles reflected in the bill and look forward to working with Congress to improve this legislation.

At USDA Rural Housing, we are pleased with five key features in the proposed legislation:

1. It provides the Agency with a number of revitalization tools that provide cost effective preservation options for the existing MFH rental portfolio so that these projects can continue to serve their communities throughout rural America.
    - The benefits of preserving existing housing rather than financing new multi-family housing properties are clear. It is cost efficient – roughly one-third to one-quarter of the cost of new construction; It can be accomplished faster, with site and acquisition issues already solved; It presents many opportunities to upgrade existing properties' energy efficiency; and upgrades to existing rental housing properties generally are more readily accepted by the community than newproperties.
    - Moreover, MPR demonstration program indicates a tremendous interest among the ownership community in seeking a resolution to the revitalization challenge most are facing and has demonstrated that these measures lead to reduced post-transaction rents.
2. It contains enhanced voucher authority that will help protect tenants in properties that leave the program as well as ensuring long term affordability for tenants through long-term use agreements.
    - The current RD voucher program provides protection against rent increases or the tenant having to relocate as a result of prepayment or foreclosure. At the present time, in a Section 515 property where the mortgage is prepaid either by borrower action or through foreclosure, the property owner can increase rents to market rates. At the same time, by

leaving the 515 program, the property is no longer eligible for Rental Assistance.

- The voucher authority proposed in this legislation will provide our Agency with the enhanced abilities to protect more of our tenants over an extended period of time.
- Over the last three years, more than $13.5 million in voucher funds have been obligated and over 3,500 new and renewed vouchers have been provided to rural residents. Over 90% of voucher recipients have elected to remain in the property they have called home for a period of years.

3. It includes RD's farm labor housing programs.
    - Earlier versions of the proposed legislation did not include this smaller but similar RD program. We welcome its inclusion as many of the farm labor housing properties will need the same type of help. We understand GAO will be examining the program in more detail, and we appreciate the fact that the proposed legislation will give us access to the revitalization tools.
4. It includes provisions for long-term viability planning.
    - On a demonstration basis, we are conducting physical needs assessments with an emphasis on our older properties and also offer a range of financial tools that include loan restructuring and rent adjustments.
    - This approach has helped to contain growing foreclosure and default rates in these tough economic times.
5. It introduces the concept of a national database that will give us access to the information needed to track America's affordable housing stock. Specifically the

revitalization tools provided by Title VIII give us the ability to be full partners with other Agencies such as HUD, as we work together to preserve the portfolio.

In the ten months I've served as the Administrator for RD's Housing and Community Facilities programs, I've had the opportunity to travel across the Country to visit with tenants, owners, property managers and locally elected officials. I've observed the condition of our multi-family housing portfolio. I have seen the best and worst of our MFH properties. Many of our properties are 30, 40 and 50 years old and in need of revitalization. But because of the revitalization efforts, I have also seen first-hand, newly revitalized units along with the hope and appreciation that these efforts inspire in our tenants across the nation. Madam Chairwoman, I applaud this committee's efforts through this legislation to enshrine this national preservation effort.

It is my goal to assist Secretary Vilsack and President Obama in working with the Committee and our public and private partners to spur economic growth and create a lasting foundation in the heart of rural America.

Thank you for allowing me to share our Department of Agriculture perspective as you address this important issue. I am available to answer your questions now or at any time in the future.

ATTACHMENT FOLLOWS

RURAL HOUSING

QUESTION:

Please provide information on the RHS voucher program (number of families currently receiving assistance) and any challenges faced by the agency in administering the program.

ANSWER:

Program started FY 2006
First Vouchers issued: Georgia

Total Obligated To-Date: $18.3 million
Total Vouchers Offered Ever: 10,095
Total Vouchers Accepted Ever: 2,800 (utilization about 1/3)
Total Vouchers Now Active: 1,633
Total Landlords in Program Now: 407
Ave. No. Vouchers Obligated Per Month (FY 09): 180
Average Mo. Payment of Rural Development Vouchers (FY 09): $274

Total Tenants Who Moved from Prepaid Property: 354

Total States Participating: 39
States Not Yet Participating: AR, CT, DE, HI, KS, MA, MS, NV, PR, RI, VT, VI, WV

The RD Voucher is designed to respond to an immediate need and provide some rent assistance support in prepayment situations while the tenant weighs his options – to remain in place, to move, or to utilize other forms of rent assistance, such as Section 8. The RD Voucher is available to all low income tenants who live in the RD property, whether or not they received RD's traditional Rental Assistance benefits. Tenants must be low income, with an income at or below 80% of median income, and must be US Citizens or legally-admitted aliens. There is no additional test for a voucher holder.

Voucher holders may use the voucher anywhere in the U.S. or its territories where a landlord will accept the voucher (except public housing or Section 8 project-based properties, where a double-subsidy would occur). Housing must also pass the RD housing inspection standards.

Although all low-income tenants in a property where the owner intends to prepay the Rural Development mortgage or where Agency action to foreclose has been initiated are offered an Rural Development Voucher, not all tenants request a Voucher: some tenants who continue to be protected under Restrictive Use Provisions required under prepayment regulations may not want the voucher; some tenants already have a HUD housing voucher, which is generally more financially beneficial; some tenants are protected by an existing project-based HUD Section 8 housing assistance payments contract and do not want the Rural Development voucher; and, some tenants just do not request an Rural Development voucher. The Agency believes it is necessary to conduct a study to determine the reasons behind prepayment-tenant decisions.

Four years of experience with the Rural Development Voucher program have shown that about one-third of the tenants to whom a voucher is offered will request it. Two-thirds of those who request a voucher actually use it. The average amount of an offered voucher is $272 a month; the average amount of a voucher actually used is $264. Of the 10,000 vouchers that have been offered, about 2,800 tenants have requested a voucher. Program experience has shown that about 93 percent of voucher holders do renew their voucher.

Portability of the voucher, or the ability to use the voucher in any area of the country and in any rental situation, is a key feature of the program. Such portability would enable tenants facing stiff rent increases to move to a more favorable rental situation. However, experience has shown that only 354 tenants (12.6 percent) have moved from the prepaying property, indicating either satisfaction with living conditions in that property or a lack of other affordable housing options.

The Agency is deciding on final program design: whether to offer vouchers that continually renew or have a time limit. Cost is a factor in our decision, as is the protection of tenants who were previously Rural Development residents. We are giving this careful consideration and our decision will be part of our Voucher Report to Congress.

RURAL HOUSING

QUESTION:

Please provide information on the agency's policy with respect to acceleration when a property goes into default or foreclosure.

ANSWER:

During FY 2009, in the 16,000 property Direct Multi-Family Housing loan portfolio, the Agency issued 102 notices of serious default, sent 39 acceleration letters and initiated 21 foreclosure actions. Our actions in these cases are guided by our regulations and handbooks which outline how we address defaults and non-compliance in our portfolio. Briefly those procedures include:

When routine monitoring of projects reveals noncompliance with program requirements, the Agency takes immediate steps to notify the borrower of the need for timely corrective actions. To protect the security value of a property, it is in the Agency's best interest to work with the borrower to resolve any compliance violations.

If a borrower fails to provide an acceptable work-out agreement or fails to comply with the work-out agreement, RD initiates enforcement actions when liquidation is not in the Government's or the tenants' best interests. This might occur in cases of defaults that do not affect the health and safety of tenants and where the cost of liquidation is not in the government's best interest because it is significant relative to the violation, or where the cost of liquidation and providing adequate tenant protections is also high.

When it is in the Government's or the tenants' best interest to liquidate, or if enforcement actions have been unsuccessful, the Agency will initiate liquidation through either voluntary liquidation or foreclosure. After the Agency has properly notified the borrowers of program violations, the Agency may proceed directly to liquidation if doing so will not adversely affect tenants. Normally this is reserved for cases where the borrower has abandoned the project or a partnership has been dissolved, leaving no legal entity in place to oversee the property. Properties where serious health and safety concerns exist are the most likely to go straight to enforcement or liquidation.

When the Agency moves toward liquidation, the tenants continue to be protected with respect to rent payments: tenants do not pay more than they paid prior to the acceleration. In addition, the Agency offers tenants a Rural Development Voucher coincidental with the foreclosure sale. This enables the tenant to remain protected while the foreclosure is proceeding, and provides time for tenants to decide on their next option for affordable housing.