Statement of
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On
"Rural Housing in America"
before the
Subcommittee on Housing and Community Opportunity
Committee on Financial Services
United States House of Representatives
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Good afternoon, and thank you Mr. Chairman, for holding this hearing and inviting the Mortgage Bankers Association of America (MBA)* to state its views on the US Department of Agriculture's Rural Housing Service (RHS) programs. My name is Jack Jones, and I am the Vice President in charge of the Rural Housing Channel for Chase Manhattan Mortgage Corporation in Deerfield Beach, Florida. I am particularly pleased to be here today representing MBA on an issue to which I have devoted the last 11 years of my professional career – providing homeownership opportunities for rural families.

Since the inception of the Rural Housing Service and it's predecessor, Farmers' Home Administration, programs designed to meet the housing and community development needs of rural America, MBA has consistently supported the programs as a necessary complement to other federal housing programs that may not address the specific needs of rural families.

Chase Manhattan Mortgage Corporation is a strong supporter of the Rural Housing Service's mission to foster homeownership opportunities across rural America. Chase Manhattan is the largest originator in the Rural Housing Service's Section 502 Guaranteed Single Family Housing Loan program. Under the Section 502 Guaranteed Single Family Housing Loan program, RHS guarantees loans are made by private

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*MBA is the national association representing the real estate finance industry. Headquartered in Washington, DC, the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership prospects through increased affordability; and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters excellence and technical know-how among real estate finance professionals through a wide range of educational programs and technical publications. Its membership of approximately 2,600 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mbaa.org.

sector lenders. The purpose of this program is to enable low- and moderate-income (up to 115 percent of area median income) rural residents to acquire modestly priced housing for their own use as a primary residence. The program is available for financing the purchase or repair of an existing home, or the purchase of a newly constructed home. There is no required downpayment, but families must meet underwriting requirements and be unable to obtain credit elsewhere. In many rural communities, the Section 502 direct and guarantee programs are the only homeownership options available to low- and moderate-income families.

Last year, Chase Manhattan loaned just over $900 million, which provided 11,000 rural families the opportunity to become homeowners. Chase Manhattan is proud of its efforts because the needs of rural low- and moderate-income families are generally underserved, and, sometimes, overlooked. Chase Manhattan Mortgage Corporation made a commitment to the Section 502 program and to rural families 11 years ago when it created a line of business that exclusively focuses on providing Section 502

Guaranteed Housing Loans to rural families. Chase Manhattan does this in partnership with over 2,500 community banks, mortgage bankers, and mortgage brokers in all 50 states.

The needs of rural homeowners and renters differ in many aspects from those in urban or suburban areas. In many states, rural areas have the highest rate of substandard housing in the state, the highest poverty rate in the state, and median incomes often 35 percent or less than the median incomes of urban residents. Federal housing assistance can only reach so far. Only 17 percent of very-low income rural renters receive US Department of Housing and Urban Development (HUD) housing subsidies, compared to 28 percent of the urban poor, and, overall, only 12 percent of HUD Section 8 assistance reaches rural areas.

Unfortunately, rural areas traditionally have lacked the financial resources for home financing. For this reason, the Rural Housing Service programs are vital to increase the availability of decent, safe and affordable housing for low- and moderate-income rural home buyers and renters. It is because of this lack of access to financial capital and general disparity of resources that federal programs are vital in rural communities. Rural communities often cannot develop access to efficient capital markets on their own. Great strides have been made in reducing the cost, regulatory burden, leveraging funds and coordinating housing activities with other economic, industrial and community development activities in rural areas. However, despite all the progress, there is still a desperate need for affordable housing in America's rural areas.

The Rural Housing Service provides this important function for both single family and multifamily housing. In addition to the Section 502 single family guaranteed housing program, RHS also offers the Section 538 program which guarantees loans to developers of multifamily housing to build and/or renovate safe, decent, rental units affordable to very low-, low-, and moderate-income families. Both of these programs provide private capital, guaranteed by public funds, to promote adequate access to home financing capital for rural communities.

During this Homeownership Month, it is important to note the positive impact the Section 502 program has made. In Federal Fiscal Year 2002, the Section 502 Guaranteed Loan program has prompted the investment of more than $2.4 billion in private lending to over 29,000 families who were not previously being served. These are families that now have an even deeper stake in their communities and an investment in one of the strongest wealth-building tools in the US - homeownership.

In just the last year, RHS has made major updates to the Section 502 guaranteed program. First, the Rural Housing Service successfully lowered the guarantee fee from 2 percent to 1.5 percent, which simply makes the program more affordable to low- and moderate-income borrowers. Next, the Agency adapted the utilization of credit scores to streamline the underwriting process, as well as the use of the HUD Valuation Conditions (VC) report for streamline property inspections. Both of these last two issues are tied to significant changes made by the Agency to make the program more "lender-friendly," by using commonly accepted processes and guidelines used by the rural housing originator in other mortgage lending programs. Lastly, and equally important, the Agency made funds available at the earliest time in any fiscal year. Furthermore, the lending community now has the assurance that funds will continue to be available on a continuous basis through the recent "No Year Funds" legislation, which allows for unused funds to be used as we cross from one fiscal year to the next, awaiting the next year's allocation. If the private sector is to be attracted to and retained in support of these under-served areas of our nation, the continuity of guarantee funds in this program is critical and must continue.

The good work that this administration, under the guidance of Rural Housing Service Administrator Arthur Garcia, Rural Housing Service, has undertaken in the last two years has made significant improvements to a program that was at risk of being neglected. MBA urges both Congress and the Administration to build upon these changes by considering the following further improvements to the program:

Guidelines under the Single Family Housing Guaranteed Loan Program should be amended to allow the financing of the guarantee fee "on top of" the appraised value of the property.

A key feature of the Single Family Housing Guaranteed Loan Program is the ability of the purchaser to borrow up to 100 percent of a property's appraised value. This feature allows the borrowers to purchase a home with no downpayment, and finance some portion, if not all, of the costs related to closing a mortgage. An acceptable closing cost to be financed includes the Rural Housing Service guarantee fee.

That fee is currently 1.5 percent. In addition to the guarantee fee, typical closing costs are in the range of 5-7 percent. This means that in order for a borrower to finance all costs, a property subject to financing under the program must appraise at a premium above the sales price. In many rural real estate markets, such large premiums are not easily obtained, and in a "seller's" real estate market as we are in now, contributions from seller toward the payment of the Purchaser's closing costs may be very difficult to obtain.

FHA and US Department of Veterans' Affairs (VA) loan programs allow the financing of closing costs up to similar loan limits; however, both FHA and VA allow the financing of their similar insurance or guarantee fees on top of the appraised value.

Currently, the Section 502 Single Family Housing Guaranteed Loan Program allows financing of the guarantee fee on top of the appraised value on refinance transactions. However, this is not allowed on Single Family Housing Guaranteed Loan Program purchase transactions. MBA urges the law be changed to allow the financing of the guarantee fee "on top of" the appraised value for purchase transactions. This change would expand the availability of the program to a greater number of rural families. Past experience has shown that the required funds for closing, including the downpayment, is a significant obstacle to homeownership for those who would otherwise make excellent homeowners. The downpayment and closing costs obstacle should be of particular concern to those who are trying to bridge the homeownership gap between minorities and non-minorities.

The population limits used under the Single Family Housing Guaranteed Loan Program should be raised.

Currently, properties eligible for the Single Family Housing Guaranteed Loan Program must be located in communities with populations not in excess of 20,000, if contained within a county that is not part of a Metropolitan Statistical Area (MSA) or 10,000 if located within an MSA. These definitions were created more than 30 years ago and should be updated.

This eligibility definition is much less useful today. There are many communities, outside of, and even within, MSAs that are rural in nature but not captured under this definition. These communities have large parts of their economies reliant on agri-businesses or natural resources processing and refining.   Under its business programs, USDA-Rural Development recognizes this and allows for the financing for businesses in non-urbanized communities with populations up to 50,000. MBA believes this same definition or a slightly reduced definition of 25,000 to 30,000 in community size should apply to the Single Family Housing Guaranteed Loan Program.

The income limits should be raised for the Single Family Housing Guaranteed Loan Program in targeted and high-cost areas, and the deduction for non-applicant children should be increased.

Currently, borrowers applying for the Single Family Housing Guaranteed Loan Program are limited to maximum household incomes of 115 percent of an area's median income, in all states except Alaska. As noted previously, rural America is very diverse, and this is especially true when speaking of local economies.

This 115 percent limitation in 49 states does not take into account the varying levels of housing affordability across the United States. In particular, high new construction costs in remote rural areas lower housing affordability in most states. West Coast states and rural communities outside of high tech growth centers in Texas and North Carolina demonstrate low levels of housing affordability for existing and new construction.

MBA urges the Secretary of Agriculture be granted discretion to raise the family median income limits in areas designated as "targeted-areas" as defined in the subchapter *and* in high cost areas, allowing financing to be extended to families making up to 150 percent of an area's median income. Raising the income limits will provide additional liquidity, which will encourage lower priced single family residential construction.

Additionally, MBA suggests the Rural Housing Service make a regulatory change to increase the deduction from annual income allowed for non-applicant children residing in the household of applicant borrowers. The current deduction of $480 per child is woefully inadequate. MBA believes that a better approach would be to index the amount of deduction allowed in any given calendar year to be equal to the standard deduction allowed when computing Federal Income taxes. This would ensure the deduction stays current with changes in the future.

Thermal standards on existing housing stock should be eliminated from the Single Family Housing Guaranteed Loan Program

Under current RHS regulations, which exist without parallel statutory authority, existing homes are required to exhibit thermal efficiencies that are contrary to the state of the existing housing stock in rural America. This requirement necessitates costly improvements that we believe have only nominal economic value, and may actually mandate an investment from the applicant that will not be returned in the event of sale. These thermal standards for existing homes cannot be found in any other conventional or FHA/VA home loan program, and is a significant source of on-going resistance to the use of the Guaranteed Rural Housing program.

MBA urges Congress to provide strong encouragement to the Agency to eliminate this burdensome, costly, and onerous regulation.

Clarify Ginnie Mae authority on Section 538 loans guaranteed by RHS

The Rural Housing Service guarantees loans under the Rural Rental Housing guaranteed loan program for development of multifamily housing facilities in rural areas of the US. Loan guarantees are provided for the construction, acquisition, or rehabilitation of rural multifamily housing. Occupants of the housing must be very low-, low- or moderate-income households, elderly, handicapped, or disabled persons with income not in excess of 115 percent of the area median income. The average rent of all units is 30 percent of 100 percent of the median income of the surrounding area. The program is designed to increase the supply of affordable multifamily housing through partnerships between RHS and major lending institutions.

Congress appropriated $99.3 million for the Section 538 Guaranteed Loan Program for FY 2003. Under the President's FY 2004 budget of $100 million for the Section 538 Guaranteed Loan Program, USDA proposes to build 2,700 units and repair, rehabilitate, and pay incentives to owners on 5,900 units. There are currently 2,655 units funded under the Section 538 program, an average of 55 units per project with an average rent of $477 per unit. A total of 1,788 units have been constructed under this program, adding valuable jobs and revenue to rural communities.

Currently, loans made under the Rural Housing Service's Section 538 Rural Rental Housing Guaranteed program are not saleable to the Government National Mortgage Association (Ginnie Mae). Their charter allows them to purchase "insured" loans, but not "guaranteed" loans. MBA urges Congress to change the Ginnie Mae charter to allow Ginnie Mae to purchase and securitize these loans. This change will provide greater liquidity for these loans and ensure that rural communities are not disadvantaged due to lack of access to capital.

MBA strongly believes in promoting affordable housing for rural areas and believes in the importance of preserving rural communities. MBA appreciates the opportunity to testify today concerning rural housing in America and looks forward to working with you on these vital programs.