

**STATEMENT OF THE NATIONAL HOUSING LAW PROJECT**  
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**SUBMITTED TO THE SUBCOMMITTEE ON INSURANCE,  
HOUSING AND COMMUNITY OPPORTUNITY,  
HOUSE FINANCIAL SERVICES COMMITTEE  
ON  
LEGISLATIVE PROPOSALS TO DETERMINE  
THE FUTURE ROLE OF FHA, RHS AND GNMA  
IN THE SINGLE-AND MULTI-FAMILY MORTGAGE MARKETS**

**May 25, 2011**

The National Housing Law Project (NHLP) is a nonprofit organization that has represented the interests of low-income households on housing matters for over 43 years. For more than 38 of those years, our staff has represented clients applying for and living in housing financed by the Rural Housing Service (RHS) and its predecessor agency, the Farmers Home Administration. While we have had disagreements with the agency with respect its administration of various programs, we have also consistently supported the agency and its programs because of their effectiveness in delivering decent and affordable housing to rural residents.

NHLP is strongly opposed to the proposal before this Subcommittee to transfer the RHS housing programs to the Department of Housing and Urban Development (HUD). The ill conceived transfer will ultimately result in the termination of all the current RHS housing programs, depriving rural areas of effective housing programs that stimulate and improve their economies and improve rural housing conditions by serving low- and moderate-income households. HUD simply does not have the institutional interest, personnel, or financial capacity to operate the rural housing programs in a manner that RHS and its predecessors have successfully operated the programs for over 60 years. We urge that the Committee defer consideration of the proposed legislation until it has had an opportunity to confer with HUD and RHS staff and with organizations serving rural areas to fully explore and understand the dire ramifications and costs of a proposed transfer.

RHS was established to directly serve rural areas because the incidence of substandard housing in rural areas was higher than in urban areas and because financial institutions, even those assisted by the Federal Housing Administration (FHA), were not extending their services, particularly mortgage lending, to rural areas. To address rural needs, RHS was organized in a manner that enables it to deliver services directly to rural residents through a dispersed office system with specialists who are trained to deal with single and multi-family applicants and borrowers. It is a unique system that, to our knowledge, is not replicated in any federal agency other than other divisions within the Department of Agriculture.

Today, while rural areas continue to have a higher incidence of substandard housing conditions than urban areas, financial institutions, having entered the more populated rural areas, still do not serve low-income households or developers seeking to construct multi-family rental housing. RHS rental housing is practically the only decent and affordable rental housing in most rural communities.

Simply transferring and maintaining the existing RHS delivery system to HUD does not make sense because it would be extremely costly and would not accomplish any objective other than unifying two agencies that have distinct housing responsibilities. On the other hand, we expect that HUD, an agency accustomed to dealing with intermediary financial institutions and agencies, will modify the operation of the rural housing

programs to fit its current office and program structure and that it will do so notwithstanding the creation of the position of a deputy assistant secretary for rural housing.

We expect that changes to the rural housing programs as a result of the transfer will be substantial and that they will have an adverse impact on the rural housing program that will lead to their termination within a very short period of time. In turn, this will unfavorably impact rural areas that are dependent on the current RHS housing programs to maintain their housing stock and improve their economic viability.

The most significant adverse impact that the transfer will have will be on the Section 502 direct single family home loan program, which has operated since 1949 and which has assisted over 2.5 million households in becoming successful homeowners. The direct loan program depends on local offices and direct contacts between applicants and borrowers and RHS staff. Local RHS offices take, review and approve all Section 502 loan applications, and approved applications are serviced by the Centralized Servicing Center (CSC), frequently with the assistance of local offices. While CSC servicing has its shortcomings, its operations are far superior to those of financial institutions participating in the RHS guaranteed loan program.

HUD does not currently operate a direct loan program and will not acquire the capacity to operate one with the transfer of RHS staff unless it establishes between 700 and 1000 field offices in rural areas in all 50 states. It is difficult to imagine that HUD, even under the most sympathetic administrations, will replicate the RHS field office structure. HUD has never dealt directly with home-loan applicants and it is not likely to do so now.

HUD also does not have a servicing center to deal with a direct loan portfolio. With one exception, HUD has never dealt directly with single family loan applicants or borrowers advising them about home loans, loan servicing options, subsidies and mechanisms for foreclosure avoidance. The only time HUD dealt with single family borrowers directly was between 1976 and 1995 when it was forced by the courts to operate an assignment program designed to help families under the FHA insured housing program avoid foreclosure. HUD's administration of the program was a disaster. It avoided accepting loan assignments at all costs because it did not have the staffing or institutional capacity to work with individual borrowers. In fact, HUD was so opposed to the assignment program that it asked Congress to terminate the program in 1995. Congress approved the request and eliminated HUD's capacity to assist borrowers who defaulted on their loans for reasons beyond their control.

HUD also does not have the computer capacity to operate a direct lending program with three related subsidy mechanisms and recapture capacity. To replicate the system that RHS has developed over 60 years of operation will be costly and cumbersome.

Applicants and borrowers under the RHS programs also have a due process appeals hearing system that operates through USDA's National Appeals Division. The appeals process was initially mandated by the courts and later by Congress because RHS and USDA have Constitutional due process obligations to their direct housing and farm borrowers. HUD does not have a similar division and is not likely to want to replicate it when RHS programs are transferred. It is simply too costly for a single housing program since it requires a field staff that travels to all 50 states to conduct appeal hearings.

Because we do not believe that HUD will replicate any of the RHS systems for making and servicing direct loans, we expect that it will terminate the direct loan program and convert it to an insured or guaranteed loan program, where loans are serviced by private financial institutions. If HUD decides to retain the subsidy mechanism for the program, it will effectively replicate the old FHA Section 235 program, which was known for its fraud and maladministration.

RHS also operates a unique self-help housing program that is dependent on local nonprofit organizations that provide technical assistance and supervision to households that are willing to spend 1500 or more hours constructing their own homes. Without the direct loan program and the RHS interest subsidies, the successful network of self help housing organizations, who have constructed over 100,000 units of affordable housing, will quickly disappear. Self-help housing has been a successful RHS program for more than 40 years. Efforts have been made to replicate the program in urban areas, but have generally not been successful because private lenders are reluctant to participate in a similar program. The transfer of the RHS programs to HUD will likely bring this sweat equity program to a close.

RHS also operates a small but effective Section 504 loan and grant program under which it assists rural homeowners to remove safety hazards from their homes or add bathrooms or kitchens when they are missing or not operating safely. The program is dependent on direct contact between RHS staff and homeowners in need of assistance. It has functioned effectively because it relies on the RHS staff that operates the Section 502 direct loan program. Without the 502 direct loan program, the Section 504 loan and grant program will be too expensive to operate either directly or indirectly through intermediaries. It will therefore likely be incorporated into HUD's block grant programs or terminated altogether.

RHS also operates two very successful rental housing programs, the Section 514-516 farm labor loan and grant programs and the Section 515 rural rental housing program. Both programs are direct loan and subsidy programs that effectively serve very-low income households residing in rural areas, with the farm labor housing program addressing the special needs of farmworkers. Most of the farmworker housing financed by RHS consists of very small developments--fewer than 4 units--located on farms whose

owners need housing for their workers. In most instances, these farmers also have USDA farm loans. RHS staff has unique expertise in financing and supervising the operations of the farm labor program that HUD staff simply does not possess.

Transferring the Section 515 program to HUD also does not make sense. With the exception of the Section 202 elderly housing program and the Section 811 housing for people with disabilities, HUD does not directly finance any rental housing. It has little or no expertise in operating and maintaining a housing stock that on average has fewer than 25 units and operates in rural areas with special economic conditions. Because the RHS staff is dispersed throughout rural America, it can monitor the operation of this stock and provide assistance to its owners on an as needed basis. HUD, which operates through offices located in major metropolitan areas, will simply not provide the necessary supervision and technical assistance to small developments dispersed in small rural communities. Unless hundreds of RHS staff persons responsible for the Section 515 program are transferred to HUD, RHS expertise with respect to the operation and maintenance of these developments will be lost. Since we do not believe that hundreds of RHS' field staff will be transferred to HUD, we fear that both the 515 and 514-516 programs will be allowed to die.

RHS also operates the Section 502 guaranteed loan program, which has ballooned in the last several years to a \$24 billion housing loan program. This is one program that we urge the committee to transfer to HUD. We do so because we do not believe that the program is substantially different from the FHA Section 203 program and because it does not rely on RHS' special rural knowledge or expertise to function in rural areas. At the same time, the program is consuming the time of RHS field staff to the point that it no longer has the time to properly serve the direct loan and grant programs. We strongly believe that this program should be at least removed from the RHS field offices and preferably moved altogether to HUD. Such a transfer will not have any adverse impact on RHS or the rural areas that it serves.

While RHS operates other loan and grant programs, it is not necessary to evaluate the impact that a transfer of each of these programs to HUD would have on their continuation or on rural areas. The examples we have briefly touched on are sufficient to make it clear that a transfer of the RHS housing programs to HUD will be costly and is likely to operate to the detriment of the rural housing programs and rural areas. We, therefore, urge the committee to abandon consideration of any transfer legislation. At the very least, we ask that the sub-committee defer and reconsider any transfer legislations until such time as HUD and RHS and other organizations that serve rural areas have had a chance to review and analyze this proposal for more than just several days and to comment on the full ramifications of such a transfer. Indeed, it may be wise to engage the GAO to review such a proposal and to conduct an in-depth study on whether consolidation of the RHS programs into HUD makes sense.

We thank you for the opportunity to submit these comments for your consideration.