

NATIONAL RURAL HOUSING COALITION

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Statement of Stan Keasling, President, National Rural Housing Coalition
Subcommittee on Housing and Insurance
Committee on Financial Services
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Introduction

Mr. Chairman my name is Stan Keasling and I am president of the National Rural Housing Coalition (NRHC). NRHC is a national membership organization that advocates for better policies, programs and resources aimed at improving housing conditions in rural America. NRHC has testified before the Committee before and we appreciate this opportunity to testify today on rural housing issues. I am also the CEO of the Rural Community Assistance Corporation (RCAC) a 40 year old private, non-profit corporation that provides technical assistance, training, financial resources to rural communities across the West.

Need for Rural Housing Assistance

By any measure, much of rural America has still not recovered from the great recession. According to the Economic Research Service, since 2007 rural median income has averaged 20 percent below the urban median. Over 15 percent of all rural counties, more than 300 across the country, are persistently poor with at least 20 percent of the population living in poverty for over the last 30 years.¹

Years of declining investment in the renovation of existing and construction of new housing in our small towns and farming communities has resulted in a housing deficit. A recent *Wall Street Journal* article noted, "Fewer homes are being built per household than almost any other time in US history, and it is even worse in rural areas." As a result, in some rural communities, economic growth is impeded not by the lack of jobs, but by the lack of housing for workers.² According to US Census data, between 1999 and 2008, the average annual production in non-metro areas totaled 221,000. In the period 2009 to 2017, average production fell to 68,000 per year.³

Where housing is available, it is apt to be in poor condition. Of the 25 million units located in

¹ United States Department of Agriculture, Economic Research Service, "Rural America at a Glance, 2017 Edition." Accessed Feb. 11, 2019. <https://www.ers.usda.gov/webdocs/publications/85740/eib-182.pdf?v=0>

² Raice, Shayndi. "Rural America Has Jobs. Now It Just Needs Housing." *Wall Street Journal* May 30, 2018. <https://www.wsj.com/articles/scarcity-of-housing-in-rural-america-drives-worker-shortage-1527672602>

³ United States Census Bureau. (2018). *Metropolitan Statistical Area Status for New Single-Family Houses Completed*. Retrieved from <https://www.census.gov/construction/chars/pdf/metro.pdf>

rural and small communities, over 5 percent, or 1.5 million, of these homes are considered either moderately or severely substandard. For example, more than 30 percent of the nation's housing units lacking hot and cold piped water are in rural and small town communities, and on some Native American lands the incidence of homes lacking basic plumbing is more than 10 times the national level.⁴

According to a 2016 US Census Bureau study, compared with urban areas, where the homeownership rate was 59.8 percent, rural areas had a homeownership rate of 81.1 percent.⁵ However, the equity rural Americans accumulate in their homes is generally less than the equity generated from homes in urban locales because rural houses are typically less expensive.⁶ As evidence, a 2016 report by Zillow found that between 2010 and 2015, the average home value in urban areas grew 28.4 percent, compared to just about 6.25 percent in rural areas⁷,

Rental housing where it is available, often costs too much. According to a recent report by the Harvard Joint Center for Housing Studies, 41 percent (5 million households) of rural renters are cost-burdened, meaning they pay more than 30 percent of their income for housing costs, and 21 percent (2.1 million households) of rural households that rent pay more than 50 percent of their income for housing.⁸

For many rural communities, the housing programs administered by the Rural Housing Service (RHS) of the US Department of Agriculture (USDA) are essential to providing affordable and safe housing and improving housing conditions. Authorized under Title V of the Housing Act of 1949, as amended, rural housing subsidized loans, grants, and related assistance provide low-income families the opportunity to own and in many cases build their own homes; provide affordable rental housing to families, the elderly and migrant and season farmworker; and, support low-cost home repairs.

Rural Housing and the Trump Administration

Despite the obvious and growing need for more affordable rural housing, and the success of federal

⁴ Housing Assistance Council, "Taking Stock: Rural People, Poverty, and Housing in the 21st Century." December 2012. http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf

⁵ Mazur, Christopher. "Homes on the Range: Homeownership Rates Are Higher in Rural America." *United States Census Bureau* Dec 8, 2016. https://www.census.gov/newsroom/blogs/random-samplings/2016/12/homes_on_the_range.html

⁶ Housing Assistance Council, "Housing in Rural America." http://www.ruralhome.org/storage/documents/ts2010/ts-report/ts10_rural_housing.pdf

⁷ Fuller, Cody. "Rockin' the Suburbs: Home Values and Rents in Urban, Suburban, and Rural Areas." *Zillow* Jan. 28, 2016. <https://www.zillow.com/research/urban-suburban-rural-values-rents-11714/>

⁸ Harvard Joint Center for Housing Studies, "America's Rental Housing." 2017.

http://www.jchs.harvard.edu/sites/default/files/harvard_jchs_americas_rental_housing_2017_0.pdf

rural housing programs, this Administration has a different view. The President's Fiscal Year 2020 budget contains a laundry list of rural housing program terminations including - direct home ownership, home repair loans and grants, farm labor housing loans and grants, rural rental housing loans and financing for preservation of rural rental housing, as well as a \$100 million rescission of rental assistance funds.⁹ The FY 2020 budget is consistent with previous administration's budgets as well as with USDA's proposal to transfer responsibility for rural rental housing to the Department of Housing and Urban Development.¹⁰

The budget also includes a proposal to charge a minimum rent to all households residing in rural rental housing. This proposal has been rejected in past Congresses and should be rejected again this year. The previous Administration proposed similar budgets, so one could argue that rural housing suffers from bipartisan neglect.

This Administration has sought to downgrade the Rural Development function at USDA in general and rural housing in particular in other ways. Congress has repeatedly rejected their proposals to eliminate rural housing programs. Undaunted, the Department's leadership has persisted in proposing budget cuts and policies that result in less field staff, fewer local offices, and diminished organizational capacity, thereby undermining rural housing programs.

Both the Fiscal Year 2019 and 2020 budgets proposed deep reductions in USDA staff devoted to rural development and rural housing. The Fiscal Year 2019 (FY 19) budget request for Rural Development Salary and Expense totaled \$612 million, a \$67.9 million reduction from the Fiscal Year 2018 (FY18) rate and a reduction of almost 880 staff years. Of that total, 436 staff years were proposed to come from RHS, a 25 percent reduction. The FY 2020 budget proposes more of the same, proposing a \$40 million reduction and a reduction of up to 800 staff years.

USDA has set out to reduce the capacity of RHS to administer rural housing programs. The Trump administration implemented a hiring freeze when it took office in 2017. When the freeze was lifted for Rural Development, new hires were limited to filling vacant positions, hiring was limited to USDA employees, vacancies were only posted for 10 days, and often positions filled were at lower grades. It is not unusual for states to be without a State Director for Rural Development, or a Rural Housing Chief. Many state and local offices are inadequately staffed to meet the needs of rural

⁹ United States Department of Agriculture, "USDA Fiscal Year 2019 Budget Summary." Accessed March 1, 2019.

<https://www.usda.gov/sites/default/files/documents/usda-fy19-budget-summary.pdf>

¹⁰ Executive Office of the President of the United States, "Delivering Government Solutions in the 21st Century." June 2018.

<http://ruralhome.nonprofitsoapbox.com/storage/documents/announcements/govtreformproposaljune2018.pdf>

families, businesses, and communities.

On November 30, 2018 USDA released a letter to the Appropriations Committee, outlining their plan to reorganize federal rural development agencies – RHS, Rural Utilities Service (RUS), and Rural Business-Cooperative Service (RBCS). RHS field staff was hit the hardest, going from 1,731 FTEs to 1,338, losing almost 400 FTEs from the state offices to national office supervision and other offices.¹¹ The USDA field structure has always been the strength of the rural housing and development programs. The reorganization plan clearly diminishes the ability of the Rural Housing Service to deliver housing assistance to rural communities and families.

While USDA is cutting field staff and services to rural communities, the Department has devoted some 60 staff to an Office of Rural Innovation. It has had three directors in less than two years and does not make or service a loan or provide a grant to a rural community, household, or business.

In the FY 19 Consolidated Appropriations Act, Congress provided \$686 million for Rural Development Salaries and Expenses, an increase of \$74 million above the budget request, and \$6 million above the FY 18 rate. We urge Congress to press USDA and Rural Development to come up with Fiscal Year 2019 staffing plan that fully utilizes the amount appropriated by Congress for staffing necessary to achieve the adequate delivery of rural housing programs and the rebuilding of the RHS field staff and to reject the proposed Salary and Expense cuts for FY 2020.

Rural Housing programs have always benefitted from bipartisan support in Congress. We believe that Congress should provide more direction to USDA on rural development and rural housing staffing. USDA has a responsibility to fulfill their mission of providing affordable and safe housing to rural America. Properly staffed state and local offices are a necessary element that should not be diminished.

Success of Rural Housing Programs

USDA's rural housing programs have a long track record of expanding access to affordable housing. For example, the Section 502 Direct Loan program helps rural low-income families secure affordable homeownership opportunities. The program exclusively targets rural families earning less than 80 percent of the Area Median Income (AMI), and the statute requires 40 percent of all

¹¹ United States Department of Agriculture Secretary Perdue, Sonny. Letter to U.S. House of Representatives Committee on Appropriations Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies. Nov 30, 2018. http://ruralhome.org/storage/documents/rd_obligations/rd_docs/rdreorgletter2018nov30.pdf

program funds to target families earning less than 50 percent of AMI. Despite serving rural families with limited economic means, Section 502 is one of the most cost-effective federal housing programs. In FY 19, USDA will make approximately 7,200 section 502 loans.

Nonprofit organizations play an important role in the delivery of Section 502 loans to low-income families. Networks of local and regional organizations assist families with applications for section 502 loans.

Under the Section 523 Mutual Self-Help Housing program, small groups of 6 to 12 families come together on nights and weekends to build their own homes, under the supervision and with technical assistance from nonprofit self-help grantee organizations. In doing so, Self-Help Housing families reduce construction costs, gain equity in their homes, and build lasting communities. This is exactly the type of program that Congress and the administration should champion: Self-Help Housing encourages self-reliance and hard work, helps families build wealth, stimulates local economies, and is in high demand with over 30,000 families currently on wait lists for the program. In fact, in 2015, the program celebrated its 50th Anniversary, and the 50,000th family completed construction of their Self-Help home.¹²

Rural America needs more housing. In a time of tight budgets, the funding for these programs has not kept pace with need or demand. We urge the Committee to support an expansion of Section 502 direct loans to \$1.25 billion and Mutual Self Help housing to \$35 million. These increases will ensure that more than 3,000 additional low-income rural families have access to affordable housing and hundreds more low-income families will have the opportunity to build own home through mutual self-help housing.

USDA's Rural Housing programs provide much-needed access to affordable rental housing. Today, approximately 422,000 units house rural seniors, people with disabilities, farmworkers and low-income families. The vast majority (92.3 percent as of 2015) of Section 515 tenants have very low-incomes. The average Section 515 tenant earns just \$13,112 annually. In addition, 64 percent all Section 515 households are elderly or disabled tenants, 35.7 percent are headed by persons of color, and 71 percent are headed by women.¹³

¹² United States Department of Agriculture, "USDA Celebrates Self-Help Housing's 50 Years & 50,000 Homes." June 29, 2015. <https://www.rd.usda.gov/newsroom/news-release/usda-celebrates-self-help-housing%E2%80%99s-50-years-50000-homes>

¹³ United States Department of Agriculture Rural Development, "Results of the 2018 Multi-Family Housing Annual Fair Housing Occupancy Report." February 7, 2019. <https://www.rd.usda.gov/files/RDUL-MFH18.pdf>

Almost 270,000 families receive rental assistance authorized under section 521(a) of the Housing Act of 1949. In 2018, the average income of Section 515 tenants receiving Section 521 Rental Assistance was only \$10,911.¹⁴

There are other small programs that provide rural housing assistance to households in need. Section 504 grants and loans are important tools, limited to low-income households that assist the elderly repair their homes to eliminate health and safety violations and low-income households to rehabilitate existing housing. Section 504 grants are capped \$7,500 for seniors over the age of 62, a limitation that has been in the law for more than 20 years. We urge the Committee to raise the limit on section 504 grants to \$15,000.

Section 514 and 516 are the only federal programs that provide affordable loans and grants, respectively, to purchase, construct, or repair rental housing for America's farmworkers. Under these programs, farmers, nonprofit organizations, and local governments are eligible to receive low-interest loans. Public bodies – typically housing authorities – and nonprofit organizations may receive grants to cover up to 90 percent of development costs. Both Section 514 and 516 have been chronically underfunded and cannot keep pace with the increasing need. On average, these two programs finance only 600 units per year despite their high demand.

This lack of funding for new on- and off-farm worker housing and increasing demand comes during a time when the farm laborer population is becoming more settled. Additionally, what farmworker housing is available may be in poor condition and contain mold, mildew, and other allergens; pesticides; and structural deficiencies.¹⁵ The impact can be felt in Idaho, where the farmworker housing shortage links directly with the general farm labor shortage, which continues to impact the local agriculture industry.¹⁶ In California, an additional 45,560 units of farmworker housing are needed to alleviate critical overcrowding in farmworker households in just two agricultural counties.¹⁷ In Texas, there is a documented shortage of over 28,000 rental units.¹⁸

¹⁴ *Ibid*

¹⁵ New Solutions, "Farmworker Housing in the United States and Its Impact on Health." Aug 28, 2015.

<https://www.ncbi.nlm.nih.gov/pubmed/26320122>

¹⁶ Foy, Nicole. "Farmworker Housing Shortage has Growers Looking to Build." *Idaho Press* Nov 12, 2018. Date accessed Feb 12, 2019. https://www.idahopress.com/news/local/farmworker-housing-shortage-has-growers-looking-to-build/article_a14812a9-8a3a-569b-86c6-a84da3ed4f6f.html

¹⁷ California Institute for Rural Studies, "Farmworker Housing Study and Action Plan For Salinas Valley and Pajaro Valley." June 2018.

https://www.cityofsalinas.org/sites/default/files/departments_files/community_development_files/farmworker_housing_study.saslinas-pajaro_june_15-2018.complete.pdf

¹⁸ Texas Department of Housing and Community Affairs, "Texas Rural Farmworker Housing Analysis." Sept 2012.

<https://www.tdhca.state.tx.us/housing-center/docs/12-Rural-Farm-Analysis-Farmworker.pdf>

All of these programs successfully serve low-income rural households in search of affordable housing. The administration has targeted all for elimination.

USDA Rental Housing in Need of Rehabilitation

USDA faces two major problems it must address on its rural rental housing portfolio. The first is the deteriorating conditions of its developments.

In 2016, USDA published a second Comprehensive Property Assessment and Portfolio Analysis.¹⁹ This report looked at USDA's Section 515 properties, as well as their farm labor housing properties, Section 538 financed developments, and projects refinanced under the Multifamily Preservation and Revitalization (MPR) program. The report analyzed the Per Unit Per Annum (PUPA) net reserves or the annual amount of reserves that must be set aside for properties to maintain functionality. The report found that the average PUPA reserves deficit for the Section 515 portfolio had increased. A previous study, released by USDA in 2004, indicated that the PUPA reserves deficit was \$647 (average per property), but by 2015, the PUPA deficit had increased to \$964 (average per property).²⁰

As the cost of maintaining the portfolio increased, the average age of rental housing in the Section 515 portfolio reached 34 years. The 2016 report found that the need had more than doubled in the past 12 years, and raised the estimate to \$5.596 billion just to preserve USDA's rental housing stock (including farm labor, rural rental, Multi-family Preservation, and guaranteed developments) over the next 20 years. Of that amount, \$4.7 billion relates to Section 515 developments.²¹

Maturing Mortgages

Although section 515 was established in 1968, the highpoint of Section 515 production was 1977-1985. As a result, today and in the near future, there is a rising tide of maturing mortgages that could reduce the availability of affordable rural rental housing. A recent report by the Housing Assistance Council found more than 700 developments with mortgages maturing between 2016 and 2027, which accounts for close to 1800 units per year. Over the following four to five years, maturities will accelerate, averaging up to 3,000 developments and up to 92,000 units, with that

¹⁹ "USDA 2016 Rural Development Multi-Family Housing Comprehensive Property Assessment," U.S. Department of Agriculture Rural Development (March 1, 2016). <https://www.rd.usda.gov/files/reports/USDA-RD-CPAMFH.pdf>.

²⁰ *Ibid*

²¹ *Ibid*

trend continuing through 2050.²²

Under current law, the availability of rental assistance is limited to developments with active loans under Sections 514 or 515 of the Housing Act. Therefore, as loans mature, rental assistance for elderly, disabled, and low-income families living in these properties will come to an end.

USDA Response

USDA has the tools to solve both problems: Section 515 loans, now targeted for rehabilitation and preservation of existing developments, section 538 multi-family loan guarantees, and the MPR demonstration. However, none of these programs is adequately funded.

In 2006, Congress established the MPR demonstration program, which successfully uses a variety of financing options not currently available under the Section 515 program to preserve its portfolio. The goal of the MPR program is to recapitalize properties by restructuring USDA multifamily housing loans. This includes both Section 515 and Section 514 mortgages, and is often done in conjunction with grants, zero percent loans, deferral of loans, private debt guaranteed under Section 538, and other sources in order to revitalize the properties and extend their affordable use. The MPR effectively attracts three times its funds in investments from Low-income Housing Tax Credit (LIHTC) and other sources.

In FY 19, Congress appropriated \$40 million for Section 515 loans \$51.5 million for MPR, of which \$27.5 million was set aside for vouchers and \$8.3 million for Section 516 farm labor housing grants and \$27.5 million in Section 514 loans for farm labor housing. USDA information indicates that in FY 18 multi-family programs were employed to finance the construction, rehabilitation, and preservation of 5,876 units, costing \$282.7 million including section 515 loans, grants and loans deferrals (MPR) and leveraging funds such as LIHTC.

NRHC Recommendations

We support Congressman Panetta's bill to modernize and make USDA decision-making more transparent on the farmworker housing program authorized under sections 514 and 516. We also support the legislation sponsored by Representative Gonzalez (HR 1310) to include rural housing vouchers as a covered program under the Violence Against Women Act.

²² Housing Assistance Council, "Rental Housing for a 21st Century Rural America." September 2018.
http://www.ruralhome.org/storage/documents/publications/rrreports/HAC_A_PLATFORM_FOR_PRESERVATION.pdf

In addition, we support the Chairman's draft bill "Strategy for Rural Housing Preservation Act of 2019." The bill's reporting requirements and establishment of an advisory committee on rural housing preservation are useful and important initiatives. Better information is needed on the size and scope of the problems to preserve and maintain affordable rental housing in rural communities. We believe that USDA will benefit from the advice and input of experts, practitioners, and tenants in developing and implementing policy and procedures to enhance preservation efforts. We suggest that reporting include information on loans that are expected to mature 36 months from the release of the report to provide nonprofit organizations with adequate time to identify and acquire such properties.

We reviewed with great interest a number of other draft bills, including from Congresswoman Kuster that addresses the need to protect tenants in the light of maturing mortgages. It is essential that federal policy insure that tenants are not displaced or find themselves in housing that is suddenly unaffordable. We support provisions in both bills that preserve rental assistance for tenants. However, because USDA faces a dual problem: maturing mortgages as well as a deteriorating rental housing stock, we urge Congress to provide additional resources to preserve and maintain the existing rental housing portfolio.

Our recommendations include a several elements that will maintain affordable housing for tenants as well as the quality of their USDA financed rental housing. These include:

- Authorizing 20 year rental assistance contracts, subject to appropriations, to provide both tenants and owners more certainty;
Adjusting rental assistance payments by an average of \$964 per unit per year with further adjustments to build project reserves, in line with the 2016 USDA Portfolio Assessment; '
- Scaling up the effort and resources to preserve USDA's rental housing portfolio by authorizing at least \$200 million annually in section 515 loans and at least \$75 million per year in MPR. Taken together these programs can provide a shot in the arm to the preservation effort giving USDA to resources to finance a transfer to another owner, repair and rehabilitate projects, re-amortize existing debt and leverage other resources. USDA should require that any owner that accepts a new or subsequent section 515 financing or MPR financing accept a continuation of rental assistance for term of the loan. This will not only secure housing assistance for current tenants, but also encourage the preservation of rental housing for future tenants.

We often tell USDA officials that they have a success story on their hands: providing mortgages for low income families can own their own homes; helping families gain equity in their homes through mutual self-help housing; housing some of the poorest families in America in decent affordable rental housing; providing grants to low-income seniors to repair a roof or furnace - this is the picture of success.

There is much work to be done increase housing opportunities for low-income families and to ensure that the resources currently available are not lost.

Thank you for this opportunity to testify today. I will be happy to answer questions you may have.