

# NATIONAL RURAL HOUSING COALITION

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**Testimony of Robert A. Rapoza  
for the National Rural Housing Coalition**

**Before the  
Senate Banking, Housing and Urban Affairs Committee  
Subcommittee on Housing and Transportation**

**Washington, DC**

***Affordable Housing Production and Working Families, Part III***

**September 25, 2002**

**(submitted as written testimony only)**

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Mr. Chairman and members of the Senate Subcommittee on Housing and Transportation, my name is Robert Rapoza. I am Executive Secretary of the National Rural Housing Coalition. The National Rural Housing Coalition (NRHC) has been a national voice for rural low-income housing and community development programs since 1969. The Coalition is comprised of approximately 300 members nationwide. Through direct advocacy and policy research, the Coalition has worked with Congress and the Department of Agriculture to design new programs and improve existing programs serving the rural poor. The Coalition also promotes a non-profit delivery system for these programs, encouraging support for rural community assistance programs, farm labor housing grants, self-help housing grants, and rural capacity building funding. We have testified before the Committee before and appreciate this opportunity to submit this statement for the record.

Thank you for holding this series of hearings on affordable housing production. The National Rural Housing Coalition is a strong supporter of USDA's housing programs for low-income families, as well as the legislation introduced by Senator John Edwards, S.652 the Rural Rental Housing Act of 2001.

***The Need for Affordable Housing in Rural America***

The need for affordable housing is especially strong in rural areas. In fact, a disproportionate amount of the Nation's substandard housing is in rural areas. Rural households are poorer than urban households; pay more of their income for housing than their urban counterparts.

Renters in rural areas are the worst-housed individuals and families in the country. Thirty-five percent of rural renters are cost-burdened, paying more than 30 percent of their income for housing costs. Almost one million rural renter households suffer from multiple housing problems, 60 percent of whom pay more than 70 percent of their income for housing.

There are also a number of obstacles to improving homeownership in rural areas including high rates of poverty and poor quality of housing. According to a 1999

Economic Research Service report, the poverty rate in rural America was 15.9 percent, compared to 13.2 percent in urban areas. In addition, the income gap between urban and rural households has grown since 1979. In fact, the median income in rural America is about the same today as it was in 1979, although incomes have increased in urban and suburban areas overall.

Minorities in rural areas have much higher rates of poverty with an average of 34.1 percent compared to urban minorities at 28.1 percent. More than 1.6 million low-income rural households live in moderately to severely inadequate housing. These are units without hot or cold piped water, and/or have leaking roofs, walls, rodent problems, inadequate heating systems, and peeling paint, often lead-based.

Rural households are less likely to receive government assisted mortgages. For example, although the rural population is 22 percent of the nation's population:

- Only six percent of FHA assistance goes to non-metro areas. On a per-capita basis, rural counties fare worse with FHA, getting only \$25 per capita versus \$264 per capita in metro areas; and
- Only 11 percent of Veterans Affairs housing programs reach non-metro areas and per capita spending in rural counties is only one-third that of metro areas.

In addition:

- Only 12 percent of section 8 funds go to non-metro areas;
- There is no set-aside for rural areas under the HOME program, which means that most of HOME funding ends up in participating jurisdictions, in metropolitan areas; and
- Although the CDBG has the State and Small Cities Block Grant program, there is a significant problem for rural areas from a targeting standpoint in that states may award grants to communities with populations up to 50,000. This means that small rural communities must compete with larger jurisdictions for funding.

Rural residents also have limited access to mortgage credit and the secondary mortgage market. The consolidation of the banking industry that accelerated throughout the 1990s has had a significant impact on rural communities. Mergers among lending institutions have replaced local community lenders with large centralized institutions located in urban areas. Aside from shifting the locus of loan-making, this has resulted in the diminishment of a competitive environment which, in the past, encouraged rural lenders to offer terms and conditions that were attractive to borrowers. Because of the gap left by traditional lenders, rural households are often prime targets for predatory lenders.

## **FEDERAL RURAL HOUSING PROGRAMS**

The Rural Housing Service (RHS), formerly Farmers Home Administration, of the US Department of Agriculture, administers a range of direct loans, grants and related assistance to low income rural families. RHS is the only federal agency devoted to improving housing conditions in rural America. RHS programs have been reduced in years and as a result there is tremendous demand for assistance. Any revitalization of federal housing production should include the existing housing programs of RHS.

### **Section 502 single family direct loan program**

Every year, RHS makes about \$1 billion in loans to low- and very low-income families to acquire, rehabilitate or construct their own homes. To qualify for the direct loan program, borrowers must have very low or low incomes but be able to afford mortgage payments. The average income of households assisted under section 502 is \$18,500. About nine percent of households have annual incomes of less than \$10,000. Since its inception, section 502 has provided loans to almost two million families.

The section 502 direct loan program is the most cost-effective housing program in the federal government. The cost to the government per house under the section 502 direct loan program is only \$10,000.

However, this effective program has also received severe cuts in recent years. Funding was available for 132,000 units in 1976, but because of funding, production has dropped by 89 percent to fewer than 15,600 units. Currently funded at \$1.1 billion, the President's budget cuts this program by 13 percent to \$957 million in program level.

In many rural communities, the only housing option available to low-income families is section 502. Therefore, it is not a surprise that there is a backlog of \$5 billion and 80,000 loan requests in RHS offices across the country.

As one way to widen the effectiveness of section 502, USDA has expanded its cooperation with non-profit housing organizations. Under the Mutual and Self-Help Housing program, for example, with the assistance of local housing organizations, groups of families eligible for section 502 loans perform approximately 65 percent of the construction labor on each other's homes under qualified supervision. This program, which has received growing support because of its proven model, has existed since 1961. The housing organizations involved receive funding for technical assistance through the section 523 program. The average number of homes built each year over the past 3 years has been approximately 1,500.

### **Section 514 loan and Section 516 grant farm labor housing programs**

Migrant and seasonal farmworkers are some of the nation's most poorly housed populations. The last documented national study indicated a shortage of some 800,000 units of affordable housing for farmworkers.

Farmworker households are also some of the least assisted households in the nation. Some 52 percent of farmworker households' incomes are below the poverty threshold, four times the national household poverty rate, and 75 percent of migrant farmworkers have incomes below the poverty line. Yet little more than 20 percent of farmworker

households receive public assistance; most commonly food stamps, rarely public or subsidized housing.

There are only two federal housing programs that specifically target farmworkers and their housing needs: sections 514 and 516 of the Housing Act of 1949 (as amended). Borrowers and grantees under Rural Housing Service sections 514 and 516 receive financing to develop housing for farmworkers. Section 514 authorizes the Rural Housing Service to make loans with terms of up to 33 years and interest rates as low as one percent. Section 516 authorizes RHS to provide grant funding when the applicant will provide at least 10 percent of the total development cost from its own resources or through a 514 loan.

Non-profit housing organizations and public bodies use the loan and grant funds, along with RHS rural rental assistance, to provide units affordable to eligible farmworkers. These funds are used to plan and develop housing and related facilities for migrant and seasonal farmworkers. Most local programs are for seasonal workers – those in home-based states that work in the fields for a most of the year. Lack of decent housing overall the limited availability of long-term subsidies for operating costs limits the utility of the program for migrant farmworkers.

Current funding for sections 514/516 totals \$37 million in program authority. This amount provides about 700 units of housing. The estimated need is two to three times the appropriated level.

In recent years, Congress and the Administration have worked to gradually increase funding for farmworker housing. However, to really begin to address this problem, Congress should provide additional funding for farmworker housing programs and address the overall need for rental housing assistance in rural America.

### **Section 515 rural rental housing program**

Today's hearing is a step in the right direction for assisting rental housing in rural America. Unfortunately, the federal government's current investment in rural rental housing is at its lowest level in more than 25 years. In fact, this year is the first time that the Administration's budget included no funding for rural rental housing production. Over the last 15 years, Congress and Administrations of both parties have engaged in unwise budget cutting of rural rental housing. Spending has declined from over \$500 million a year to \$114 million in Fiscal Year 2002. As a result, there is little production of new rental housing in rural areas.

Renters, like homeowners, in rural areas live in difficult situations. Thirty-five percent of rural renters are cost-burdened, paying more than 30 percent of their income for housing costs. Almost one million rural renter households suffer from multiple housing problems, 60 percent of whom pay more than 70 percent of their income for housing.

Moreover, poor rural renters do not fair as well as poor urban renters in accessing existing programs. As noted, HUD has done little to pick up the slack as only 17 percent of very low-income rural renters receive housing subsidies, compared with 28 percent of urban poor. Overall, only 12 percent of HUD section 8 assistance gets to rural areas.

Historically, the Agriculture Department's rural rental housing program has been the key tool for improving the quality and quantity of rental housing in rural areas. The section 515 is an invaluable tool for rural rental housing production, repair, and preservation for very low- and low-income families. Under section 515 non-profit and for profit entities can receive one percent loans for acquisition, rehabilitation or construction of rental housing and related facilities. For much of the history of section 515 loan term was for 50 years. Recently, in a cost cutting move, the term of the loan was reduced to 30 years. Most section 515 loans have gone to for-profit entities that combine the subsidized loan, rental assistance and tax subsidies to finance the housing.

The portfolio contains 450,000 rented apartments in section 515 developments. The delinquency rate is a low 1.6 percent. The average tenant income is little more than \$8,000 which is equal to only 30 percent of the nation's rural median household income. Sixty percent of the tenants are elderly or disabled and one-quarter are minority.

Section 521 rental assistance is used in conjunction with section 515 to help families who cannot afford even their reduced rent. In recent years, mostly in response to an escalating number of expiring contracts, appropriations for rental assistance have gone up. Despite the fact that the current appropriations stand at \$701 million (FY 2002), the funds are insufficient. Although about 50 percent of the 450,000 section 515 households receive rental assistance, almost 90,000 section 515 households who need assistance do not receive it. The need for rental assistance is projected to increase to \$937 million by 2006.

As Congress considers future policy for housing it faces two challenges regarding rural rental housing. The first is to maintain the existing stock of section 515 units. The second is to increase the production of affordable rental housing units in rural communities.

### **Preservation of Section 515 Housing**

The current portfolio of section 515 units represent an important resource to low income families in rural America. At a time of declining federal resources for rental housing, it is hard to envision a time in which federal policy will finance the development of a large number of rental housing developments. So, it is important to preserve the existing stock.

In 1987, Congress enacted legislation to regulate rural rental housing principally financed under section 515. This legislation placed a low-income use restriction on section 515 and also established financial incentives to owners to maintain their properties for low-income housing. In general, at the end of the initial 20 year use

restriction, an owner could seek an incentive to extend long term low income use, or sell the project to a non-profit organization or public body that would operate the housing for low income use.

A principal source of financing for incentives was the section 515 and the use of these funds for equity loans authorized under section 515. However, as Congress and Administration reduced funding for section 515, USDA reduced preservation funding to only about \$5 million per year.

Roughly two-thirds of the section 515 portfolio is regulated under the 1987 Act. The lack of adequate funding for incentives has raised a great concern among the owners. For the most part, the law limits their options to seeking incentives or selling to a non-profit organization or public body.

The demand for incentives is estimated at approximately \$100 million for equity loans alone. But cuts in sec. 515 have limited the ability of USDA to implement a good preservation program.

In response to the growing concern about the lack of preservation resources, S.2801, the Agriculture Appropriations Bill for Fiscal Year 2003, recommends an increase in section 515 from \$114 million to \$120 million. The recommendation includes \$50 million for new construction, \$50 million for repair, and \$20 million for preservation. The bill also includes increased funding for debt forgiveness related to preservation and increases the reimbursement to non-profit organizations for activities related to acquiring properties for preservation purposes. However, this is only a small, first step.

Unfortunately there continue to be attempts to weaken the section 515 program. The most recent attempt is an amendment proposed by Representatives Bob Ney (R-NE) and Mike Ross (D-AR) as part of H.R. 3995, the Housing Affordability for America Act. This bill has currently passed the Financial Services Committee and is awaiting floor action. The amendment would immediately end the low-income use restriction on certain 515 housing developments, displacing up to 300,000 low-income households nationwide.

Vouchers proposed under this amendment are not a viable option for rural areas, where other decent and affordable housing is simply not available. The cost of vouchers is estimated at \$1.5 billion. Although the amendment as it was originally offered in Committee did not require appropriations to be available before owners could prepay, or that owners must take the vouchers held by their section 515 tenants, the language was changed to include both of these requirements. While this provision is an improve over the original Ney-Ross Amendment, it does little to preserve a stock of affordable housing in rural America. A better approach, which the Senate Agriculture Appropriations bill takes, is a substantial increase in section 515 with an allocation for incentives for equity loans as well as enhanced tools for non-profit organizations and public bodies to acquire projects.

As I mentioned earlier, the existing section 515 program contains a strong infrastructure to address the needs of tenants and property owners. What lacks is funding for the program. I urge you to reject this amendment as part of any Senate legislation or upcoming conference agreement. We also urge the Committee to work to increase the preservation resources available under section 515.

### **RURAL RENTAL HOUSING ACT (S.652)**

The National Rural Housing Coalition supports of the Rural Renal Housing Act (S.652) sponsored by Senator John Edwards and co-sponsored by Senators Jim Jeffords, Paul Wellstone, and Patrick Leahy. This legislation proposes a \$250 million federal matching grant program for low-income households and the elderly. The funds may be used on a flexible basis to provide various forms of assistance. It is a new important tool for increasing production of rural rental housing.

The Rural Rental Housing Act is an initiative of the National Rural Housing Coalition. Rural housing practitioners met in 1997 and 1999 to address the growing lack of resources for financing housing in rural areas and to come up with a plan of how to improve the situation.

The practitioners concluded that a new rural multifamily housing delivery system is evolving. Providers continue to build successful projects using financing tools and housing programs that are currently available, including section 515; they have found, however, that managing the various components required to make a project viable is difficult, time-consuming, and staff-intensive. Providers stressed that governmental subsidies are necessary if lower-income households are to be housed.

As part of their commitment to housing, these providers formed the idea of the Rural Rental Housing Act. This program would build on the strength of non-profits and other organizations at the community level and match it with a new commitment on the federal level. This federal funding would encourage the continuation of the state and local partnerships already forming, and add a critical federal financing piece to make housing feasible for lower-income Americans.

USDA would administer the program, as well as have the authority to delegate administration to intermediaries. Funds will be allotted on a state-by-state basis, to provide a dollar-for-dollar match of project funds. The grants will be for the acquisition, rehabilitation, and construction of low-income rental housing. USDA will make assistance available to public bodies and Native American tribes, as well as private non-profit and for-profit corporations with a record of accomplishment in housing or community development. Federal assistance, available in the form of capital grants, direct subsidized loans, guarantees, and other forms of financing, would be typically available to finance up to 50 percent of project cost. The legislation specifies that housing financed under the legislation must have a low-income use restriction of not less than 20 years.

Qualified intermediary organizations include: states or state agencies; private non-profit community development corporations; non-profit housing corporations; community development loan funds; and community development credit unions. Funds that are allotted to intermediaries may be used to provide technical assistance and financing to housing organizations, for the acquisition, rehabilitation, and construction of housing. The intermediaries are responsible for matching the USDA funds on a dollar-for-dollar basis.

The population served must be households with incomes of 0 percent to 100 percent of the area median income. Priority for assistance will be given to extremely low-income (0 percent – 30percent of area median income) and minority households. Housing must be in rural areas with populations not exceeding 25,000, outside of urbanized areas. Priority for assistance will be in low-income communities or in communities with a severe lack of affordable housing.

The added value of this proposal is the flexible financing it brings and the partnerships it creates. A variety of financing tools may be used to match the federal funds, including loans, grants, interest subsidies, annuities and other forms of assistance. The proposal would encourage partnerships among federal agencies, state and local governments, private financial institutions, private philanthropic institutions, and the private sector, including non-profit organizations.

Non-profit organizations, public bodies, and the other eligible intermediary organizations are well-versed in combining funding sources to finance housing for low-income families. In fact, it is almost impossible to find a housing project that is funded purely by section 515 funds anymore.

An example of a project that would clearly benefit from Rural Rental Housing Act funding is one sponsored by the non-profit organization Southern Maryland Tri-County Community Action Committee, in Calvert County, Maryland. This high rent area has such strong demand for Low Income Housing Tax Credit funding, that it only has one funding round per year, rather than two, during which all of the funds are immediately spoken for. The Community Action Committee received approval from the County to build 104 units of affordable rental housing. The land is available, but the funds are not.

Out of the 104 scheduled units, the Committee has only been able to find funding to build 28 units, through patching together funds from the section 515 program, the state housing finance agency, tax credits, and the Affordable Housing Program of the Federal Home Loan Bank. Because the incomes served by this project are so low in comparison to the surrounding area, ranging from 21 percent (\$17,000) to 33 percent (\$30,000) of the area median income, tax credits alone are not an option to build the remaining units.

With additional federal funds through the Rural Rental Housing Act, to match tax credits or state funds or even conventional bank mortgages, the Committee would be able to

finance the remaining 76 units of affordable housing that are desperately needed. You may have seen the recent articles in the *Washington Post* outlining the serious lack of housing in Calvert County, wherein even those families with valid section 8 vouchers cannot find housing. Federal funding, matched by local, state, and private funds, is needed to begin to address this problem. In many rural areas, the local government does not have access to a federal funding stream to finance rental housing. In most states, there is a long line for HOME and CDBG funds. Small, isolated poor communities must compete with central cities, larger towns and suburbs for federal block grant funding.

Mr. Chairman and members of the Committee, once again we thank you for holding this hearing and we look to you for continued support of the efforts of affordable rural housing development.