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Written Statement of

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Hearing on

An Economy that Works For Everyone: Investing in Rural Communities

Thank you Chairman Brown, Ranking Member Toomey, Senator Rounds from South Dakota, and members of the Committee.

My name is Marcia Erickson, Chief Executive Officer for GROW South Dakota. I started my career over 30 years ago working at GROW South Dakota and have been the Chief Executive Officer for more than half of that time. I carry a Master of Science Degree in Community Economic Development from Southern New Hampshire University. I'm also a graduate of Achieving Excellence in Community Development from Harvard's Kennedy School of Government. Some of my current affiliations are: National NeighborWorks Association Board President, Rural Local Initiative Support Corporation Rural Advisory Committee, Small Business Development Center Advisory Board (South Dakota), South Dakota Community Action Partnership, and NeighborWorks America Rural Advisory Committee. Past affiliations include Chair of the Federal Home Loan Bank Advisory Council, Langford Area Community Foundation Advisory Board Member and Founder, and Marshall County Healthcare Board Chair.

My testimony draws on all of these experiences and a diverse set of programs delivered by GROW South Dakota. GROW South Dakota is a statewide organization that provides several federal, state, and local programs through three separate private non-profit organizations under our branding umbrella. We assist South Dakota residents and communities in the areas of community, housing, and economic development. GROW South Dakota is a certified Community Development Financial Institution (CDFI), Community Action Agency, an exemplary rated member of NeighborWorks America, a member of the Rural Local Initiatives

Support Corporation, an Opportunity Finance Network member, and we administer a Small Business Development Center.

I provide my testimony today on the state of the rural economy including challenges of rural communities with regards to housing, access to capital, community development, the role of mission-based community lenders, and challenges in underserved communities. I would like to share with the Committee some of the issues that are critical to our agency and the rural economy.

HOUSING

Housing is the foundation of success and is an essential and vital part of our rural communities across the country. During the pandemic, housing became even more sacred than ever before. People in rural communities, across our very rural state and this country, continue to express a need for housing. Housing needs that are requested from residents regularly are home improvements for the aging housing, infrastructure, senior housing, long-term care facilities, rental development and renovation, single-family development, down payment assistance programs, and removal of blighted property.

Rural America has an aging housing stock that is in desperate need of repair and rehabilitation. As an example, GROW SD provides home improvement programs in eastern South Dakota. We currently have a waiting list with over 140 non-priority households waiting for home repair or rehabilitation. If we continue with the current priority categories identified by program regulations as seniors or disabled households, at best, we will only able to reach approximately 14 non-priority households per year. This translates into a wait time approaching 10 years to address deteriorating housing stock, adversely affecting the housing market for low-income households and the community in general.

Rural and Native American communities are both challenged to secure flexible capital to meet the needs for affordable, quality, and safe housing stock. Gap financing for homeownership is needed as the cost to build is higher, and continues to rise, and Native lands and rural areas are negatively affected by the difference between the appraised value and the actual costs. Higher costs are partially due to the fact that contractors often need to travel to rural and tribal areas due to the lack of contractors in these areas. To further impact this issue, the cost to construct, repair or renovate properties is approximately 10%-30% higher, or more, than last year for the same construction materials and supplies. Local lumber yards have further indicated lumber is approximately double, sheet goods have tripled, and material availability is very tight on many products. Materials are also being delayed due to supply chain issues, adding to the increased costs of construction and renovation

According to the Board of Governors of the Federal Reserve System, 2021, there are widespread supply chain disruptions. The report further cited, “Sustained high demand and tight supply of single-family homes further pushed up prices, and builders noted ongoing production challenges, including rising costs. Cost increases were partly attributed to ongoing supply chain disruptions, temporarily exacerbated in some cases by winter weather events. Contacts generally expect continued price increases in the near term."

Across rural communities there is a shortage of housing stock and increased costs and material availability making it even more difficult to address this challenge. Homes that are available either need substantial renovation or are increasingly more expensive and out of reach for many in our community. The needed repairs and renovations include electrical, plumbing, energy efficiencies, shingles, and addressing issues of safety. The costs to provide these updates often exceed the valuation of the property leading lenders to deny loan funds to address these issues. As a result, housing stock is often left vacant or remains severely deteriorated. The lack of housing and affordable reliable broadband contributes to the lack of workforce for our small communities. The shortage of housing stock cannot be addressed without an injection of capital to construct housing that is affordable or to complete needed repairs and renovations on the homes that do exist.

Homeownership on Native lands and in rural areas is also challenging. The COVID-19 pandemic has brought to light many underlying housing issues especially in South Dakota's Native communities. Overcrowded and substandard conditions have exacerbated the impact of the virus. The number of appraisers available, especially in Native American areas, is also very limited. Promoting housing stability through appraisal apprenticeships and construction internships may be part of the solution.

To further address homeownership rates on Native lands, a loss mitigation risk pool needs to be considered. Most tribal ordinances in South Dakota provide the right of first refusal to tribes to purchase units with mortgages that are in default or otherwise at risk of foreclosure. This early intervention strategy is underutilized by tribes due to a lack of resources to finance the purchase of the unit at risk. One model utilized by the Sisseton Wahpeton Oyate tribe is a risk pool of funds to mitigate the property disposition risk that lenders encounter with tribal borrowers.

Another solution to the housing challenges in rural America would be to provide funding to proven, reliable, and accountable non-profits such as NeighborWorks America, the Community Development Financial Institutions Fund, and other national established and proven entities in order to provide access to capital through their established networks. The key is to provide the capital with flexibility in mind to get the funds working in our communities as quickly and efficiently as possible in order to better address the unique needs of the rural economy.

MISSION-BASED LENDERS

Mission-based community lenders, such as Community Development Financial Institutions, play a critical role in reaching underserved and rural markets. These organizations are the front-line servicers that already have established a presence in rural communities. Because of the vast amount of programming that mission-based lenders have, they are a known resource in rural areas. Mission lenders are flexible in meeting communities' needs and providing financing where traditional lenders are unable. Along with making capital accessible to underserved populations and persistent poverty areas, mission lenders often pair capital loans with technical assistance, counseling to coach individuals on their small business, and provide needed housing counseling.

POLICY RECOMMENDATIONS MISSION-BASED LENDERS

Policy change is needed to shape the course for housing, rural business development, and access to capital for our rural communities.

The Community Development Financial Institution Fund provides opportunities to access lending capital for both housing and business. One challenge of CDFI funding, especially in rural markets that lack access to private funding sources, is the requirement of non-federal match. Currently, there is not a match requirement for Native CDFIs which we fully support and hope will continue into the future. However, it remains a challenge for all organizations in rural markets to meet the non-federal match. We recommend that CDFI temporarily, if not permanently, lift the match requirement or reduce the match requirements to 50% for all CDFIs, especially in rural markets. Additionally, the $1 million maximum Financial Assistance award should be increased to $2 million or greater with additional flexibility in the CDFI objectives described as an increase in the volume of financial products or services, expansion into a new geographic area, new financial product or service, new development service, or new targeted area. These changes will lead to increased impact in our communities and communities across the country.

The USDA Rural Development Intermediary Relending Program (IRP) is an excellent resource for low-interest loan capital to relend to businesses throughout rural America. This program also has non-federal match requirements in order to have a successful scoring application. These match funds continue to be restricted until the full loan is repaid to USDA Rural Development (30-year term). Even though regular principal and interest payments are made to Rural Development by the intermediary, the full match must remain restricted. Match funds should be released pro-rata with the debt as it is paid down with Rural Development consistent with loan amortization schedules. By keeping non-federal match funds restricted for 30 years, it limits the leveraging power for rural agencies to access additional flexible capital.

The IRP program also restricts the maximum dollar amount per business loan. We support the proposed change of the maximum dollar amount per loan that an intermediary may lend to a project be increased to $400,000. The costs to start up or purchase a business in rural America has increased over time but the maximum loan limitation using IRP funding has not increased for several years. IRP funds should also be considered for intermediary lending of first mortgage loans. Mission-based lenders in rural America need long-term capital to address financing gaps in first mortgage lending.

The Small Business Administration (SBA) Microloan Program assists women, people who are low-income, veterans, minority entrepreneurs, and other small businesses in need of financing in amounts of $50,000 or less in conjunction with business technical assistance. This program provides low-interest loans to organizations to relend to businesses. It also provides a technical assistance grant to the intermediary to help businesses both pre and post-loan. Currently, SBA has waived the requirement on the percentage of pre-loan training and technical assistance (not more than 50 percent of grant funds) versus post-loan training and technical assistance provided to borrowers. This is the type of flexibility that is needed to better assist businesses seeking to start up or expand. This waiver should be implemented permanently in regulations.

Due to the pandemic, SBA provided existing borrowers funded with SBA loan capital payment assistance. The first round included all borrowers, but the second round of CARES Act Section 1112 debt relief payments is confusing as borrowers with microloans were categorized for payments based on when their loans were closed. Loans closed before March 27, 2020, received up to a certain number of payments; loans made from March 28, 2020 – January 31, 2021 received no payment assistance; and those loans made after February 1, 2021 receive a different amount of payment assistance. It would have reduced administrative costs if it would have included all borrowers regardless of the date closed. Loans that are made under USDA Rural Development Intermediary Relending Program or the Rural Microentrepreneur Assistance Program did not receive any payment assistance although these, too, are federally-funded loan programs.

POLICY RECOMMENDATIONS HOUSING

Consideration should be given to modify or simplify the HOME Investment Partnership Program funding regulations. The costs to bring a home to HUD quality standards often exceeds the maximum limits. Additionally, the contractor requirements of the Davis-Bacon Act are challenging. Most small contractors do not have the administrative staff to track the reporting requirements on these jobs. Payroll needs to be certified by job and county prevailing wage every week. HOME also requires SAM.gov registration. Contractors, especially smaller contractors, have difficulty navigating the system and getting registered. We understand this requirement will not go away, however, we recommend that SAM.gov improve the registration process.

HOME multifamily compliance requirements are not aligned with other programs. Consistency across the board would be beneficial. For instance, USDA uses adjusted income for individuals and HOME uses gross income. Approval for rent level changes, even if they are within the HUD limits, is required.

The Department of Energy Weatherization Assistance Program is needed to improve energy efficiency and safety concerns in homes. However, regulations have again made it difficult to administer. A few examples with recommendations include:

1) Currently, there is a separate certification required for DOE Weatherization Auditor and Quality Control Inspector (QCI) certifications. The Auditor/QCI should be one certification as the trainings and tests are very similar. We also recommend that testing for an inspector to remain certified be increased from three years to five years as long as staff remain current with Continuing Education Units.

2) If the home is in need of electrical wiring replacement, it limits the weatherization measures that can be installed on the home. We recommend allowing electrical wiring replacement and other essential home repairs under DOE if it prevents weatherization from being completed.

3) Department of Energy Weatherization Assistance Program does not allow a change of fuel sources for heating systems. Often homeowners ask to change to a different heating source/system. Oil furnaces are currently difficult to purchase and not many HVAC contractors service or install them anymore. A change to allow a new fuel source for heating systems is recommended.

As a provider of programs and services addressing Native and rural needs, I strongly support needed increases of funding and regulatory changes to address the needs of housing and access to capital in our communities, in South Dakota and across our country. Let's build, rebuild, and address the lack of quality housing for all. Housing is infrastructure. Access to capital for both housing and mission-based lending through flexible and accountable entities is needed. I urge this Committee to initiate and support large-scale investments into housing and support mission-based lenders to help our communities and economy grow for decades to come.

Thank you for the opportunity to testify on the needs and challenges we face in rural communities.

Work Cited

Federal Reserve District. "The Beige Book: Summary of Commentary on Current Economic Conditions." *Board of Governors of the Federal Reserve System*, 14 Apr. 2021, www.federalreserve.gov/monetarypolicy/beigebook202104.htm.