

Statement by
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Subcommittee on Housing, Transportation, and Community Development
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Chair Smith, Ranking Member Rounds, and Members of the Subcommittee, thank you for the opportunity to come before you today to discuss the state of the Rural Housing Service and its role in supporting housing in rural America. Well-built, affordable housing is essential to the vitality of communities in rural America—it allows generations of families to live their lives in the place they want to call home. The Biden-Harris Administration has been clear about its commitment to a sustainable and prosperous rural America, and at the U.S. Department of Agriculture's (USDA) Rural Development mission area and Rural Housing Service in particular, we are working to do our part.

Rural housing faces unique challenges with respect to affordability, preservation, and modernization. Large-scale rural housing developments aren't often supported by private industry, populations are not aggregated enough to sustain high-volume units, and construction and maintenance costs are higher than in urban areas.¹ For many Americans, homeownership is a lifetime goal, and a home is a generational asset. Homeownership is closely tied to the ability of Americans to build wealth and security, and deeply rooted in the fabric of rural communities. Access to a safe home can reduce adverse health outcomes,² help to mitigate food insecurity,³ and bolster financial well-being.

The Rural Housing Service's core programs and authorities are incredibly impactful. But our programs are rooted in the title V of the Rural Housing Act of 1949 and infrequently adjusted or updated, and rarely are they considered holistically and with a comprehensive view of what it will take to keep affordable and safe housing in rural and Tribal communities. This hearing presents an opportunity to take that wider view and ensure the Rural Housing Service is the transformational partner rural and Tribal communities need today.

The Rural Housing Service works to support people in their pursuit to make this American dream a reality. The Rural Housing Service offers a suite of programs to help support rural housing needs in rural America. Single Family Housing Programs give families and individuals the opportunity to buy, build, or repair affordable homes located in rural areas. Through its Multi-Family Housing Programs, the Rural Housing Service provides affordable multifamily rental housing in rural areas by financing projects geared for low-income, elderly, and disabled individuals and families as well as domestic farm laborers.

Multifamily 515 construction loans are coupled with Rental Assistance to provide low-income tenant-based housing. The number of 515 direct loans have fallen over the past two decades, as

¹ <https://nlihc.org/sites/default/files/Housing-Needs-in-Rural-America.pdf>

² <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7725589/>

³ <https://equityhealthj.biomedcentral.com/articles/10.1186/s12939-019-1114-z>

tenant rental assistance has grown. The cost of maintaining the RA contracts and funding them annually increases over time and consumes the majority of USDA RHS funding - resulting in the erosion of funds available for new housing and preservation at historically static levels. This has been true even as loan subsidy costs have come down over the last 10 years, and is exacerbated by the increase in housing costs and building materials. Meanwhile, the need for low-income housing in rural areas continues to be an issue.

The Biden-Harris Administration is committed to changing this by supporting rural housing and the Rural Housing Service's portfolio and mission. The proposed Fiscal Year 2023 budget includes significant investments in the Rural Housing Service, including \$1.773 billion for USDA Multifamily Housing Programs, an increase of \$256 million over the 2022 enacted level. This significant investment would help address housing insecurity and rent burdens in rural communities. This funding will be prioritized for projects that improve energy or water efficiency or facilitate climate resilience. Additionally, the Budget proposes \$1.5 billion in loan level for low-income single family housing loans, an increase of \$250 million, and proposes a critical increase of \$204 million for Rural Development to revitalize its staffing and technological capacity.

When appropriately resourced and given the tools needed to modernize, improve customer service, and allow for much-needed flexibility, the Rural Housing Service can be an invaluable resource for rural communities struggling with affordable, safe, and energy efficient housing. I look forward to working to tackle these issues and partnering with Congress to keep people in your communities.

Flexibility

The Rural Housing Service's Multi-Family Housing Program provides affordable multifamily rental housing in rural areas, supporting low-income and elderly individuals. We extend our reach by guaranteeing loans for affordable rental housing designed for low to moderate-income residents in rural areas and towns. As a cornerstone of our approach to affordability, we subsidize rents for low-income tenants in our projects who cannot afford to pay their full rent

We aim to preserve our portfolio by restructuring loans for existing rural rental housing and off-farm labor housing projects to allow for sufficient reserves to meet major repairs and improvements over the lifetime of the property. On a yearly basis we also provide grants to sponsoring organizations to repair or rehabilitate housing for needy families.

However, there is an imminent need to both more aggressively preserve Multi-Family Housing's existing portfolio and build new stock. RHS Multi-Family data indicates that \$10 billion in Multi-Family Preservation and Revitalization funding will be needed by 2033 to preserve 137,000 units. The Rural Housing Service currently has approximately 400,000 units within its portfolio and in the absence of robust funding for Multi-Family Preservation and Revitalization, we will lose 333,780 units by 2050.

Moreover, as more Rural Housing Service-financed property mortgages mature and exit the portfolio in the coming years, owners will no longer be required to meet affordability standards or maintain the property to USDA standards. That's why it is critical that the Rural Housing

Service also be afforded the resources to build its housing stock to ensure that there is equitable access to safe and affordable housing in rural areas

Lastly, Rental Assistance plays a role in maintaining good partnerships with existing properties and new investments. By decoupling rental assistance from property debt, the Rural Housing Service can maintain affordable housing opportunities, even as Multi-Family Housing loans are paid off, and provide more flexibility for Multi-Family Housing Preservation and Rehabilitation funds.

President Biden's Fiscal Year 2023 budget sets a strong course for these solutions. The FY23 Budget includes an authorization to decouple section 515 and section 514 from the Rental Assistance program. Because the Section 515 Rural Rental and 514 Farm Labor Housing portfolios are aging, mortgage maturities will accelerate significantly from 2027 through 2041, and RA support will also be lost. There is an urgent need to find solutions to allow these properties to recapitalize, perform needed rehabilitation and repairs, and be preserved as quality affordable housing assets for many years to come.

Current statute requires a property to have a USDA mortgage to receive Rental Assistance (RA). If the mortgage is paid off through prepayment or maturity the property can no longer receive RA. Because keeping RA in place requires keeping the USDA mortgage in place, utilizing new private debt or equity to recapitalize and preserve these properties is very difficult, costly and requires complicated subordination agreements.

Allowing the USDA debt to be paid off while keeping the RA in place is essential to facilitate preservation at scale across the Multifamily housing portfolio. RA is a critical component underlying all modern-day affordable housing platforms and is needed to achieve rents that will support recapitalization. RA is often included in state housing finance agency prioritization for receipt of low-income housing tax credits and other local resources. When the Section 515 mortgage matures or prepays, the debt load of the property is reduced, allowing borrowers to take on additional third-party debt to facilitate recapitalization.

The budget also includes a proposal to permanently authorize Multi-Family Preservation and Rehabilitation, which has been a demonstration program since 2006. The multi-family housing preservation and revitalization program is an effective tool to RD's existing multi-family housing portfolio. The average age of rental housing in the section 515 portfolio is 28 years and in need of revitalization, but many projects do not have sufficient reserves to fund ongoing rehabilitation. Permanently authorizing these financing tools will show the government's commitment to low income rental housing preservation in rural America.

Rural housing challenges across the country are unique, and the task of preserving and building rural housing stock is steep—a challenge that benefits from statutory flexibility to deploy resources and tailor unique solutions.

Customer Service

The Rural Housing Service's Single Family Housing Programs support the ability of rural families and individuals to repair, purchase and construct homes. These programs offer

qualifying individuals and families the opportunity to purchase or build a new single-family home with no money down, to repair their existing home, or to refinance their current mortgage under certain qualifying circumstances. There are also programs to assist non-profit entities in their efforts to provide new homes or home repair to qualifying individuals and families.

The Section 504 Home Repair program provides loans to very-low-income homeowners to repair, improve or modernize their homes or grants to elderly very-low-income homeowners to remove health and safety hazards. The Section 502 Direct Loan Program assists low- and very-low-income applicants obtain safe and sanitary housing in eligible rural areas by providing payment assistance to increase an applicant's repayment ability. Payment assistance is a type of subsidy that reduces the mortgage payment for a short time. The amount of assistance is determined by the adjusted family income.

In Fiscal Year 2021, the most common Section 504 applicant composition was a single, elderly female with no dependents making \$15,700 per year. The most common Section 502 applicant was a single female with two dependents making \$38,190 per year. These represent some of the country's most vulnerable populations and need the most support in accessing Rural Housing Service Programs. These are also populations that often reside in historically underserved communities and can be most positively impacted by Rural Housing Service technical assistance to ensure that they have access to our programs.

In a colonia in the Rio Grande Valley in Texas, I saw the value of this technical assistance in action. I met an elderly couple who had applied for and secured a Section 504 grant to repair damage to their roof. They were only able to apply for and secure a Section 504 grant because a Rural Development employee took the time to sit down and help them with the application. Their application had a ripple effect—they told their neighbors, and soon the whole neighborhood had taken advantage of the program and were improving living conditions within their neighborhood. This tells a powerful story, but one that is only possible when Rural Housing Service is adequately staffed and resourced.

Our Single-Family Housing and Multi-Family Housing staff are dedicated to our mission and customers. However, employees are unable to keep up with demand due to inadequate resources which result in delays and lost opportunities for our customers. Single Family Direct programs have suffered staffing losses across state offices over the past several years and many states have lost their most experienced staff to retirement and outside opportunities. On average there are only fifteen Single Family Housing Full Time Employees (FTEs) per state with staff leveling ranging from three to forty-four FTEs. Multi-Family has an average of only seven FTEs per state.

Customer demand remains strong, yet states are often either unable to meet demand or do so in a timely manner because of inadequate resources. Rural Housing Service needs more resources and flexibility to fully deliver the wide variety of complex programs appropriated by Congress. To achieve that, we are hoping to secure permanent authority for the Rural Partnership Program that would give RD the ability to work with rural communities through third party technical assistance providers to develop comprehensive economic development plans and then implement

such plans in a one-stop-shop approach. Further the grants portion of this program will help with building the capacity of third-party technical assistance providers who can help other rural communities outside of the program. In addition, as we ramp up the Rural Partners Network to shore up capacity and outreach from within the RD field staff, funding flexibility is needed to fully realize this interagency network of federal staff whose job is to work directly with communities. As the federal entity charged with coordinating rural policy, RD is well positioned to serve as the hub for this network, but it will need to work in partnership with other federal agencies and in certain cases transfer funds to those agencies so they have right staff to support this network. Legislative language is needed to ensure transfer of funds for the Rural Partners Network to other federal agencies is authorized.

In addition, for servicing our inventory property, it would be useful if we could contract with a National Servicer, but the program loan requirement hinders out ability to achieve that efficiency. If RHS could get authorization to facilitate the sales of Real Estate Owned (REO) properties by eliminating the distinction between program and nonprogram REO properties that use up administrative resources and creates inefficiencies in liquidation of these properties; and revise/remove the priority to program eligible borrowers. Determining whether potential buyers are eligible for program loans significantly burdens administrative resources, the historical data shows that the increased expense results in very few REO properties ending up with program borrowers (about 10 out of 1000 REO sales annually).

Modernization

The Rural Housing Service supports community infrastructure and builds safe and affordable housing across rural America. One of the strengths of Rural Development and the Rural Housing Service is that unlike many other Federal agencies, we have a presence in the communities we serve through our state and area offices. With over 4,600 “boots on the ground,” Rural Development identifies and provides rural assistance that reflects the needs of local communities. Congress recognizes this special relationship and has entrusted the Rural Housing Service to invest in rural communities by increasing program levels each year. We are grateful to Congress for its trust in our highly effective stewardship of the funding and authorities they have entrusted to us.

The Rural Housing Service has a wide range of tools and authorities, but there are ways that these programs and authorities are dated, cumbersome and can make it so that working with Rural Development is harder for communities than it should be. From providing technical assistance to helping communities employ proven development strategies and finance methods, Rural Development could be an even better partner to rural and Tribal housing customers. To that end, I am eager to work with Congress to ensure that the Rural Housing Service is a modern, customer-oriented organization with the programs, tools, and skills that ensures we can meet communities where they are and offer the full scope of expertise and support rural communities’ housing needs today.

A perfect example of how, when adequately resourced and staffed, the Rural Housing Service can be a partner in transformation is the Emergency Rural Health Care Grant Program. Congress and President Biden provided \$500 million through the American Rescue Plan for USDA to create the Emergency Rural Health Care Grant Program. The program provides \$350 million to help rural hospitals and local communities increase access to COVID-19 vaccines and testing, medical supplies, telehealth, and food assistance, and support the construction or renovation of rural health care facilities. It also provides recovery funds that compensate for lost revenue or staffing expenses due to COVID-19. In addition, the program provides up to \$125 million in grants to plan and implement models that help improve the long-term viability of rural health care providers, including health care networks that allow rural providers to collectively address community challenges and develop innovative solutions. The interest for this new grant program speaks directly to the tremendous need for this support from rural healthcare providers.

The Emergency Rural Health Care Grants also represent an administrative success for the Rural Housing Service. The American Rescue Plan provided a five percent set aside for staffing, technology, and technical assistance for applicants. This has allowed the Rural Housing Service to hire industry-specific staff, create a user-friendly application portal, and provide technical assistance for our customers to apply in record time. This allowed the Rural Housing Service to temporarily hire much-needed staff, access modern technology systems, and provide technical assistance to ensure that this program reached historically underserved communities without the capacity to leverage these resources. While some federal programs of this scope often take years to stand up, the Rural Housing Service understood the urgency of supporting rural hospitals immediately. We stood up a brand-new approach to health care support in less than six months, speaking to the possibilities when programs are appropriately resourced and given the capacity to administer them.

Conclusion

Housing is the cornerstone of rural America—it is not just the way to keep a roof over rural Americans' heads but is also an economic driver and support system for our rural communities.

The Rural Housing Service has the tools to be a partner with these communities—helping an elderly individual repair a family home, supporting a family to purchase their first home, or providing affordable farm labor housing in agricultural communities. These tools cannot be fully deployed without additional resources and authorities to modernize the Rural Housing Service, support staffing to ensure that we are providing top-tier customer service and providing flexibility to allow the agency to adapt in the face of unique challenges.

I am deeply grateful to the Chair and Ranking Member for holding this hearing—it shows how critical the need is in rural areas, and how eager Congress is to be a partner in supporting affordable and safe rural housing. I ask that as Congress deliberates solutions to the American housing crisis, rural America—and the Rural Housing Service—remain a part of the conversation. I look forward to working with this Subcommittee to support our rural communities.