RURAL HOUSING PROGRAMS: REVIEW OF FISCAL YEAR 2008 BUDGET AND PENDING RURAL HOUSING LEGISLATION

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BEFORE THE

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HOUSING AND COMMUNITY OPPORTUNITY

OF THE

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RURAL HOUSING PROGRAMS: REVIEW OF FISCAL YEAR 2008 BUDGET AND PENDING RURAL HOUSING LEGISLATION

Tuesday, May 8, 2007

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND
COMMUNITY OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:15 p.m., in room 2128, Rayburn House Office Building, Hon. Maxine Waters [chairwoman of the subcommittee] presiding.

Present: Representatives Waters, Cleaver, Green; Biggert, Pearce, Gillmor, Neugebauer, and Davis of Kentucky.

Also present: Representatives Hinojosa and Davis of Tennessee.

Chairwoman WATERS. The Subcommittee on Housing and Community Opportunity will come to order. Today we are focusing on rural housing, and we will review the fiscal year 2008 budget and pending rural housing legislation. Without objection, all members' opening statements will be made a part of the record.

At this time, I would like to introduce our first panel who will be testifying before us today. And I would like to say to the panel that, without objection, your written statements will be made a part of the record. You will be recognized for a 5-minute summary of your testimony.

On panel one, we have the Honorable Pamela Patenaude, Assistant Secretary for Community Planning and Development, U.S. Department of Housing and Urban Development, and we have Mr. Russell T. Davis, Administrator for Rural Development Housing and Community Facilities Programs, U.S. Department of Agriculture.

Before our witnesses begin, we are going to recognize our members. And with that, I would like to recognize the ranking member, Mrs. Biggert, for 5 minutes.

Mrs. BIGGERT. Thank you, Madam Chairwoman, and thank you for holding this hearing today. I am afraid that I am going to have to leave, so I am going to yield my time to the gentleman from Kentucky, Mr. Davis, for 5 minutes.

Mr. DAVIS OF KENTUCKY. Thank you, Ranking Member Biggert, and Chairwoman Waters, for holding this timely and important hearing today on the rural housing programs.

As most of you know, last year I introduced H.R. 5039, the Saving America's Rural Housing Act, with Chairman Frank and a number of my colleagues on both sides of the aisle. The bill was voted favorably out of the Financial Services Committee, but, unfortunately, didn't make it to the House Floor before the 109th Congress ended.

H.R. 5039 was comprised of two major initiatives aimed at the section 515 program. First, the repeal of the unconstitutional portions of the Emergency Low Income Housing Preservation Act of 1987, or ELIHPA, to allow for pre-payment by certain owners, and second, to create a robust preservation program for the remaining 515 portfolio.

This bill struck the right balance in repealing unconstitutional and onerous restrictions on some 515 owners, and providing tenant protections to ensure no one is unduly affected by any owner wishing to pre-pay.

The pre-payment section is simply a good government provision that will save taxpayers money and unnecessary litigation costs and damage awards. However, the preservation section had the most potential to positively impact the aging housing stock of the 515 program.

According to an independent study, addressing maintenance and rehab costs now through financial structuring would save taxpayers an estimated $2 billion. Restructuring deals would ensure a viable 515 portfolio for the next 20 years.

I appreciated the constructive input in the past from many of today's witnesses when we constructed legislation last year, and moved the bill through the hearing and mark-up process. I look forward to working with all of you, as we decide how H.R. 5039 should evolve in the 110th Congress.

Preservation of our 515 portfolio is critical to maintaining an adequate stock of affordable and safe rural housing.

Chairwoman Waters, again, I truly appreciate your interest in affordable housing issues, and the initiative in holding this hearing today to discuss our pending housing legislation, as well as the rural housing budget. These are crucial issues to communities in rural areas like Kentucky's fourth district, and I admire and share your passion for this issue, and look forward to the hearing from today's witnesses. And with that, I yield back.

Chairwoman WATERS. Thank you very much. Mr. Green, for 5 minutes.

Mr. GREEN. Thank you, Madam Chairwoman. Let me just simply thank you and the ranking member for hosting the meetings. I am eager to gain as much intelligence as possible. And in the interest of time, I will yield back the balance of my time.

Chairwoman WATERS. Thank you very much. Do we have any others—Mr. Pearce?

Mr. PEARCE. Thank you, Madam Chairwoman. And like the others, I thank you for holding this hearing. Rural housing issues are very critical in the second district of New Mexico. We have 70,000 square miles, and the U.S. Census reports that between 0 and 14 people live per square mile. Much of it is at the zero end.

New Mexico's small population forces us to face many challenges, including the availability of affordable housing for many residents. I am pleased that today we may discuss several pieces of legislation regarding USDA and HUD rural housing programs.

Last Congress, I was a cosponsor of Representative Geoff Davis's bill, the Saving America's Rural Housing Act, which created a permanent revitalization program within USDA rural development, to allow for new financing of section 515 properties.

It is imperative for the future of the section 515 multi-family housing portfolio, which depends on the preservation of existing properties. Preservation of existing section 515 properties will cost about $25,000 per property, compared to around $100,000 for newly constructed property. It's a dramatic comparison, and one that means a lot in southern New Mexico.

I look forward to further consideration of Mr. Davis's bill, which will help families have access to affordable rental housing, and save taxpayers thousands of dollars. I also look forward to your comments regarding a section 502 direct single-family loan program, and whether shifting this program to the self-supporting section 502 guarantee program is viable.

I understand the Administration is proposing to increase the section 502 guarantees from 2 percent to 3 percent, making this mortgage product more expensive for low-income and middle-income rural families. And the median income in New Mexico is below the poverty level, so these small increases begin to mean a lot.

I look forward to your comments on whether or not this fee could force would-be borrowers into other, more risky products, such as subprime loans, which are now a very hot topic before this committee. I believe we should be working together to give low-income people more opportunities for loans, not reducing their choices.

I am pleased that the Housing Assistance Council (HAC) is here today, as it's the only national housing and community development intermediary, devoting all of its resources to the housing needs of rural America.

New Mexico is one of HAC's largest volume States, and has received over $6.9 million in loans, self-help loans, and grants, and capacity grants, to support the work of 32 organizations.

Tierra del Sol in Silver City, New Mexico, has received a wide range of grants through HAC, helping them to build over 1,000 single and multi-family affordable homes in southern New Mexico.

I look forward to discussing Mr. Hinojosa's proposal to make HAC an authorized program through HUD. This would create yet another housing program funded by the Federal Government. Therefore, we must proceed cautiously, and ensure that this is necessary. HAC has a tremendous track record of success, and I fear that turning it into just another government program will instill the usual inefficiencies in bureaucracy we historically see in government-run programs.

Again, I thank both the panels and the chairwoman for this hearing. I yield back the balance of my time.

Chairwoman WATERS. Thank you very much. Mr. Neugebauer, then Mr. Hinojosa for 5 minutes.

Mr. NEUGEBAUER. I don't have an opening statement.

Chairwoman WATERS. Then Mr. Hinojosa.

Mr. HINOJOSA. Thank you, Chairwoman Waters. I want to express my sincere appreciation to you, for holding this important and timely hearing on rural housing. I look forward to working with you and Ranking Member Biggert on rural housing issues today, and throughout the 110th Congress.

Those of us who live in rural areas have long known that rural residents face significant challenges in finding available, affordable, and quality housing, but the extent of the problem is surprising.

According to the Economic Research Service, 4 million rural families live in housing poverty, 1.7 million of the 25 million rural housing units in the United States are considered sub-standard, and 17 percent of minority renters in rural areas live in sub-standard units.

These figures are compounded by the Administration's budget proposal for fiscal year 2008, which zeroes out several critical rural housing entities and programs. The budget eliminates the section 515 rural rental housing program, which benefits very low-income and elderly residents in many of our rural communities, and section 502, direct homeownership loan program, which is the only Federal program targeting mortgage lending opportunities to the low- and very low-income rural households.

The budget also makes sharp reductions in self-help housing, and farm worker housing. Additionally, the Administration's budget zero funds many other critical rural housing entities and programs, including the Housing Assistance Council, better known as HAC, and the rural housing and economic development program.

Both of these are funded through HUD. Furthermore, the budget reduces the funding for the construction and preservation of affordable housing in rural communities.

So, to address the affordability, availability, and quality of rural housing, I co-founded and currently chair the Congressional Rural Housing Caucus. It continues to grow in numbers. Recently, the caucus collaborated with the National Rural Housing Coalition on a breakfast briefing, and is coordinating on a briefing by the Council for Affordable and Rural Housing on June 11th of this year.

I look forward to coordinating with other groups on similar events. To counter all the Administration's proposals that would harm rural America, several other Members of Congress joined me in sending a letter to the Appropriations Committee, requesting the following funding levels for fiscal year 2008.

Number one, $1.25 billion for section 502 direct homeownership loans; number two, $100 million for section 515 rental housing loans; number three, $60 million for section 523 self-help housing; and, number four, the last one, we asked for $50 million each for sections 514 and 516, farm labor housing.

I want to thank you, Chairwoman Waters, for co-signing the letter, and for helping to improve housing in rural America. I ask unanimous consent that the letter be entered into today's hearing record. I have it with me.

Chairwoman WATERS. Without objection, it is so ordered.

Mr. HINOJOSA. May I continue?

Chairwoman WATERS. Yes, you may.

Mr. HINOJOSA. To further improve the rural housing situation, I have introduced H.R. 1980, the Housing Assistance Council Authorization Act of 2007, and H.R. 1982, the Rural Housing and Economic Development Improvement Act of 2007.

These two bills will help improve rural areas by providing them the resources they need to address the problems of substandard housing. By authorizing this funding, more American families will be able to access decent housing that will improve their overall quality of life.

Specifically, H.R. 1980, the Housing Assistance Council Authorization Act of 2007, authorizes $10 million for HAC in fiscal year 2008, and $15 million in fiscal years 2009 to 2014. These funds will go towards providing technical assistance, as well as training and support, to better develop the capacities of rural community-based housing development organizations. It will supply loans and grants, or other financial assistance to these organizations, so that they can widen affordable housing options for low- and moderate-income families. The funding will also allow HAC to continue to offer financial and other aid to its national network.

Madam Chairwoman, may I ask unanimous consent that two other documents be put into the record? One is the letter from 260 groups in support of funding HAC.

Chairwoman WATERS. Without objection, it is so ordered.

Mr. HINOJOSA. And the last one, I ask unanimous consent that the statement of The National Association of Realtors to this Subcommittee on Housing and Community Opportunity be included in the record.

Chairwoman WATERS. Without objection, it is so ordered.

Mr. HINOJOSA. With that, I yield back.

Chairwoman WATERS. Thank you very much. And just so that we're following the rules of the committee, I would ask unanimous consent that Mr. Hinojosa be allowed to fully participate in this hearing, and to submit all of the letters for the record. Hearing no objection, it is so ordered. Thank you very much.

The purpose of today's hearing, rural housing review, fiscal year 2008 budget requests, and pending rural housing legislation, is to examine the Administration's budget request for rural housing programs for fiscal year 2008, and various legislative proposals that have been introduced in the 100th Congress, such as: H.R. 1980, the Housing Assistance Authorization Act of 2009, to provide $10 million in funding for fiscal year 2008, and $15 million annually through fiscal year 2014 for the Housing Assistance Council; and H.R. 1982, the Rural Housing and Economic Development Improvement Act of 2007, to provide $30 million in funding for fiscal year 2008, and $40 million annually, through fiscal year 2014 for competitive grants for rural housing and economic development programs.

Both of these programs are viewed as extremely flexible tools in the rural communities where they are utilized. This hearing is one of the most important hearings that this subcommittee will hold, because it provides an opportunity for us to address rural housing issues that have been put on hold since the 109th Congress.

As many of you know, the Committee on Financial Services passed a rural housing bill—H.R. 5039—last year, but it was not considered by the House. We know that there is a shortage of affordable housing in the Nation's rural areas. In many parts of rural America, not only is there an inadequate supply of affordable housing, but the housing is aging; the average age of the section 515 units is 28 years old.

Many rural communities rely on Federal grants and loan guarantees to finance single and multi-family housing. However, the Administration has proposed to eliminate the section 515 multi-family direct loan program, and the section 502 single family direct loan program, funded at $100 million, and $125 million, in fiscal year 2007, respectively.

The section 515 program is best known because it has assisted approximately 500,000 people, most of whom are poor. In rural America, there is a real need for housing, one that mirrors the housing needs elsewhere in the country. One important policy issue is the tenant contribution in rural areas.

I support maintaining the tenant rent contribution at 30 percent of income. This threshold has proven critical to sustaining the economic well-being of tenants in our rural rental housing programs. In the absence of reform and revitalization measures to our rural housing programs, we stand to miss a golden opportunity to address rural housing needs. We must remain committed to the pressing rural housing needs in this Nation, so that the quality of life for Americans living in these communities is improved.

We have an opportunity today to let rural America know that there is a legitimate interest in this Congress to address their housing needs. I am sure that no one thought that the Administration would propose to eliminate the section 515 and 502 programs, but that is exactly what has been proposed.

I believe that, if we want to address the housing needs of rural Americans, many of whom are disabled and elderly, we can start today by determining which programs work. I thank you.

And with that, we will call on our very first witness whom I introduced a moment ago, the Honorable Pamela Patenaude, Assistant Secretary for Community Planning and Development, U.S. Department of Housing and Urban Development. Thank you.

STATEMENT OF THE HONORABLE PAMELA HUGHES PATENAUDE, ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Ms. PATENAUDE. Thank you, Chairwoman Waters, and distinguished members. On behalf of Secretary Alphonso Jackson, I am pleased to appear before your committee today.

As the Assistant Secretary for HUD's Office of Community Planning and Development, I am responsible for the administration of the Rural Housing and Economic Development Program.

In 1998, Congress established the office of rural housing and economic development at HUD. The program was designed to address the problems of rural poverty, inadequate housing, and the lack of economic opportunity. Since its inception, the rural housing and economic development program has awarded $189 million in grants that have produced 7,600 new housing units, and rehabilitated 12,000 units.

This program has also created 12,000 new jobs, provided job training for 34,000 individuals, and created 2,000 new businesses, as well as provided critical financing for 7,000 existing businesses.

Specific focus is given to federally recognized Indian tribes and seasonal farm workers, as well as certain geographic areas, like the Mississippi Delta region, Appalachia's distressed counties, and the Colonias, located in the States of Arizona, California, New Mexico, and Texas.

Capacity building and innovative grants are awarded on a competitive basis to local rural nonprofits, community development corporations, State housing finance agencies, and community development organizations. Capacity building grants help support and strengthen local nonprofits.

Innovative housing and economic development grants are awarded for strategic and creative ideas, such as energy efficient techniques and the straw and adobe house concept, which are models for world communities to build upon.

HUD's Community Development Block Grant Program also meets the needs of rural America by providing funding for affordable housing, public facilities, and economic development in nonmetropolitan and rural areas. The CDBG program also addresses critical housing needs in the Colonias and Appalachian region.

Another example of HUD helping rural communities is the Self-help Homeownership Opportunity Program, commonly referred to as SHOP. The SHOP program funds national and regional nonprofit organizations, such as Habitat for Humanity International, and the Housing Assistance Council, organizations that facilitate small, local, sweat equity homeownership programs in rural America.

The President's fiscal year 2008 budget request includes $40 million for the SHOP program, a 100 percent increase in funding levels over fiscal year 2007.

I appreciate the opportunity to appear before your committee today. HUD continues its commitment to serving our Nation's rural communities. I welcome any questions the committee may have. Thank you.

[The prepared statement of Ms. Patenaude can be found on page 80 of the appendix.]

Chairwoman WATERS. Thank you very much.

Mr. Davis.

STATEMENT OF RUSSELL T. DAVIS, ADMINISTRATOR OF THE RURAL HOUSING SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. DAVIS. Thank you, Chairwoman Waters, and Congressman Davis. Thank you for this opportunity to present the Administration's 2008 budget. I would like to make some general comments about the context for this budget, and also say a few words about the multi-family housing revitalization legislation, which is something that we care very much about. I have submitted written remarks for the record.

This budget for 2008 is a very important one. We have three very important stories that run throughout this budget. The first one is that this is the year which we have been preparing for, for 5 or 6 years. This is the year that the large rental assistance contracts start coming due, the long-term contracts that have been building up over the last couple of years. I am happy to say that we are funding every single contract for renewal, and every single one of those will be funded at their full levels.

The second big story in this budget is that we have pressures because of a flat discretionary budget environment that is forcing us to look at how we can provide the most housing.

It happens that we have multiple programs that can accomplish the same things. Where we have three or four programs that can do the same thing, we want to concentrate our resources where they can produce the most housing, and produce the most housing across the income spectrum, from very low-income to low-income, and throughout the different types of rural America. We have high-cost areas, low-cost areas, etc.

The third thing that you will see in our budget is that we have a number of new programs that are addressing the problems for the future.

A lot of our housing programs were built in the 1930's and 1940's, and address problems that are secondary to other problems in housing people in America today. And I think that this is really an exciting area where we can house a lot more people for less commitment of Federal resources.

Finally, on the multi-family legislation, I will say that the Administration is pleased to be supporting the multi-family revitalization legislation that we have proposed last year, and look forward to working with this committee and with Congress to build a bill that can address the needs of our multi-family portfolio.

With that, I look forward to discussing these issues with you. Thank you.

[The prepared statement of Mr. Davis can be found on page 64 of the appendix.]

Chairwoman WATERS. Thank you very much. At this time, I would like to open this panel to questions, and I will give to myself 5 minutes.

My first question is concerning the section 502 program, which is the USDA's main housing loan program, and is designed to help low-income persons purchase homes in rural areas of the country. Funds also can be used to build, repair, or renovate a home, including providing water and sewage facilities. The program provides fixed interest mortgage financing to low-income families who are unable to obtain credit in the private market.

As you know, there is a shortage of affordable housing for homeownership opportunities in rural areas, and minorities are less likely to own their homes than others.

Why did the Administration propose to eliminate the section 502 direct loan program, while embracing the goal of increased homeownership opportunities for all Americans? Does the section 502 direct loan program provide homeownership opportunities for persons living in rural America? And what is the demographic make-up of the loan pool?

I have some more questions about 502, but let me—who would like to take that?

Mr. DAVIS. I would like to—

Chairwoman WATERS. Okay, Mr. Davis.

Mr. DAVIS.—take that. And this was the hardest decision that we had to make in our budget—how to address the pressure that is being put on the single family programs by the multi-family programs.

And, I would go back to the fact that we faced what we have been working toward and building toward for a number of years; that is an increase in our rental assistance needs. This is USDA's version of section 8.

We faced an increase of $230 million above the previous year. That $230 million extra put pressure on programs throughout the Department of Agriculture, and forced us to look at our programs and say, "Are there other ways we could help the same people do the same things, accomplish the same objectives, but allow those resources to be used to protect our most vulnerable?" And that is our number one—

Chairwoman WATERS. If I may, for a moment?

Mr. DAVIS. Yes.

Chairwoman WATERS. We understand the money constraints. But when you have this kind of a need, why don't you ask for more money, and just talk about the crisis that available, that is going on in rural America? Why didn't you ask for an increase?

Mr. DAVIS. Our first priority was meeting the needs of those rental—

Chairwoman WATERS. I know what your priorities are, but—

Mr. DAVIS. And—

Chairwoman WATERS.—in the supplemental, you have lots of Agriculture money for a lot of other things. Why didn't you get some of that money?

Mr. DAVIS. Well—

Chairwoman WATERS. Money for rural housing.

Mr. DAVIS. Well, we have limited resources for discretionary programs. And if we can accomplish the same thing with the programs—and let me address how we're doing that with 502.

Section 502 has two ways of providing mortgages for home buyers, direct loans and guaranteed loans.

Chairwoman WATERS. What about the loan guarantee program?

Mr. DAVIS. Yes. The guaranteed loan program has been a success. And, by the way, we really support both programs. We believe that the guaranteed program is at a point where it can start shouldering more of the burden for very low-income borrowers, and we would like to grow that area.

A lot of it comes down to numbers. I know it's dry, to talk about numbers. But in the guaranteed program, we can make 40 loans for every 1 loan we make in the direct program. It is a matter of where can we provide the most funding for rural America, where can we provide the most funding for new home buyers.

Already these programs overlap quite a bit. We see that about half of the direct program is going to people making more than very low-incomes, and a large portion of the guaranteed programs is going to people making very low-incomes and low-incomes, so there is a lot of overlap.

What we have proposed in the budget is to pick up the very low-income in the guaranteed program. We increased the guaranteed program by $1.7 billion in mortgages. And to the extent we wanted to pick up the lower—the very lowest incomes that had been done in the direct program, we are proposing a subsidized guaranteed loan program. It would essentially use the guaranteed platform, which has much better leverage and more efficiency, and provide the subsidies necessary to pick up the very low-incomes that were in the direct program.

Chairwoman WATERS. Thank you very much. Mr. Davis? Five minutes.

Mr. DAVIS OF KENTUCKY. Thank you, Madam Chairwoman. One of the things I think that's very important to note is, oftentimes, urban poverty housing issues are much easier to see, because it's massed together. We drive through the parts of Appalachia, eastern Kentucky, parts of my district, where organizations like Frontier Housing do such an incredibly good job with both taxpayer dollars and private funds, that poverty is very rarely seen by the folks traveling through the areas.

And I would like to take a few minutes to talk with you both about some issues, first with Mr. Davis. You know, last year, we—Chairman Frank and I—introduced H.R. 5039. And one of the things I would like you to do is describe for the committee for a moment how the courts have ruled on restrictive 515 pre-payment provisions, and the current status.

And corollary with that, would you make any changes to ELIHPA, the ELIHPA repeal section of H.R. 5039, to ensure it alleviated this problem?

Mr. DAVIS. Okay. I have to be careful about what I say about ongoing litigation. We have experienced two set-backs in the courts over the last 2 years—the Franconia decision and the Kimberly decision—which made it clear that the owners have an argument to make, regarding their ability to pre-pay the loan.

Our concern, at this point, is protecting the tenants. And that is why the legislation provides for vouchers to protect the tenants. I am pleased to say that program is up and running, and for the last year, we have been protecting every tenant facing a pre-payment in their property.

The revitalization legislation that you have proposed also protects the properties by offering a rehabilitation deal for the owners to stay in the program for another 20 years, and preserve the—

Mr. DAVIS OF KENTUCKY. Would you—just for the record, would you say where that $2 billion in litigation cost comes from?

Mr. DAVIS. Well, the precedent set by the early court cases, the Franconia case, established a certain dollar figure for the losses. If we can shorten the formula, instead of paying for the next 50 years' worth of damages, essentially cut the damages off now, that reduces the cost of any damages to the owners and allows them to get on with life. It's simply a matter of chopping off a big part of the formula.

Mr. DAVIS OF KENTUCKY. I think both the chairman and I could find many places to invest $2 billion that wasn't being paid to trial lawyers in affordable housing.

You know, just speaking of the vouchers—I know this was an issue that we all talked on both sides of the aisle, working through some solutions last year, but how was the prototype program worked out, with the initial funding that you were able to secure?

Mr. DAVIS. This has been just an absolute success story. I would like to thank the committee, and Congressman Frank, who had worked with the appropriators, to make sure that we could test this with demo programs in a small way in the fiscal year 2007 budget in two areas: the vouchers and the rehabilitations.

On the voucher side, we were able to create a voucher program. Within 3 months of the signing of the appropriations bill, we handed out the first vouchers to a property in Georgia. We have now given out over 1,000 vouchers over the past year, protecting tenants in 35 States whose properties have been pre-paid and taken out of the program. That is an unqualified success. We are very proud of it, and we thank you for your help on that.

The second thing—and it's great to be able to say that a bill is doing things even before it's been passed—the restructuring we tried in a demo program also. We went out with a notice of funds availability last April for 100 properties. We received 4,000 properties' applications. It's a very popular program for the tenants, who look forward to 20 years of stability, and knowing that their properties are going to be rehabilitated.

Because we had so many properties, we were able to, essentially, run an auction, and say, "We will take properties who are putting up the most outside cash." So we were able to draw cash into the properties, thousands of dollars a unit, to rehabilitate these properties. It's been a great success, all the way around. We look forward to expanding that with a permanent authorizing bill.

Mr. DAVIS OF KENTUCKY. I am sure we will discuss that more. Just one quick question for Secretary Patenaude. Regarding the repeated Administration budget proposals, basically HUD wants to consolidate the program into CDBG.

My one concern of HUD's dominance with urban programs, I want to make sure that rural programs don't get left behind, or take a back seat. And I was wondering how you were going to take into account these differences for our rural communities.

Ms. PATENAUDE. Thank you, Congressman Davis. Madam Chairwoman, if could just ask your permission to submit my written testimony for the committee's record?

Chairwoman WATERS. Absolutely.

Ms. PATENAUDE. Thank you.

Chairwoman WATERS. Without objection.

Ms. PATENAUDE. Congressman Davis, the CDBG program, as you know, funds entitlements in the State program, and a significant amount of CDBG dollars that are allocated to the States are spent in rural communities. We feel that is the most effective way to reach those in the rural communities.

The home program and the SHOP program also work towards housing and economic development in those communities.

Mr. DAVIS OF KENTUCKY. Okay, thank you. I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you very much. Mr. Cleaver, for 5 minutes.

Mr. CLEAVER. Thank you, Madam Chairwoman. I appreciate this committee hearing.

I would like to try to get some clarification, and I also realize that, you know, you may have some reluctance to want to do this, and so I don't want to—I mean, I would like to get an answer, but

I would understand if you would say, “I would prefer not to answer that.”

The RH budget has been reduced by almost $200 million. That’s a one-third cut in the entire RH budget over the last 6 years. And my concern is that the cuts end up doing more damage to the very poor, because of the direct loan programs. And is there a strategy at play in the Department that I’m just unable to see, or that I need some clarity on, that would explain how we can do this, make these cuts, and it ends up hurting the least of these?

Mr. DAVIS. I thank you for your concern, and I, too, wish there was enough discretionary money to handle all of our problems in rural America. I have visited 45 States in the last 2 years. I see what the problems are in rural America, and I would like to help.

And to that end, in an era where we have limited money, I would like to see the most housing and the most families helped, per given dollar.

I would say one thing, however, that our budget is not proposing a cut. What the difference is, that I believe you were referring to, is the difference between the actual spending in 2007, and the budget for—

Mr. CLEAVER. Yes.

Mr. DAVIS. The President’s budget that I have to work with is actually increasing from 2007 to 2008 by a small amount. It is—

Mr. CLEAVER. Well, let me—can I—

Mr. DAVIS. It’s a matter of actual versus budget. I’m sorry, go ahead.

Mr. CLEAVER. I’m trying to see this increase you’re talking about. And I have it here, and I’m trying to—I don’t see the increase. I mean, what—

Mr. DAVIS. The—

Mr. CLEAVER. Let me—here is what I see. I see that the program that was designed to save the poorest of our citizens in the rural areas, the direct loan program being cut, and the program designed to help moderate-income rural people, which would be the guaranteed loan program, increases. So, the poor get less, and the moderate-income rural residents get more.

Mr. DAVIS. Okay—

Mr. CLEAVER. And then, I—so you’re saying that there is no cut, but that you’re actually getting more money on—

Mr. DAVIS. I was just making the point that, from budget to budget, the money that I have to work with is not being cut by $200 million.

But I do want to say that there is an increase in the rental assistance program that puts pressure on everything else. Rental assistance helps the poorest of the poor. Our rental assistance residents make an average of $8,000 a year. They are 60 percent elderly, 30 percent severely disabled. That’s our very high-needs population. And the increase that we are absorbing this year covers 63,000 families. This would fill RFK Stadium almost twice, when you add the children and others. This is our high-needs population and that’s who we were focusing on.

To keep helping the same number of families in the single family programs, we had to get more efficient with the dollars that we were given. And, we are looking to pick up more of the very low-income borrowing in our guaranteed program, teaching the private sector lenders to make lower income loans.

Mr. CLEAVER. So, you are satisfied that the request was sufficient, the budget request was sufficient?

Mr. DAVIS. Well, we stand by our budget, but our budget is based on the overall availability of funds in the government.

Mr. CLEAVER. I know. Okay. The relevant word is "sufficient." Was the request sufficient—

Mr. DAVIS. All of our programs are discretionary, and we recognize that there is need in rural America, and we would like to meet as much of that need as possible with the resources we can, and that means doing more with what we have. That's why we are focusing more on our most efficient programs.

Mr. CLEAVER. Okay. Thank you, Madam Chairwoman.

Chairwoman WATERS. Thank you very much. Mr. Neugebauer?

Mr. NEUGEBAUER. Thank you, Madam Chairwoman. Ms. Patenaude, you were talking about the shift from—to the CDBG program. And in recent years we have been able to have some very successful programs in the urban areas using Community Development Block Grant money.

But can you point to where you have done this in the rural areas, and how much money actually is getting to our rural communities? Because in my district, I don't know that they're getting that money.

Ms. PATENAUDE. Thank you, Congressman. Approximately $1.1 billion is allocated to the State CDBG program. And I do have an example here in the State of Texas. If I may, Congressman, use your State as an example, $73 million was allocated to the State CDBG program, $53 million out of the $73 million was allocated to towns with less than 25,000 in population. And of that, $48 million was allocated to towns with less than 10,000 in population.

So, over the years, there has been over $110 billion allocated in CDBG, and the States determine where to allocate the dollars, so that's local decisionmaking.

Mr. NEUGEBAUER. And I am a great proponent of local decisionmaking. What I am hearing from some of those communities, though, is that, for example, a little suburb next to Fort Worth or Dallas or Houston may have a small population—5,000, 8,000, 10,000 people—but it may be right next to 3.4 million people, and the center, the distribution of some of those funds has tended to be more in smaller communities adjacent to major metropolitan areas.

Would you have any information for me, to give me a breakdown of, for example, counties in my district that—and how much money, the CDBG money, that they have actually received?

Ms. PATENAUDE. Yes. May I ask your permission to submit that to you in writing?

Mr. NEUGEBAUER. Absolutely.

Ms. PATENAUDE. We do have that information.

Mr. NEUGEBAUER. That would be good, because I think that is—I mean, we hear that, and that is a very impressive statistic, out of $73 million, you know, 53 million went to rural areas, but, you know, sometimes it's—definitions of what's rural are different, particularly when these small communities that are surrounding these major metropolitan areas.

And so, in those areas, quite honestly, while I certainly don't want to diminish their need, are important. But I'm not hearing that the money is, you know, getting out into a more evenly distributed basis. So I would like to see that.

Mr. Davis, you're going to—I understand the Administration is proposing this subsidized loan guarantee hybrid product that will kind of just strike a balance between direct and guaranteed section 502 loans. When should we see some language on how we can help you accomplish that provision?

Mr. DAVIS. We will have a proposal up within a very few weeks here, although I will say it's fairly simple. We just need authority to add subsidies to our guaranteed loan program.

There are basically two ways we can do that. We can either buy down the interest rate, which we already did in a demonstration program in the 1990's, so we've been through this, and know what the issues are, or we can buy down the principal amount, and that has a different dynamic in that we can actually help different types of borrowers in high-cost areas.

One of the shortcomings of the 502 direct program is that it doesn't work well in high-cost areas, such as California, or near metropolitan areas. We would like to be able to experiment with guaranteed structures that would be more useful in those types of areas.

Don't get me wrong, we love the 502 direct program, but we believe that we can produce a better version, and we would like to work with the committee on understanding what the issues are, and how we can do that.

Mr. NEUGEBAUER. Would that, the hybrid products, be an option? Or how would you determine—if you're going to make it a program that fits, you know—and one thing we know, the Federal Government cannot make a program that fits all. So, how do you build the flexibility into that?

Mr. DAVIS. Well, that's a very good question, because, actually, we have that same issue right now. When somebody walks into one of our offices and says, "I would like a home loan," we show them the direct loans and the guaranteed loans.

About a quarter of the people who start out going down the direct path end up going into the guaranteed loan program. They realize there may be advantages or disadvantages—for one thing, the direct program has a recapture provision. When they sell the house, we take up to half of the equity to repay the subsidies. And the borrowers will say, "Well, no, I would maybe go for this." There is a shorter line with a guaranteed program, a private sector lender can move things very quickly, whereas you may have to wait for funds in the direct program.

There are all kinds of decisions that are being made right now between the two programs. What we would like is to let the potential home buyer make their decision about what is the best structure for them, and we believe that will lead to market forces creating more efficiencies and producing more housing for the same amount of money.

Mr. NEUGEBAUER. Thank you. My time is expired.

Chairwoman WATERS. Thank you. Mr. Hinojosa?

Mr. HINOJOSA. Mr. Green.

Chairwoman WATERS. Oh, I'm sorry, Mr. Green.

Mr. GREEN. Thank you, Madam Chairwoman, and I thank you and the ranking member for hosting these most important hearings.

Mr. Davis, let's start with an indication that 19 percent of all rural children are poor. Is this a factoid?

Mr. DAVIS. I'm not aware of the exact statistic.

Mr. GREEN. Okay. That's what my intelligence reveals. And given that we now have CDBG monies being used by cities, and cities are saying they're not getting enough, and we are now going to eliminate certain rural programs and continue to have the cities compete for the CDBG dollars, as well as the rural areas, are we expanding the amount of money that will go into CDBG?

Ms. PATENAUDE. Thank you, Congressman Green. In our fiscal year 2008 budget, there is a reduction in the CDBG program. And, historically, 70 percent of the dollars go to the entitlements, 30 percent to the States.

Mr. GREEN. So, if we are cutting back on CDBG, eliminating programs in rural areas, it is fair to conclude that rural and urban areas will be competing for less money.

Ms. PATENAUDE. The fiscal year 2008 budget also includes the reform package, and we are hopeful that, by targeting resources—

Mr. GREEN. Sometimes, when people finish, I don't know whether they have said yes or no. I don't mean to be disruptive and interruptive, but can you say yes or no?

Ms. PATENAUDE. Fewer dollars are being allocated, or fewer—

Mr. GREEN. Am I to take that as a yes?

Ms. PATENAUDE. Fewer dollars for the CDBG program would—

Mr. GREEN. Am I to take that as a yes?

Ms. PATENAUDE. Yes.

Mr. GREEN. Okay. Now, if this is the case, Mr. Davis, if you had more money, could you use it in a judicious and prudent fashion?

Mr. DAVIS. Yes.

[Laughter]

Mr. GREEN. If we allocated more money, would it create a bad day for you, or would this make your day a little better?

Mr. DAVIS. We are advocates for rural America, and we will take all the money that we can get.

Mr. GREEN. And then, the final question along this line of questioning is why won't you ask for more money, given that you would use it in a judicious and prudent fashion, given that you are advocates for rural citizens, given that 19 percent of these citizens are children, and given that CDBG monies are now smaller, the amount is smaller, less, and you've got urban and rural areas competing for dollars when the coffer is diminishing. Why won't you ask for more money?

Mr. DAVIS. We are asking for as much money as we can get, given the budget constraints that we live under. We have many different programs that have needs. In Rural Development alone, we have water and sewer projects which benefit rural areas, we have electrification, and we have business development. We have over 40 programs in Rural Development, and we—

Mr. GREEN. Mr. Davis, one final comment on this, and then I will go on. Mr. Davis—

Mr. DAVIS OF KENTUCKY. Would the gentleman yield for just one second, just to clarify?

Mr. DAVIS. I—

Mr. GREEN. The gentleman will gladly yield to the ranking member, yes, sir.

Mr. DAVIS OF KENTUCKY. Perhaps a way to clarify the answer on this question would be—to Congressman Green, "Did you get less than what you originally asked for when the budget numbers were being worked out by those in the higher pay grades in rural development, or in the Ag Department?"

Mr. DAVIS. I think there might be a misapprehension about how the process works. While I may say—

Mr. DAVIS OF KENTUCKY. Normally I always ask for more than I get.

Mr. DAVIS. Yes, thank you.

Mr. DAVIS OF KENTUCKY. So I will give you a face-saving—

Mr. DAVIS. Well—

Mr. DAVIS OF KENTUCKY. I yield back.

Mr. DAVIS. If I could just describe the process—there is not only, "Here is what the need is in rural America," but, within the budget discussions, we are told, "Here is how much money we have. How can you"—

Mr. GREEN. Let me do this. I greatly appreciate the assistance, but I try to narrow my questions down to yes or no. So, would you answer "yes" or "no?" Did you ask for, at some point, more than you are currently calling to our attention? Could you give a yes or no answer to that. That would help me, immensely.

Mr. DAVIS. Yes, and I have to live within a process—

Mr. GREEN. So you did request—let me just focus on the yes part of it. The rest I can deal with at a later time. Your answer is yes, you did ask for more, but apparently, you did not receive the answer that you sought. Is this true?

Mr. DAVIS. Well, I think that pretty much—

Mr. GREEN. Sometimes I don't know whether people have said yes or no when they finish. Could you say yes or no, please, sir?

Mr. DAVIS. Could you repeat the question?

Mr. GREEN. Yes, sir. Did you, at some point, request more, receive less, and you're bringing the less to us today?

Mr. DAVIS. Yes, I did, with probably every other government agency, receive the same answer, which is, "We have a constraint to live within."

Mr. GREEN. I understand. And is it possible for us to become privy to the original request that you made, because it might help us to help you?

Mr. DAVIS. That's an internal discussion, and there were a number of—

Mr. GREEN. I yield back. Thank you, Madam Chairwoman.

Chairwoman WATERS. Thank you very much. Mr. Hinojosa?

Mr. HINOJOSA. Thank you, Madam Chairwoman. My first question is to Mr. Davis.

Russell, isn't the proposed budget a vast retreat from 57 years of commitment to housing the rural poor?

Mr. DAVIS. Not at all. We view this as a step forward from the way things have been going. The trend, which has been that programs designed for problems of the 1930's and 1940's have been getting less and less traction. And I would like to address that.

Our goal is to house more people. Our budget proposal in single family, for example, projects that we will be housing several thousand more people in 2008 than 2007, in spite of house price increases. We do that by using the budget dollars that we're given in the most efficient way possible.

But if you are a person trying to buy a home for the first time in America, the interest rate is less and less likely to be the barrier. The 502 direct program is an interest rate buy-down program, but it has little applicability to what we see as the real troubles, which are families who have credit troubles, health care payments, who have seasonal jobs and economic volatility in their local towns.

We are trying to develop a flexible single family loan program that can meet those needs, and that can teach the private sector to meet those needs, so that we aren't just doing a few very highly subsidized loans for a few lucky recipients. We want to change the culture of borrowing, and show the private sector that these can be good loans, and that these can be good borrowers.

We want to do tens of thousands more loans. We are not looking to retreat at all. We are very proud of our programs, sir.

Mr. HINOJOSA. I just can't seem to buy in to your long explanation, because you said you stand by your budget. You pointed out that not having—you pointed out that you didn't have as much discretionary money to help those low-income rural families. And as Congressman Green pointed out a moment ago, you all aren't coming up here fighting for increases in money. It seems like you just take the orders from somebody much higher than you, and just go and make all these cuts, including the CDBG, because the Administration has made such big, big percentage cuts on CDBG.

So, I have a very difficult time with both of the representatives of HUD who come speak to us not actually wanting to fight for an increase in appropriations.

Mr. DAVIS. I appreciate that. I will say that our concern is with the budget here, and a budget is an exercise in meeting and getting as much as you can out of limited resources. The enumeration of what the needs are in rural America is a different exercise, and we're very aware of the needs.

If I could just give you an example that I think is illuminating, we have whole States that are taking 20 to 30 times more applicants for single-family mortgages than we can make, and it's not funding, it's that we have 1 person who qualifies out of 30 people who apply. The problems that we are facing are not the problems the direct program was designed to address.

So, we are trying to develop a budget—and we think it can actually be done fairly efficiently—that meets those needs.

Mr. HINOJOSA. Well, let me just tell you. I have 90 communities in my 15th Congressional District down in Texas; at least 80 percent are rural communities.

And in going out there and listening to what was happening, they wanted me, as a Member of Congress, to explain to them how why all these cuts were being made, no help was being offered. And yet, we were making these $1.5 trillion tax cuts, which would benefit the richest in America. How could we explain that?

And the truth is, I blamed it on the Republican Administration, and rightfully so, because we do not have the amount of money that is necessary to help the housing needs of those out there in rural America.

I wish I could have a little bit more time, so I will ask this one quick question. I understand that many minority families served by section 502 come into the program through self-help housing. The budget proposes to cut self-help by 75 percent. So how does the Administration propose to increase homeownership, when self-help technical assistance grants are being cut?

Mr. DAVIS. I thank you for that. And I would like to say that the self-help program, section 523 technical assistance grants, and the loans that go with it, is one of our great success stories.

Over the last 5 years, we have taken a program that had fewer applicants than there was money, to where there are now more applicants—we have built an industry. The number of grantees has grown from—

Mr. HINOJOSA. My time has run out. But just know that you have fallen from the five-star program that you used to run to a program that barely has 1 star. Thank you. I yield back.

Chairwoman WATERS. Mr. Lincoln Davis?

Mr. DAVIS OF TENNESSEE. Madam Chairwoman, thanks very much for allowing me to participate in the hearing today. It's been a wonderful opportunity to serve on the Financial Services Committee. And when I notice the engagement that we have on issues that impact all Americans, and certainly rural America, I am pleased that I was allowed and asked to serve on this committee. It is good to be here today at this hearing, and I thank you for letting me participate.

I have had a very good life; it has been a wonderfully blessed life. I represent the fourth most rural congressional district in America, population-wise. I have the third highest number of blue collar workers, which means, generally, lower wage earners.

I went to college at Tennessee Tech, a university, one of the State colleges. It was close enough to home that I could either walk or hitchhike in 1962, and finish in 1966. I chose my degree—I really prepared myself to be an electrical engineer, because I really felt, when we first got electricity in our homes in the mid-1950's, that it was one of the most marvelous inventions of mankind, because lighting up the wick on a kerosene lamp was something that would light up the room, but not completely, and then we got electricity, where you just pulled the switch.

I realized that there was a great future in that, so I decided that I might want to become an engineer, and I studied the courses in high school to do that. But I changed my mind when I became involved in vocational agriculture with Future Farmers of America, and I majored in agriculture at Tennessee Tech. I wanted to be a solar scientist, and I served for a while as that.

But I noticed within USDA, there was a group called the Farmers Home Administration, and I saw in the mid-1960's the hurt in rural America, where I lived in Appalachia, and the Cumberland

Mountains, and I transferred from the soil conservation and went to work with Farmers Home, where I worked for several years.

When I moved to Pickett County, in Byrdstown, Tennessee, I had to literally work with the public health department to establish some type of a code dealing with how you would install a subsurface facility, other than a 50-gallon barrel and run it down the streams.

From my experience working with rural America, and serving rural America today, and from my experience with Farmers Home, to see, for the first time, a bathroom going into someone's home, and then to see a new home built—and one of those years that I was there, as county supervisor, where I appraised, as well as made loans, well over 100 loans in the county that had less than 4,000 population in the entire county.

So, I saw the positive benefits of the 502 interest credit, down to as low as 1 percent. And when you travel my district today, you can pick out those thousands of 24x40, 26x42 homes—that may still be occupied by a son or a daughter, or a grandson or a granddaughter—that were built in the mid-1960's through the early 1980's.

Then I saw a serious flip at USDA during the Clinton Administration, under the auspices of then-Vice President Gore, who did considerable downsizing.

Now, what I see in the area that I represent—and I'm not critical of modular housing, because I think that there is a place for housing with modular homes—but today, unfortunately, because of the lack in rural areas—and the banks will tell you this is not the case, but I know better—but due to the lack of funding in rural areas, the ability of a young couple today to be able to access affordable housing is almost non-existent in small counties in rural Appalachia, and in the district that I represent.

And as a result of that, we have denied them an opportunity that over 60 years ago we decided should be afforded to every American who lives in this country. If they want to achieve something in life, there is an option for you.

I notice here that this Administration has proposed zeroing the 515 program, which is multi-family housing; it provides housing for elderly and the handicapped, in multi-units all across this country in rural America. I notice that 502, the single family direct loan program, has been zeroed out. I just can't imagine anyone who is a champion for rural America, and who works with at least the parts of those agencies that meant so much to rural America, could sit there and say, "Mr. President," or, "Mr. Whomever, this just isn't right."

So, what my hope is, is that you and others will champion what I believe is a dire need in rural America for at least an avenue to access funding for that 24x40 homes that so many people have moved into. I can remember a young high school girl that I spoke to when I was—is my time up?

Chairwoman WATERS. Yes.

Mr. DAVIS OF TENNESSEE. I remember speaking to a high school, and talking to these young children about what was available for them in that county. And this young girl said, "You mean my mama doesn't get a house?" They lived in a small, substandard house, with what we would call tar paper on the outside of it.

And she had a great deal of pride, because she was academically inclined, and later went on to college. And I went through the process there. She brought her mom and dad in, and helped walk them through the process of getting a house.

For the first time in their life, they had a bathroom, running water, and were able to live out the rest of their lives in a good house. She, then, went on to college, and now has a a pretty prominent position in one of the major companies in Tennessee.

We helped a lot of people in those days. I am seeing now an Administration, and champions like you of this Agency—and I don't mean to be harsh—not fighting for those people. And it really bothers me.

Chairwoman WATERS. Mr. Davis, if you like, you may respond.

Mr. DAVIS. I would like to respond, both on the rental side and 502. I appreciate your history and experience, and I thank you.

We are really proud of that history. I wish we could go back to the day when we could build 1,000 section 515 properties in a year. Multi-family was a real production machine then. But it was also before the 1986 Tax Act, when much of that housing benefitted from tax benefits we don't have today. That is outside money gone. It was before the Credit Reform Act of 1992.

If you look at the big drops in production, it came with those two Acts, because they effectively put the cost on budget. And right now, it costs us $100,000 a unit to build a 515 property. I can rehab 5 units at $20,000 each, for the same amount of money. Or, we could house 25 people with vouchers. We have to make choices about where we put our money, and how we help the most families. And so, on the rental side, we believe that we have—

Mr. DAVIS OF TENNESSEE. And I hate to interrupt you, but you are saying if you're zeroing out 515, you don't have the 25 per unit that you can rehab, if you're zeroing out in the—

Mr. DAVIS. We have moved the money down to section 538, and to our revitalization programs and elsewhere, the idea being that 515 had simply become too expensive—

Mr. DAVIS OF TENNESSEE. Then—I'm sorry. Are you increasing 538 by the $100 million, or are you just—

Mr. DAVIS. We're increasing 538 by more than the number of units than we would have increased in 515, far more.

Chairwoman WATERS. Thank you very much. First of all, I need unanimous consent to have Mr. Lincoln Davis's participation in the committee today. Without objection, it is so ordered.

[Laughter]

Chairwoman WATERS. And, also, unanimous consent to extend to Mr. Davis, on behalf of our ranking member, an additional 5 minutes, relative to the CDBG program.

Mr. DAVIS OF KENTUCKY. I thank you, Chairwoman Waters. Just one question of clarification to Secretary Patenaude. I noted Mr. Davis and I have had discussions about best practices. I have had these discussions with Secretary Jackson, as well, at various times.

And consolidating and streamlining processes to get a better return on investments and reduce overhead is a good thing to do, on the one hand. But the question that I have, and I think some other members on the panel have, as well, regarding the segmenting of those monies, if money were to be moved, for example, out of the program which is specifically earmarked, or designated, to meet rural housing needs, and were moved into CDBG, would that money be set aside, segmented, or earmarked specifically to be only used for granting in rural housing programs, or would it be—just go into the pool, and then the rural communities have to compete with the larger communities?

The reason I'm asking is we have a rather gross difference between the amount of CDBG money that goes into our rural communities versus our urban areas. And I am a big CDBG fan, in terms of how it has helped our communities, but definitely there is a disparity of some magnitude.

Ms. PATENAUDE. Thank you, Congressman. In the CDBG program, the dollars are allocated based on a formula. And we are requesting that Congress consider a formula revision with our CDBG reform package.

The Administration does not support earmarks, and the funding for rural housing—

Mr. DAVIS OF KENTUCKY. Just as a point of clarification, I am not speaking of a legislative appropriation as an earmark—that was probably a poor choice of words, in the current political climate—but money that would only be used for the task at hand here today. Go ahead.

Ms. PATENAUDE. If the appropriation was increased, it would still have to be allocated, based on the formula.

Chairwoman WATERS. That's not the question.

Mr. DAVIS OF KENTUCKY. Yes, the question is would that—if that money were brought into CDBG, would that be protected, so that it could only be used for rural housing?

Ms. PATENAUDE. If I may consult with the Director of CDBG?

Congressman, if I could just re-state, maybe I wasn't clear. The CDBG program, all the dollars are allocated based on a formula. So if the money—if CDBG was increased by the $16.8 million, it would have to go into the pot, and then it would be distributed, based on the formula. And it's a 70/30 split, 70 percent goes to entitlement communities, 30 percent to States.

So, without language in the appropriation, it would not, perhaps—

Mr. DAVIS OF KENTUCKY. So, for example, if it came—let's take Kentucky, for example, and some of our areas, and let's say that there is a change in administration at the—both at the Federal and at the State level, and perhaps there is more of an urban-centered focus than a rural focus on balancing that.

So, hypothetically, if it went in there, it could be allocated to whatever—it wouldn't necessarily maintain that same ration on the funding, correct?

Ms. PATENAUDE. The CDBG formula reform that we're proposing, it still is about a 70/30 split, and the States can determine how to spend their State allocation.

Mr. DAVIS OF KENTUCKY. Okay. And of that 70/30, I guess what I am coming back to is—maybe I should steal a line from Mr. Green for a moment, just for clarification on a yes or a no.

I will yield to the gentleman, if he would like to take over this line of questioning for me, since he did it with much more eloquence than I am, at the moment.

Perhaps, I guess, the question again is you say it's allocated by formula. Well, we all, not working in the Agency, I guess the formula of yes or no would be most appreciated.

If you could just simply say that the money is, in fact, protected, that if we put—another organization's rural housing money were to be brought over into CDBG, and dropped in there, that that, in fact, could be protected, and would go only to rural housing, or it just goes for all of the competitors for those grants.

Ms. PATENAUDE. The short answer is no. But if there was—

Mr. DAVIS OF KENTUCKY. Thank you.

Ms. PATENAUDE.—specific language in the appropriations, that would be a possibility. But we would consider that an earmark.

Mr. DAVIS OF KENTUCKY. I yield to the chairwoman.

Chairwoman WATERS. Thank you very much. I think what the gentleman is saying is that if, in fact, funding for rural housing is thrown into—from HUD—is thrown into CDBG, that they would have to compete with the cities and everybody else, to try and get that money directed to housing, for rural housing.

And that's what he was trying to ask you, and I think you attempted to answer that by saying unless there was some kind of special language, that that, perhaps, could not happen.

But let me just say this, as I thank you for having been here. One of the things that we're going to say in this message that needs to go back is that urban and rural Members of Congress are going to team up. We, in the urban areas, understand what a housing crisis is, and many of the rural areas in America are worse off than some of the urban areas.

We're going to team up, and we're going to get our CDBG money. We don't intend for it to be cut. And we don't intend for the rural housing to have to compete for their money in CDBG.

So, we really do thank you for being here today, and I think it helps for me to give this message, because everyone should be alerted to that. We appreciate whatever you can do, as advocates for the poor, for housing, for rural housing. But we are determined that we are going to do what's right, and what's fair. Thank you for being here today.

Ms. PATENAUDE. Thank you.

Chairwoman WATERS. Thank you. Okay, let me just say that the Chair notes that some members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days, for members to submit written questions to these witnesses, and to place their responses in the record.

Thank you, and we will call on our second panel. Okay, let's see. Mr. Davis, you have someone you would like to introduce on the second panel? Which Davis, Mr. Lincoln Davis? Mr. Davis? Thank you. Would you like to introduce one of our panelists?

Mr. DAVIS OF KENTUCKY. Yes, Madam Chairwoman.

Chairwoman WATERS. Okay.

Mr. DAVIS OF KENTUCKY. I just wanted to take one moment. It's always great when we can have somebody from back home who is in town to testify, especially when it's for a good cause, and a good reason.

Frontier Housing is one of the organizations in the United States that makes a great difference in providing affordable housing, creative public/private partnerships, a great stewardship of money, and I think, most of all, at the end of the day, does two things that's both compassionate and conservative. It gives people opportunity and hope to have a dramatic change in their quality of life, while at the same time provides them a connection into a community, and to move, in many cases, folks into value-adding positions, becoming taxpayers, and really advancing our interests.

And I just want to recognize Dr. Tom Carew, who is the director of design and community at Frontier Housing, and we are grateful to have you with us today.

Chairwoman WATERS. Thank you very much. Also serving on the panel today we have: Mr. Gideon Anders, executive director, National Housing Law Project; Mr. Moises Loza, executive director, Housing Assistance Council; Mr. Robert Rice, Jr., Council for Affordable and Rural Housing; and the Honorable Peter Carey, executive director, Self-Help Enterprises.

I understand, Mr. Carey, you have to leave pretty soon, so we are going to call on you first. And let me just say that, without objection, your written statements will be made a part of the record. You will each be recognized for a 5-minute summary of your testimony.

With that, I will call on Mr. Peter Carey.

STATEMENT OF PETER CAREY, EXECUTIVE DIRECTOR OF SELF-HELP ENTERPRISES, ON BEHALF OF THE NATIONAL RURAL HOUSING COALITION

Mr. CAREY. Thank you, Chairwoman Waters, and members of the committee. It is an honor to be here. My name is Peter Carey, and I am executive director of Self-Help Enterprises. I am here today as a board member and past president of the National Rural Housing Coalition, NRHC, a national membership organization that advocates for Federal policies which improve housing in rural America. Thank you for this opportunity.

As a long-time member of NRHC, Self-Help Enterprises is a nonprofit housing and community development organization located in California's San Joaquin Valley. Home to as many as half of California's farm workers, the valley is characterized by the same problems facing much of rural America: low incomes; high poverty rates; substandard housing; and unsafe drinking water.

In the past 42 years, Self-Help Enterprises has built thousands of affordable homes for farm workers and other low-income households, and brought safe drinking water to 10,000 households. These achievements are mirrored in the work of NRHC members across the country in rural America.

While these efforts tap local initiative and resources, in the majority of cases it's the U.S. Department of Agriculture which supplies the critically needed and locally responsive funding that makes these achievements possible.

America's rural communities continue to suffer with elevated poverty rates and substandard housing. Rural households are poor, on average, when compared to urban households, and they pay more of their income for housing. Congress and the Administration have already made substantial cuts in rural development spending, reducing Federal spending for rural housing and community development programs by more than 20 percent in the last 6 years.

Now, this Administration's fiscal year 2008 budget takes square aim at the programs that are so critical to the future of rural America. It proposes to replace the current effective mix of housing loans, grants, and related assistance with guaranteed loans, which do not hit the same target. This configuration will devastate our efforts, and those of other organizations across the country to improve rural housing.

The President's budget proposes the elimination of section 515, the fourth consecutive year that USDA has not requested funds. NRHC supports section 515 at a level of at least $100 million.

The budget slashes farm labor housing loans and grants authorized under sections 514 and 516, the only two Federal housing programs directed towards farm workers. The NRHC supports funding each of these two, 514 and 516, for at least $50 million.

The fiscal year 2008 budget eliminates the section 502 direct program in favor of guaranteed loans for homeownership. There is substantial evidence that this approach will not provide the assistance for low and very low-income homeowners, who are now helped by the direct program. The average annual income of borrowers under 502 direct is $18,500. The average annual income of guaranteed loans is $40,000. NRHC proposes funding for section 502 at $1.2 billion.

One of the most successful rural housing programs is mutual self-help housing program, which combines the section 502 direct with the section 503—523 technical assistance funding. This proposal in the budget proposes a reduction of 70 percent in the self-help housing program. Self-help housing makes homes affordable, by enabling homeowners to join together, pool their labor, and build homes for themselves and their neighbors, together.

The grant funds are used to assist in applying for 502 direct loans, provide pre-purchase homeownership education, and most importantly, to supervise the construction of homes. The average number of homes built in recent years is approximately 1,500 a year. Driven by a desire for homeownership, these families perform 65 percent of the construction labor, working evenings and weekends, through winter cold and summer heat. These home builders know what it takes to make a home in a way that no home buyer ever can, and they understand what sweat equity means.

And it works, despite the fact that self-help families have lower incomes than others receiving section 502 loans. Default and delinquency rates for these families are lower. And some 68 percent of the participants in self-help housing are minority households. This success in serving minority households led USDA to commit to a doubling of self-help housing as one of the elements of its five-star commitment to increasing homeownership. Paradoxically, this budget proposes a 70 percent reduction, a strange reaction to success.

The proven success of the self-help model, and the momentum built in recent years, made it difficult for RHS to keep track of the funding. Only $34 million is available to refund grants expiring in 2007, and there is a need for $60 million. NRHC is supporting a funding level of $60 million for fiscal year 2008.

We acknowledge the leadership role that Congressman Hinojosa, Chairwoman Waters, Chairman Frank, and other in the Financial Services Committee have taken in opposing these budget cuts. These programs have a proven track record of success.

I would like to mention that we also support two bills introduced by Congressman Hinojosa: H.R. 1982, the Rural Housing Economic Development Improvement Act of 2007; and H.R. 1980, the Housing Assistance Council Act of 2007. These represent significant and important resources to rural America, and I appreciate his support.

Thank you for the opportunity to be here today.

[The prepared statement of Mr. Carey can be found on page 56 of the appendix.]

Chairwoman WATERS. Thank you very much for your testimony.

Next, I am going to call on Mr. Gideon Anders, from the National Housing Law Project.

STATEMENT OF GIDEON ANDERS, EXECUTIVE DIRECTOR, NATIONAL HOUSING LAW PROJECT

Mr. ANDERS. Thank you, Chairwoman Waters, and members of the committee, for inviting me to testify. I am Gideon Anders, executive director of the National Housing Law Project, the 39-year-old nonprofit corporation that seeks to advance housing justice for low-income persons by, among other things, preserving and increasing the supply of decent and affordable housing.

We testified before this committee last year on H.R. 5039, and we appreciate the opportunity to testify again. Our testimony today focuses primarily on the preservation of rural housing service, rural rental housing stock, and the protection of residents of that housing. Our views and comments are shaped by the fact that the section 515 housing stock effectively serves the neediest rural households, including seniors, persons with disabilities, and persons of color.

Frequently, the section 515 stock is the only available affordable rental housing that is decent, safe, and sanitary. As we testified last year, the National Housing Law Project strenuously opposes the Administration's efforts to lift the ELIHPA pre-payment restrictions, because it would allow the conversion of section 515 housing units in communities that have the greatest need for such housing, and will cause a displacement of at least 73,000 persons, and will have a severe and adverse impact on minority housing opportunities.

Rural communities in which real estate prices and rents have escalated simply do not have other decent, safe, and affordable housing. California, my home State, and yours, Congresswoman Waters, is a good example. We and other housing advocates in the State expect that, typically, or that, practically, the entire 18,000 units of section 515 housing stock in the State will be pre-paid, if the prepayment restrictions are lifted.

While the impact of lifting the pre-payment restrictions may be the greatest in California, we believe that other States, such as

North Carolina, Florida, and Georgia, to name a few, will also be adversely impacted.

If I may digress for a minute, let me just point out—and this is to point out that not a single court in the 20 years that the legislation has been in effect, not a single court, has held the ELIHPA pre-payment restrictions unconstitutional. In fact, the case that Russ Davis earlier mentioned, *Kimberly* v. *the United States,* has, in fact, been restricted by the ninth circuit last November in a case that we are involved with out of Oregon.

So, the calamities that are being threatened are really not, in fact, turning out to be true. Moreover, what is very important, the Administration is about to settle a large damage case brought by the owners of the RHS 515 housing stock. What the Administration is not telling you is that, in fact, by settling this litigation, it is also preserving the units. Every owner who is getting damages out of that litigation is committed to remaining in the program for an additional 20 years. So the damages are, in fact, preserving those units, and it is not simply money that is going down the drain to pay the owners for the preservation.

Let me go on for a minute to deal with the voucher program. The demonstration voucher program, in some respects, has not worked. And the way the Administration is, in fact, promoting the program, it is because it has been cutting the cost of the voucher program at every opportunity that it can. It is not operating like the HUD-enhanced voucher program, the vouchers are not remaining in the communities in which the residents—in which the housing is being pre-paid.

The residents of the 515 stock are not being given a clear right to remain in their homes with vouchers, and there are other shortcomings in the voucher programs. They should be fully portable; they are not currently fully portable. The voucher must be adjusted annually, to accommodate rent and utility cost increases imposed by utilities companies, and the residents should be eligible for vouchers no later than the date that their landlord refuses incentives to remain in the program, and at least 90 days before the scheduled pre-payment date.

We also ask that the committee consider including in the preservation legislation something to deal with RHS troubled projects. The Agency currently has no mechanism for dealing with troubled projects, other than foreclosing on them, and seeing that the residents are displaced. They are not even eligible for vouchers.

We support a strong program for revitalization and restructuring, and believe that it is critical to ensuring the section 515 housing stock will continue to serve the needs of long-term housing and communities in the future.

However, we are concerned whether the Agency has a capacity to run a restructuring program, whether it has the staffing. Moreover, we are concerned that, in many respects, the proposal of the restructuring and the revitalization program are simply too expensive. There are ways in which the costs of that program can and should be reduced. Similarly, we urge the maintenance of the 30 percent of income requirement with respect to rents in the projects.

If I may conclude, I want to simply endorse Congressman Hinojosa's bill—H.R. 1980—which supports the funding for the

Housing Assistance Council, and I also endorse the continued funding of the Rural Housing Economic Development Program.

And I think, if I may later on discuss the RHS budget, frankly, I think in many respect it is a disaster. It does not take into consideration a lot of historical programs that have been in effect, in which this Administration is trying to replicate, even though they have not worked in the past.

[The prepared statement of Mr. Anders can be found on page 32 of the appendix.]

Chairwoman WATERS. Thank you very much. I am going to call on the other members of this panel. There are three votes that are being called on the House Floor. If you can summarize your testimony, we may have time for a question or so, if you can do it quickly. And that way, we won't have to ask the members to come back, because 9 times out of 10, they won't get back here after those votes.

So, let me quickly go to Mr. Tom Carew.

STATEMENT OF THOMAS A. CAREW, DIRECTOR OF DESIGN AND COMMUNITY, FRONTIER HOUSING, INC.

Mr. CAREW. Madam Chairwoman, Congressman Davis, and members of the committee, thank you for this opportunity.

Quickly, since we are compressed for time here, I want to talk specifically about the 502 direct program. I have included, as part of my testimony, some charts. There is an excel spreadsheet in there, which clearly indicates that, for the area that I work, in northeastern Kentucky—9 counties, 3 of those counties in the top 100 poorest counties in America, there is no way that the guaranteed program can work.

A family at 50 percent of median in those counties can afford $476 a month for housing. In a guaranteed loan, it's going to cost them $823 a month, so we're not quite a $400 difference. We really need the direct program. It works. You can see, from another chart in my testimony, listing the amount of USDA 502 money that has been spent in 9 counties of my service area, how important this program is. You're going to take the backbone away of what it is we do, and who it is we serve, without 502.

I also want to support the HAC bill. HAC is crucial to who we are, and where we've come from. They have been a key player, as one of the national intermediaries, and I hope that you will consider funding the HAC bill.

On the 515 program, there are many provisions of the bill that Mr. Davis introduced last year, with Congressman Frank, that have a positive approach to restructuring 515. We certainly support that side of it. We want to make sure that we protect the tenants, and I think that those are the key points.

[The prepared statement of Mr. Carew can be found on page 44 of the appendix.]

Chairwoman WATERS. Thank you so very much for summarizing your testimony.

Mr. Loza.

STATEMENT OF MOISES LOZA, EXECUTIVE DIRECTOR, HOUSING ASSISTANCE COUNCIL

Mr. LOZA. Thank you, Madam Chairwoman. We are very happy to appear before this committee, and we thank you for the opportunity. My name is Moises Loza, and I am the executive director of the Housing Assistance Council, a national nonprofit organization whose mission is to improve housing conditions for low-income rural Americans.

We were established over 35 years ago to provide financing, information, and technical services to non-profit, public, local governments, and other providers of rural, low-income housing.

Let me begin with a brief overview of the condition of housing in rural America. In some respects, the quality and condition of rural housing has improved greatly over the last few decades. Substandard housing rates have declined dramatically since the 1970's, and mortgage credit is more readily available.

Despite these improvements, other housing problems persist. There is a growing affordability concern, particularly among rural renters. Rural areas are becoming increasingly diverse, with immigration and other population shifts, causing us to look at how we do rural development differently.

Currently, less than 16 percent of the rural population are minority; however, 37 percent of the cost burdened and substandard housing are occupied by minorities. There are several rural housing programs that tackle these issues and conditions, and the Administration is proposing to either cut them or reduce them drastically.

Other witnesses have talked about the direct 502 program. I think what's important to say is that it has made it possible for over 2 million low-income and very low-income Americans, rural Americans, to become homeowners because of this program. Others have also talked about the 523 program. About 68 percent of the participants in the self-help housing program are minorities. And of the self-help housing participants, their default and delinquency rates are lower than the non-self-help housing participants. Very, very important information, Madam Chairwoman.

The Administration proposes no funding for section 515. The 515 program serves families whose incomes average less than $10,000 a year; nearly 60 percent of them are elderly or disabled, so preservation of this housing stock is very important.

The Housing Assistance Council is collaborating with the Council on Affordable and Rural Housing, the National Housing Law Project, the National Rural Housing Coalition, and others, because we want to devise and find a way to preserve these 515 units.

Now, I want to talk briefly about the rural housing and economic development program in HUD. Assistant Secretary Patenaude, I think, shared with us some of the figures that show that this is a program that serves the poorest of the poor. Rather than statistics, let me give you three examples of how this money is being used.

The Ogalala Sioux Tribe Partnership for Housing used its grants on the Pine Ridge Reservation in Shannon County, Dakota. This is one of the poorest counties in the Nation. Its grants have been used to provide critically needed housing counseling, and to capitalize a loan fund for mortgage financing and economic development. The Azteca Community Loan Fund, which operates in Hidalgo County, Texas, used its grants to develop and deliver financial literacy training, specific to the families in Colonias. These are families whose incomes go as low as $6,000 a year.

And with an RHED grant, Kentucky Mountain Housing, which serves rural Appalachia, was able to purchase acres of land, a truck for hauling materials, and update its training curricula and material.

Chairwoman WATERS. I'm sorry, I am going to have to ask you to cut it short. I want to hear from Mr. Rice also, who has been waiting, before these members leave us.

Thank you very much, Mr. Loza. We have your examples.

Mr. LOZA. Yes, thank you very much, Madam Chairwoman.

[The prepared statement of Mr. Loza can be found on page 72 of the appendix.]

Chairwoman WATERS. Please, Mr. Rice.

STATEMENT OF ROBERT L. RICE, JR., PRESIDENT, COUNCIL FOR AFFORDABLE AND RURAL HOUSING

Mr. RICE. Thank you, Chairwoman Waters, and members of the committee. You have my written statement, so I will be brief and just highlight how we feel.

I am the president of the Council for Affordable Rural Housing, and the Council supports H.R. 1980 and 1982, as the rest of the panel does. We also would support at least the funding that section 515 and section 502 had last year.

We are very concerned about rental assistance going to one year, because we have been told the numbers show that in the next couple of years that number, when we're renewing every year, will be over $1 billion, and we're not certain where that money is going to come from.

We are in favor of the revitalization bill that was proposed last year, and we would certainly be in favor of it again. But we feel that all of the apartments, at some time, will be able to use this program; that's 17,000 units. And we don't think that rural development has the staff to handle that, and we would like them to have the ability to subcontract, for people to help with that processing.

We are very happy with the demo program. We think that's working very well, and it just shows that the revitalization bill would work.

Also, one other thing that we're concerned about that is not actually before this committee, but we think it would help preservation a lot, if exit tax relief was passed. Thank you.

[The prepared statement of Mr. Rice can be found on page 84 of the appendix.]

Chairwoman WATERS. Thank you so very much for honoring our request to be concise with your testimony.

Mr. Davis—both Mr. Davises—I think there was some question about the voucher program. Somebody thought it worked, somebody thinks it does not work. Do you have a question about the voucher program that you wanted to share? Did you have a question about the voucher program?

Mr. DAVIS OF KENTUCKY. I think we can pick this up in additional correspondence with the agencies.

Chairwoman WATERS. Yes, Mr. Davis?

Mr. DAVIS OF TENNESSEE. Each of you who are providing advice, counsel, assistance, directing many low-income individuals toward affordable housing, without the direct lending program, nothing exists, and that has to be fixed.

Mr. ANDERS. I fully agree.

Chairwoman WATERS. Well, I would like to thank all of you for coming to this hearing, and I am sorry that we had to shorten our hearing a bit. But your testimony has been very, very important, and I think it's important for me to say to you, so that at least you can go home knowing, that there are a lot of people here fighting for you on both sides of the aisle. We understand exactly what you have said today.

It's clear to us what the Administration has done. And we believe that people in rural America should have the opportunity for better housing. And those of us from the urban areas are going to fight just as hard for rural America as we fight for urban America.

Thank you all for being here today. This meeting is adjourned.

[Whereupon, at 3:53 p.m., the hearing was adjourned.]

A P P E N D I X

May 8, 2007

NATIONAL HOUSING LAW PROJECT
advancing housing justice

STATEMENT OF
GIDEON ANDERS, EXECUTIVE DIRECTOR
NATIONAL HOUSING LAW PROJECT
BEFORE THE COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
U.S. HOUSE OF REPRESENTATIVES
May 8, 2007

Thank you Chairwoman Waters and Members of the Committee for your invitation to submit testimony on a number of rural housing issues that affect our nation's low income rural residents.

I am Gideon Anders, Executive Director of the National Housing Law Project (NHLP), a 39-year old nonprofit corporation that seeks to advance housing justice for low income persons by, among other things, preserving and increasing the supply of decent affordable housing throughout the United States. NHLP is a strong supporter of and advocate for the RHS housing programs because they have effectively served rural communities and low-income households for more than 58 years. NHLP has focused on the RHS programs generally for more that 36 years and we have worked on preservation of the RHS rural rental housing stock for more than 29 years.

We testified before this Committee last year on HR 5039, which proposed to lift the ELIHPA prepayment restrictions, sought to protect residents from displacement through the creation of a new voucher program and provide RHS with authority to extend incentives to Section 515 owners that would enable the owners to revitalize their developments and maintain them as affordable housing for an additional 20 years. We appreciate the opportunity to again testify on those issues as well as on the RHS Budget, and the Housing Assistance Council and Rural Housing and Economic Development Program authorization bills.

The primary principle that guides NHLP's preservation work is the need to protect federally assisted residents against displacement from their homes. The statutory requirement that obligates owners of Section 515 housing to maintain their developments as affordable housing for 20 years was enacted in 1979 at NHLP's suggestion when we discovered that the program imposed no use restrictions on owners and that some were converting their developments to other uses by displacing elderly and other households at will. Our staff also assisted in drafting the rural provisions of the Emergency Low Income Housing Preservation Act of 1987 (ELIHPA), which was enacted after an increasing number of owners of developments financed before 1979 were prepaying their loans and displacing elderly and other households from homes they had expected to occupy for the rest of their lives.

NHLP has also been directly or indirectly involved in practically every major Rural Housing Preservation case that has been brought since 1991. We assisted Mid-Minnesota Legal Services in litigating *Lifgrin v. Yeutter,* the first post-ELIHPA prepayment case that challenged an owner's failure to maintain affordable rents after prepaying a Section 515 loan. The residents prevailed in that case and the development was returned to the Section 515 program. NHLP has participated and assisted other legal services programs litigate cases that successfully challenged illegal prepayments of Section 515 loans. We currently represent several Missouri residents in *Charleston Housing Authority v. U.S.D.A*, in which the United States Court of Appeals for the Eighth Circuit upheld the district court decision that the ELIHPA prepayment restrictions preclude the housing authority from prepaying its Section 515 loan. The Court also upheld the district court's decision that the housing authority's decision to prepay its loan and to demolish the 50 unit development that served predominantly African-American households violated the Fair Housing Act. We are also pleased to have assisted the plaintiffs' attorneys in *Goldammer v. Veneman*, a case decided late last year by the United States Court of Appeals for the Ninth Circuit, which held that residents of Section 515 developments can challenge RHS' acceptance of the prepayment of Section 515 loans. That case has effectively foreclosed Section 515 owners' efforts to circumvent the ELIHPA prepayment restrictions by brining quiet title actions when the agency fails to accept their prepayment offers.

Our testimony today focuses primarily on the preservation of the RHS rural rental housing stock and the protection of the residents of that housing. Our views and comments are shaped by the fact that the Section 515 housing stock serves the neediest rural households. According to figures released by RHS, nearly 945 of the 460,000 families currently residing in Section 515 housing are very low-income households. The average household income in all Section 515 developments is slightly more than $10,000, while the average household income of those receiving Rental Assistance (61% of the households) is just under $8,000. Households headed by females represent nearly three quarters of all households residing in Section 515 housing and households headed by elderly persons represent nearly one-half. Persons with a disability are the head of an additional 10% percent of the Section515 households. Minority households comprise 29% of the households occupying Section 515 housing. Approximately 16% of all Section 515 households are rent overburdened, which means that they pay more than 30% of their income for rent.

We firmly believe that there is an absolute and continuing need for decent, safe, and affordable rental housing in rural areas throughout the United States and that the existing Section 515 housing stock is a major and critical element in meeting that need. Rural communities continue to have a greater need for affordable, decent, safe, and sanitary housing than their urban counterparts because housing conditions in rural areas have historically been, and continue to be, worse than in urban areas. The approximately 500,000 units of Section 515 housing that have been constructed in rural areas continue to serve a critical need in those communities. Frequently, those developments are the only available affordable rental housing that is decent, safe, and sanitary.

Let me begin by urging the Committee to draft and consider a new bill that addresses the preservation and revitalization needs of the Section 515 housing stock. We suggest that you undertake that task afresh without revisiting HR 5039, which this Committee passed last year. H.R. 5039 was ill conceived because it would have lifted the ELIHPA prepayment restrictions and allowed for the immediate conversion of at least 45,000 units of Section 515 housing that serve markets in the greatest need of affordable housing. HR 5039 did not protect residents of Section 515 housing against displacement, imposed minimum rents on the poorest residents of that housing, granted owners lucrative and unnecessary incentives and returns, and imposed unnecessary costs and expenses on RHS. As we set out below, we believe that the Section 515 housing stock can and should be revitalized and preserved in a manner that does not harm residents or rural communities and provides reasonable financing and incentives to owners that want to revitalize and preserve existing developments.

Let me also urge the Committee to draft and enact explicit and detailed legislation that does not leave this Administration with discretion on how to implement Congress' will and intention. This Committee was responsible for drafting and enacting legislation that created the HUD mark-to-market program and the HUD Enhanced Voucher Program. We see no reason why RHS legislation that deals with comparable issues and programs should be any less explicit than the previously enacted HUD legislation.

The ELIHPA Prepayment Restrictions are Effective and Should Remain in Place

As we testified last year, NHLP strenuously opposes any efforts to lift the ELIHPA prepayment restrictions as part of a restructuring and preservation bill. Lifting the restrictions would allow for the conversion of Section 515 housing units in communities that have the greatest need for such housing and will cause the displacement of at least 73,000 persons residing in that housing. Rural communities, where real estate prices and rents have increased and where very low- and extremely low-income households cannot afford to live without the federal assistance that is provided by the Section 515 program, simply cannot lose this critical mass of affordable housing. We also oppose the lifting of the ELIHPA prepayment restrictions because it will have a severe impact on minority housing opportunities.

Development in high cost areas and those that serve minority households must be preserved. The removal of the prepayment restrictions will decimate the affordable rental housing stock in communities that have the greatest need for affordable housing. Rural communities in which real estate prices and rents have escalated simply do not have other decent, safe and affordable housing. The construction of federally assisted housing that serves low and very low-income households was effectively stopped in the 1980's. The removal of the RHS housing stock, which will occur if prepayment restrictions are lifted, will remove a critical supply of affordable housing from the most needy communities and will deprive low- and very low-income persons of their capacity to continue to live in those communities. California, my and your home state, Congresswoman Waters, is a good example. We and other housing advocates expect that practically the entire 18,000 unit Section 515 housing stock in the state will be prepaid if the ELIHPA prepayment restrictions are lifted. This is because developments that currently charge $300 or $400 a month in rent will be able to charge $1500 or $1800 in rent after the prepayment restrictions are lifted. While the impact of lifting the prepayment restrictions may be greatest in California, we believe that other states, such as North Carolina, Florida and Georgia, to name a few, will also be adversely impacted.

The Administration advances the proposition that through prepayments we abandon low-income households' capacity to live in localities in which real estate prices have increased so that we can preserve and revitalize housing in communities where property values have not increased and where the demand for affordable housing is not as great. Such a policy is a political and financial decision that simply does not make sense. It pits high cost states and communities against low cost states and communities and abandons a substantial federal investment in housing that can be saved at half the cost of developing new units–something which this Administration is also proposing to abandon.

We are also concerned that the repeal of the RHS prepayment restrictions will eliminate a major civil rights provision that seeks to preserve affordable housing that serves minority households by requiring that before a prepayment is authorized the housing be offered for sale to nonprofit or public entities that would retain the affordable nature of the housing. As nearly 30 percent of the households occupying Section 515 housing are people of color, we are concerned that the lifting of the prepayment restrictions will not only remove low-income households from high priced communities but will also deprive persons of color from living in these communities.

We, therefore, ask that the Committee abandon the legislative proposal that was adopted last year that would have lifted the prepayment restrictions on the RHS stock. At the very least, we request that the Committee retain the current ELIHPA restrictions and require owners of projects that serve people of color to offer to sell those developments to nonprofit or public entities at their fair market value before they are allowed to prepay their loans.

Indeed, we ask that the Committee to go further and consider two amendments to the current ELIHPA requirement. First, we suggest that the ELIHPA restrictions be expanded to require owners to offer all developments for sale whenever there is a continuing need for the housing in the community. Second, in the alternative, we urge that nonprofit and public agencies be given a right to purchase, at fair market value, any development whose loan is about to be prepaid. The passage of these amendments will ensure that every unit of Section 515 housing that meets a current housing need will be preserved instead of being converted to other uses.

A Permanent and Effective RHS Voucher Program Must be Enacted

So long as RHS is authorized to accept any Section 515 prepayments and as long as RHS is not required to preserve troubled properties, RHS must have a permanent and effective voucher program that adequately protects residents in prepaying and troubled projects. Such a program should be modeled after the HUD Enhanced Voucher program and should protect residents and rural communities in the following manner:

Residents of prepaid project must have a clear right to remain in their homes. Owners of prepaid Section 515 projects must be required to allow residents of the development as of the date of prepayment to remain in their homes for as long as they want to remain. The only basis upon which residents of the housing should be evicted is "good cause." Given that 60 percent of the program's participants are elderly or persons with a disability–for whom the process of relocating is a severe hardship–this is a requirement that must be guaranteed to residents of Section 515 developments whose owners prepay their loans for whatever reason.

The right to receive a voucher must be absolute and not subject to the eligibility criteria of a local housing authority or any other entity. Under the RHS demonstration voucher program, Section 515 residents can only qualify for vouchers if they meet the administrating housing authority's voucher eligibility criteria. We see no reason for this requirement and believe that it should be eliminated. The purpose of the voucher is to protect Section 515 residents against displacement. Housing authorities and other entities that may administer the RHS voucher program are simply administrative intermediaries that should not be allowed to impose their own eligibility criteria to determine if a resident is eligible for assistance, particularly when the resident remains in the same unit and the landlord has previously approved the resident's eligibility to reside in that unit.

Residents should become eligible for vouchers no later than the date that their landlord refuses incentives to remain in the program and at least 90 days before the scheduled prepayment date. Under the RHS demonstration voucher program, residents do not become eligible for a voucher until the date that the landlord prepays the RHS loan. This is too restrictive and burdensome on residents who want to or are required to move from a development. It disqualifies residents from receiving a voucher if they move from the development after receiving a notice of the owner's intent to prepay but before the owner actually prepays. There is no reason why residents who choose to move from a development should be required to stay in their units until the actual prepayment date to qualify for a voucher. Such a requirement hampers residents' capacity to move to other decent, safe, and sanitary housing that may become available in the community prior to the prepayment date. It also unnecessarily increases competition for vacant apartments in the community since all residents of a prepaid development may have to move at the same time. It is particularly restrictive if the owner of the prepaid development decides not to continue to rent the units to the Section 515 residents, forcing them to move in a very short time frame.

For troubled project, the date of voucher eligibility should be no less than 90 days before RHS plans to foreclose on its loan.

RHS vouchers should be fully portable. Like HUD Enhanced Vouchers, residents receiving RHS vouchers should be allowed to move to any locality in the United States and the voucher subsidy level should be dictated by the local rent reasonableness standard, not the rent paid at the prepaying development or the rent reasonableness standard in that community. Again, we must recognize that most of the residents of RHS housing are elderly persons. Frequently, they live in communities where they have worked and resided but not necessarily where their families live today. Since the relocation from an RHS property may be the last time that they have an opportunity to move, they should have the option of moving to where their family or friends live. Their capacity to move should not be restricted by some artificial rent standard established for the RHS voucher program. Similarly, persons who are not elderly who live in RHS housing should be allowed to move to any community in order to reduce their commute, enhance work opportunities, or to join family or other relatives. Their capacity to move should also not be restricted.

Moreover, the RHS voucher should also not have a minimum rent standard that is based on the rent that the household paid in the Section 515 development. Residents receiving RHS vouchers should not be required to pay more than 30% of their income for shelter and their rent should be adjusted as their income increases or decreases like all other voucher holders. In short, the RHS voucher rent standards should be identical to the HUD Enhanced Voucher standards.

Lastly, any voucher legislation should make clear that RHS, like HUD, is obligated to adjust the voucher subsidy annually to accommodate rent and utility cost increases imposed by landlords and utility companies.

RHS Vouchers Should Remain in the Community After the Initial User has Stopped Using the Voucher. As we noted earlier, RHS Section 515 housing is frequently the only affordable housing in the rural community in which it is located. When the owner removes the development from the program through prepayment, the community loses a valuable and significant resource. It denies the community the opportunity to continue to house its low-income elderly or working households. Accordingly, the RHS voucher should be allowed to remain in the community after the initial user stops using the voucher. The HUD Enhanced Vouchers operate in this manner and there is no reason why the RHS vouchers should not operate in the same manner. Since RHS does not have the staff to administer the voucher after the initial user gives it up, the voucher should be turned over to the local housing authority or other agency administering the HUD voucher program in that community.

We also request that consideration be given to project-basing RHS vouchers in newly constructed or preserved developments after they are no longer used by the original voucher holder. By doing so, RHS will facilitate the construction of new housing in the community that suffered from a prepayment of Section 515 housing and allow the community to continue to house low and very low income households.

New Prepayment Legislation Should Create a Workable and Effective Right to Purchase that will Preserve the Housing.

Nonprofits, resident organizations, and public agencies should be given the right to purchase any Section 515 development that an owner seeks to prepay and convert to other uses whenever there is a continuing need for affordable housing in the community in which the development is located. The right must be absolute and must allow the nonprofit or public entity to purchase the development at Fair Market Value. Section 515 funding must be made available for such purchases and Rental Assistance or other subsidies must be attached to ensure that the development continues to serve low income households.

RHS Predevelopment Grants Should be Made Available to All Nonprofit or Public Agencies Considering the Purchase of a Section 515 Development.

All nonprofit and public agencies that are negotiating for the transfer of a Section 515 development should be eligible for RHS predevelopment grants. Currently, these grants are only available to nonprofit and public agencies that offer to purchase a development when the owner offers to sell the development under the RHS prepayment process. Since many owners are negotiating for the direct sale of Section 515 developments to nonprofit and public agencies without formally going through the RHS prepayment process, the authority to make predevelopment grants must be expanded to cover all transfers.

RHS Must Adopt a Policy that Preserves Troubled Projects and Protects Residents of Such Projects Regardless of Whether they are Preserved.

RHS has no process currently in place to deal with troubled projects. If RHS is unable to secure an owner's cooperation in bringing a troubled development up to standards, it will foreclose on the development and, if necessary, reduce its foreclosure sale bid to ensure that the property is sold to a third party and not brought into the RHS inventory. When the foreclosure is complete, the RHS' subsidy is terminated and residents are either displaced by increased rents, by the new owners revitalization plans, or forced to remain in the troubled and often substandard development. This is an unacceptable process that harms residents and deprives communities of sorely needed affordable housing. Consequently, RHS should be required to adopt a troubled project policy that preserves the housing whenever there is a continued need for affordable housing in the community and protects residents whenever the housing is no longer needed.

A troubled project policy should require RHS to evaluate whether the troubled property is needed in the community and to take control of the project whenever the owner is unable or unwilling to bring the property up to standard. It should require RHS to identify nonprofit or public agencies that are willing to purchase the development and to restore the development to RHS' quality standards. RHS should then either work with the current owner to transfer the development to the identified purchaser or foreclose on the loan and then transfer it to the nonprofit or public entity. The transfer price should be based on the value of the property and the cost of bringing it back up to decent, safe, and sanitary standards.

RHS should not be allowed to reduce its bid at a foreclosure sale of any property that is needed as affordable housing in the community. In addition, when RHS forecloses on a troubled property and allows it to be sold to the highest bidder, it should be required to place habitability and use restrictions on the properties that ensure that the new owners do not rent the development without first brining it up to decent, safe and sanitary standards.

Residents of troubled projects should also be eligible for vouchers. Any preservation bill must also protect residents in troubled projects in the same manner that residents of prepaid project are protected. Accordingly, we urge that the Committee authorize RHS to issue vouchers to residents of developments that are being foreclosed upon, thus giving them the opportunity to move to other decent housing in the community.

Revitalization and Restructuring

NHLP supports a strong and effective revitalization program and believe that it is critical to ensuring that Section 515 stock will continue to serve the needs of low-income households and communities. We also understand that restructuring of the existing loans may be a viable and necessary means to accomplish that goal. However, we are concerned about the short and long term costs to the government of such programs, particularly when they offer owners unnecessary and costly financial incentives to participate in a revitalization program. Moreover, we are cautious and concerned about RHS' capacity to restructure and revitalize a housing stock, which consists of approximately 17,000 developments, in a cost effective and efficient manner. Significantly, we believe that resident of Section 515 developments should be both involved and protected in any restructuring program that is undertaken by RHS.

Residents Must be Protected in the Revitalization and Restructuring Program. When Section 515 developments undergo revitalization, the residents of the development must, whenever possible, be protected against displacement from their homes. If they are displaced, they must be provided financial and other assistance to move into other units in the development or into other affordable housing in the community. Moreover, if the residents are relocated into other housing, they must be guaranteed a right to return to their home, or, at least, their development, when the revitalization is complete. Provisions protecting residents' right to relocation assistance and the right to return to their housing must be included in any legislation authorizing a restructuring and revitalization program.

Residents must be involved in the Revitalization and Restructuring Process. Section 515 developments are the homes for hundreds of thousands of rural residents. Many have lived in these developments for many years and have the best knowledge about their condition and management. Any efforts to restructure and revitalize a development must be shared with the residents and their opinions must be sought out whenever the revitalization or restructuring will affect their lives and homes. Just like the HUD Mark-to-Market program, legislation authorizing the revitalization of the Section 515 housing stock must include provisions that provide residents notice of the owners intent to revitalize and restructure the development. It must also make sure that revitalization plans are made available to the residents for review and comment and affirmative steps are taken to discuss the plans with residents and to solicit their input and comments before the plan is finalized.

Indeed, ask the Committee to include provisions in the legislation that authorize RHS to make grants to nonprofit agencies that will provide technical and other assistance to residents throughout the revitalization process. HUD has such a program and there is no reason why residents of RHS Section 515 housing should not secure the same form of assistance.

RHS should operate a restructuring and revitalization program that is cost effective and does not unnecessarily reward owners who participate in the program. While we support a restructuring and revitalization program, we believe that the program should be carefully structured to ensure that RHS operates an efficient and cost effective program. For example, we believe that the use restrictions placed on any newly restructured loan should be for the full remaining useful life of the development, not just 20-years as proposed in HR 5039. Developers who participate in the Low Income Housing Tax Credit program routinely restrict the use of their developments for periods substantially in excess of 20 years, there is no reason that RHS should not be required to do the same.

Similarly, we do not see any reason why owners who revitalize developments under the Low Income Housing Tax Credit program should be allowed to calculate their return based on the investment made by the limited partners in the development. The limited partners' receive their returns through the tax credit program. The developer should not be allowed to secure additional profit based on an investment made by the limited partners. Its an excess and unnecessary profit center that is not allowed in other programs.

We also do not understand why future rent increases in restructured developments should be based on local market conditions and not be budget based. All restructured developments will continue to be financed with Section 515 loans that are effectively financed at a 1% interest rate. Most of them will also have rental assistance subsidies. There is no reason why owners or developers should be allowed to increase rents based on the cost of operating other developments in the area that are financed with market rate loans. Allowing rent increases based on rent increases at other developments in the area will substantially and unnecessarily increase RHS' rental assistance payments. If rent increases are to be made without a careful review of the budget, they should only be calculated on the operating costs of the project, not on the mortgage based portion of the budget, which is a fixed cost.

Undoubtedly there are other mechanisms by which the cost of restructuring and operations can be limited. We urge the Committee to look at these issues carefully and not to defer or delegate these decisions to the agency.

RHS should be required to centralize the restructuring and revitalization process and be authorized to hire additional staff, or to contract with outside contractors, to undertake the restructuring program. We are concerned that RHS does not have the staff capacity to undertake the restructuring of as many as 17,000 development in any reasonable period of time. We are also concerned that the expertise to restructure developments does not exist but in a handful of Rural Development state offices. Accordingly, we suggest that any proposed restructuring legislation require that all restructuring decisions be made by the RHS National Office of Rural Housing Preservation and that that office be authorized to hire additional staff or outside consultants, such as the HUD PAEs, to undertake the restructuring process.

Minimum and Maximum Rents

We urge that the Committee retain the provision included in HR 5039 that limits the rent of residents in revitalized projects to 30% of household income. This will facilitate the revitalization of existing project and protect residents from displacement. We see this as a very critical element in the restructuring and revitalization process that will protect very low income residents from displacement in communities with extremely low incomes.

We are, however, strenuously opposed to the imposition of a minimum rent requirement in the legislation. RHS has justified the need for a minimum rent requirement because it does not believe that households can live without some income and that residents who report no income are cheating the system. Nothing could be further from reality. Many elderly households have no effective income because they have substantial medical bills that reduce their actual adjusted income to zero or below. Families that depend on a single wage earner also have periods in which the household does not have any effective income because the wage earner has lost employment, became ill, disabled, or has died. Frequently, these households do not have another wage earner that can begin to work immediately. They also encounter difficulties in qualifying for disability income or other forms of assistance. These households can have extended periods of hardship without any effective income. There is simply no reason to punish these households by requiring them to pay a minimum rent.

We do not believe that these households are cheating on their income reporting. All the studies and reports about income and rent determination that we have seen suggest that both favorable and adverse mistakes are made in the income and rent determination process and that such mistakes are distributed to households of all incomes. Accordingly, we ask that extremely low income households, which are the only household subject to minimum rents, not be penalized by their imposition. RHS and landlords have ample tools to verify resident income and rent determinations should continue to be based strictly on that verification process.

RHS Budget

NHLP is frankly appalled by the Administration's proposed budget for Fiscal Year 2008. Its yet another bold example of the Administration's continued efforts to terminate all forms of assistance to low and very low income households and expanding assistance to moderate and above moderate income households. We suggest that this Committee and Congress to reject the Administration's RHS budget proposal and urge that all the rural housing programs be refunded, at the very least, at their current funding levels adjusted upwards for inflation.

Section 502 Direct Homeownership Loans. The most disconcerting element of the budget is the proposed termination of the Section 502 direct loan program. That proposal is in direct conflict with the Administration's six year effort to promote homeownership. It's a slap in the face of low income households who have benefitted from the program's extraordinarily successful 58-year history. To suggest that the direct loan program's goals can be achieved by expanding the guaranteed loan program and attaching a subsidy mechanism to that program is to ignore history and reality. In effect, the Administration is seeking to recreate the HUD Section 235 program which had a terrible history mired in fraud and mismanagement. We do not believe that RHS has the capacity to manage and operate the program any more effectively than HUD did and the promise to create such a program is an invitation to disaster.

More significantly, we do not understand how a subsidized guaranteed loan program will be anything but more expensive than the existing direct loan program. Market rate interest rates charged by private lenders are higher than the RHS interest rates, thus the cost of subsidizing the loans based on these higher interest rates will cost the government millions of additional dollars annually. The government will also have to pay for the cost of administering the subsidies and the costs of losses incurred as a result of loans made to ineligible households.

We are particularly concerned by the fact that the Administration has first proposed to eliminate the direct loan program and has only promised to propose a substitute program sometime in the future. It has not suggested any alternatives and has not asked for any budget authority to operate a new program. We frankly do not believe that the Administration has any intention to propose or fund a new subsidized guaranteed loan program. Accordingly, we urge that the Administration's proposal be rejected and that the direct Section 502 loan program be continued.

As an aside, we believe that the guaranteed loan program is not being managed in the manner that Congress intended it to operate and, therefore, suggest that this Committee hold oversight hearings to evaluate the program's management and operation.

Section 515 Rural Rental Housing. We are also stunned by the Administration's effort to once again terminate the Section 515 program. The Section 515 program has been extremely effective in providing decent safe and affordable housing in rural communities throughout the United States. As we noted earlier, in many communities, Section 515 housing is the only decent and affordable housing that is available to low income households. It provides affordable housing to seniors who have worked in the communities in which the housing is located and provides economic support to communities with low-wage industries.

Frankly, we do not see how the Administration expects to accomplish any of its restructuring and revitalization proposals without continued Section 515 funding. Accordingly, we call on you to once again reject the Administration's proposal to terminate the program.

Other Rural Housing Programs. We also do not support any of the other cuts proposed in the budget to the Self Help housing program, the farm labor housing program or the Section 504 loan and grant programs. All of these programs have a highly successful history of assisting low and very low income households and there simply is no justification for cutting these programs at this time.

Rural Housing and Economic Development Program

NHLP endorses the continuation of the HUD Rural Housing and Economic Development Program. We believe that it effectively fulfills a need not met by other programs and that it is a valuable program. We endorse the testimony of the Housing Assistance Council in support of the program, its continued authorization, and funding.

Housing Assistance Council Authorization

Lastly, I want to endorse and support the passage of HR 1980, which will authorize continued federal funding for the Housing Assistance Council (HAC). In the interest of full disclosure, I serve on the HAC board of directors and have been the chair of that board for the past one and a half years. My knowledge and association with HAC covers the entire 35 years of its existence, having served on its staff in the 1970's.

In our view, HAC is one of a very few organizations that has effectively and consistently followed and accomplished its mission of assisting rural residents and communities in expanding and improving the housing conditions of low and moderate income residents. Through its revolving loan fund, HAC has assisted in the production of tens of thousands of single and multi-family housing units. Through its technical assistance, it has assisted thousands of non-profit and public agencies in planning and developing housing in rural areas throughout the 50 states. HAC's research and policy advocacy has highlighted the need for affordable rural housing and has focused on the needs of people and communities that have historically been underserved. HAC has consistently and vigorously promoted and addressed the housing needs of the Colonias, Indian Reservations, and farmworkers. Its accomplishments and achievements are unprecedented and unmatched.

I cannot think of an organization that has accomplished its goals in a more efficient manner and without constantly lauding and publicizing its achievements.

While HAC has suffered by the loss of HUD funding in the Fiscal Year 2007 budget, it has maintained and continued its services by devoting its own meager resources to continue to provide assistance to nonprofits and other agencies serving rural areas. It cannot continue to do so in Fiscal Year 2008 without renewed HUD assistance. We therefore ask that you enact HR 1980 that would authorize funding for the organization in the next fiscal year. We also ask that you ask your colleagues on the Appropriations Committee to actually commit funding for HAC in the upcoming fiscal year.

Again, thank you Congresswoman Waters and Committee Members for the opportunity to present our views on these rural housing issues. The National Housing Law Project is prepared to assist you and your staff in addressing the various issues that we have discussed in today's testimony.

Rural Housing Testimony of Thomas A. Carew
May 8, 2007

Introduction

Madame Chairperson, and Members of Congress thank you for this opportunity to present my testimony on behalf of the Rural Housing Programs serving America.

My name is Thomas Carew I am the Design and Community Director of Frontier Housing, a non-profit corporation founded by four Morehead Kentucky churches thirty-four years ago. Our Mission is to provide affordable, decent, safe, housing in nine counties of northeastern Kentucky. Three of the nine counties are in the top 100 poorest counties of America: Wolfe, Magoffin, and Morgan. All nine counties are in Appalachia. Since our founding in 1974 we have provided housing solutions for over 1000 families. (See Exhibit A "The Hundred Poorest Counties in America")

I am here before you today to testify on behalf of several key federal programs that are the backbone to affordable housing in Appalachian Kentucky, and across Rural America. The United States Department of Agriculture's, Rural Housing Service Section 502 Direct Single Family Loan Program, and the Rural Rental Housing Program Section 515, as well as The Housing and Urban Development's Rural Housing and Economic Development Program, and funding for the Housing Assistance Council.

The Section 502 Direct Single Family Loan Program is the backbone of single family financing for low-income families across rural America. I have attached as Exhibit B an Excel Chart indicating the USDA Section 502 Direct Investment in the nine Frontier Counties, as well as the sixteen Kentucky counties that are in the top 100 poorest counties in America over the past 10 years. This chart indicates the tremendous need for this program. Over 20 Million dollars have been invested in the nine Frontier Counties alone. The President's budget proposes to eliminate funding for the Section 502 Direct Program. I have also attached Exhibit C, a comparison of single-family mortgage financing possibilities for a family of four with an annual household income at 50% of median income for Wolfe County, Kentucky the thirty-ninth (39th) poorest county in America. Fifty percent of median income for a family of four is $20,050. Typically the mortgage banking world says a family can afford to pay up to twenty nine percent of its monthly income for "PITI", Principal, Interest, Real Estate Taxes, and Home Owners Insurance. As the chart indicates a typical, new 1200 square foot home in Wolfe County costs about $110,000. Our family at 50% of median can afford to spend up to 29% of its monthly income or $485.00 for PITI. The typical bank financing for this home at 6.00% APR for twenty years with 20% down would yield a monthly payment for P&I of $527, add $150 for Real Estate Taxes and Home Owners Insurance for a total PITI of $678. As you can see even if our family had 20% down, which is highly unusual they could not afford the monthly PITI payment. The Chart then goes on to give examples of other financing scenarios using Housing Finance Agency Funding and the USDA Section 502 Guarantee Program. As you can clearly see the only affordable loan is from the USDA Section 502 Direct Program. Unfortunately the President's budget proposes to eliminate funding for this critical loan program, which typically serves the lowest income Kentuckians and I urge the members of the Committee to keep the Section 502 Direct Program funded. The Rural Housing Service has proposed creating a Subsidized Rural Housing Guarantee program. Essentially farming out the implementation of the Section 502 Direct Program to Commercial Lending Institutions. I have not seen the details of this proposal or how it will be Implemented, but I do know it will cost more to operate based on the fact that USDA can borrow from the federal treasury at 150 to 200 basis points less than a commercial lending institution. Thus the amount of subsidy needed to make a loan affordable will be higher on a per loan basis thereby reducing the number of single-family loans made throughout the country.

<u>The USDA Section 515 Rural Rental Program</u> has financed approximately 12,000 units in approximately 454 projects across the Commonwealth of Kentucky. Many of these units are in our service area, and provide decent housing for the poorest of the poor.

Over the past several years various bills have been introduced which address the issue of an owner's right to pre-pay the Rural Housing Service (henceforth RHS) on developments financed prior to December 15, 1989.
We applaud the provisions of a bill, which create financing mechanisms, which will enable the revitalization of many units in the 515 stock. In my previous position at the Commonwealth of Kentucky's Housing Finance Agency, Kentucky Housing Corporation, we found it very difficult to assist a developer wishing to revitalize a 515 project. The existing RHS regulations essentially prohibited other financial partners from participating in a financial restructuring, and an injection of new capital to rehabilitate an older project. A new Bill should include provisions for the following financial enhancements: reduction or elimination of interest on the loan, partial or full deferral of payments, forgiveness of loans, subordination of loans, re-amortization, and grants. In return for the Government's new investment the owners would have to agree to new property use restrictions for a period of not less than 20 years. These financial enhancements will enable other partners, such as Housing Finance Agencies, to participate in the revitalization of a project, thus making better housing available for very low income families.

Recent settlements in the U.S. Court of Claims in favor of project owners have raised the concern of many as to the cost of keeping pre- 12/15/89 units in the Section 515 program. As many of you know the RHS over the past 12 or so years have drastically reduced the funds available to construct new 515 projects to the point where there is little to no new construction. This raises the concern that if we are to lose thousands of affordable units across America, how will they be replaced? Does it make sense to give up the units we have now for an investment we made years ago and pay today's prices to replace the units? The cost to replace these units surely will cost more than to keep them in the program? What funding is on the horizon to replace these units at affordable rents? Generally speaking the tools we have today, Tax Credits, HOME, the Affordable Housing Program of the Federal Home Loan Bank, State Trust funds, and other State-provided financing will not begin to be able to replace the affordable units we might lose in the 515 program. No other national Program can match the 50 year 1% (the interest rate could go as low as 1%) financing made available through the 515 program.

I think we need to recall why the Section 515 program was created: to provide, safe, decent, housing for the poorest rural Americans. If we are unable to preserve the units we have, then we should look at a mechanism to replace the units we lose. A new Bill should provide tools to revitalize those units which remain in the program, and provide a pre-payment mechanism for those developers looking to leave the program. I would respectfully challenge the Committee to create a new program or adequately fund the existing Section 515 program to finance the construction of new replacement units at affordable rents.

The Housing Assistance Council has been a key supporter and funder of the work at Frontier Housing. Beginning in 1978 Frontier and HAC began what has become a 29 year partnership of providing rural housing opportunities for families in our service area. It began with the initial capitalization of our loan fund. As many beginning business Frontier needed to find an affordable source of working capital beyond the capabilities of our four founding churches. HAC was that source of capital. Back in 1978 we could build a new USDA Section 502 home for $25,000. HAC placed $12,500 in the Peoples Bank of Sandy Hook in a non-interest bearing account. In return the Bank created a line of credit for Frontier of $25,000 at ½ the market interest rate. This simple loan from HAC helped to establish Frontier as a legitimate business in our service area. Since that time we have worked with HAC on many fronts, more recently with SHOP (Self Help

Opportunity Program at HUD). HAC's outstanding Staff has provided many groups like Frontier Housing with the education and training necessary to implement Federal Housing Policy. HAC's Staff also conducts most of the Rural Housing research that takes place in America. This past year HAC was not funded as a result of the Continuing Resolution. We want the Committee to know that HAC is critical to our success and we urge the Committee to fully fund HAC in the upcoming budget.

The Rural Housing Economic Development Program of HUD or RHED as it is know provides capacity building assistance for non-profit housing providers across Rural America. Frontier Housing has been the beneficiary of this program on several occasions. One highlight of our HUD RHED funding was the establishment of a Home Buyer Counseling program to help families become "home buyer ready" primarily assisting families in becoming credit worthy. We have also developed single family subdivisions and expanded our serves to 4 additional counties.

Madame Chairperson, and members of the Committee thank you for this opportunity to comment on the Rural Housing Budget and I applaud your work on behalf of the housing needs of Rural Kentuckians, Rural Americans

The Hundred Poorest Counties in America

EXHIBIT A

RANK	County Name	% of Poverty 2003
1	Starr County, Texas	36.2
2	Shannon County, South Dakota	35.6
3	East Carroll Parish, Louisiana	33.9
4	Todd County, South Dakota	33.7
5	Ziebach County, South Dakota	33.0
6	Zavala County, Texas	32.7
7	McDowell County, West Virginia	32.4
8	Holmes County, Mississippi	32.2
9	Owsley County, Kentucky	31.9
10	Hidalgo County, Texas	31.0
11	McKinley County, New Mexico	30.6
12	Clay County, Kentucky	30.3
13	Sunflower County, Mississippi	30.3
14	Humphreys County, Mississippi	30.2
15	Willacy County, Texas	30.2
16	Buffalo County, South Dakota	30.0
17	Maverick County, Texas	29.8
18	Brooks County, Texas	29.5
19	Cameron County, Texas	29.5
20	Leflore County, Mississippi	29.4
21	Sharkey County, Mississippi	29.4
22	Lee County, Arkansas	29.1
23	Issaquena County, Mississippi	29.0
24	Tensas Parish, Louisiana	28.7
25	Perry County, Alabama	28.6
26	Hudspeth County, Texas	28.6
27	Madison Parish, Louisiana	28.5
28	Phillips County, Arkansas	28.4
29	Washington County, Mississippi	28.4
30	Allendale County, South Carolina	28.4
31	Coahoma County, Mississippi	28.3
32	Dimmit County, Texas	28.3
33	Wilcox County, Alabama	27.9
34	Chicot County, Arkansas	27.9
35	Jefferson County, Mississippi	27.9
36	Wilkinson County, Mississippi	27.9
37	Frio County, Texas	27.8
38	Presidio County, Texas	27.7
39	Wolfe County, Kentucky	27.6
40	Apache County, Arizona	27.5
41	Corson County, South Dakota	27.5
42	Bennett County, South Dakota	27.4
43	McCreary County, Kentucky	27.3
44	Bolivar County, Mississippi	27.3
45	Quitman County, Mississippi	27.3
46	Reeves County, Texas	27.1
47	Webb County, Texas	27.1
48	Yazoo County, Mississippi	27.0
49	Zapata County, Texas	27.0
50	La Salle County, Texas	26.9

Source:"Census Bureau's 2003 Small Area Income and Poverty Estimate..."

Yellow Highlight are Kentucky Counties [illegible]

The Hundred Poorest Counties in America

51	Magoffin County, Kentucky	26.8
52	Noxubee County, Mississippi	26.8
53	Bronx County, New York	26.8
54	Martin County, Kentucky	26.7
55	Harlan County, Kentucky	26.6
56	Lee County, Kentucky	26.5
57	Sumter County, Alabama	26.4
58	Knox County, Kentucky	26.3
59	Lake County, Tennessee	26.3
60	Bullock County, Alabama	26.2
61	Breathitt County, Kentucky	26.2
62	Roosevelt County, Montana	26.2
63	Luna County, New Mexico	26.2
64	Jackson County, South Dakota	25.9
65	Macon County, Alabama	25.8
66	Bell County, Kentucky	25.8
67	Sioux County, North Dakota	25.7
68	El Paso County, Texas	25.7
69	Leslie County, Kentucky	25.6
70	Tallahatchie County, Mississippi	25.6
71	Glacier County, Montana	25.6
72	Mellette County, South Dakota	25.6
73	Crowley County, Colorado	25.5
74	Orleans Parish, Louisiana	25.5
75	Claiborne County, Mississippi	25.5
76	St. Francis County, Arkansas	25.2
77	Duval County, Texas	25.2
78	Wade Hampton Census Area, Alaska	25.1
79	Socorro County, New Mexico	25.1
80	Dewey County, South Dakota	25.1
81	Dallas County, Alabama	25.0
82	Greene County, Alabama	24.9
83	Calhoun County, Georgia	24.7
84	Mingo County, West Virginia	24.7
85	Bee County, Texas	24.6
86	Clay County, Georgia	24.5
87	Morgan County, Kentucky	24.5
88	Dona Ana County, New Mexico	24.5
89	Evangeline Parish, Louisiana	24.2
90	Franklin Parish, Louisiana	24.2
91	Floyd County, Kentucky	24.1
92	Webster County, West Virginia	24.1
93	Wheeler County, Georgia	24.0
94	Big Horn County, Montana	24.0
95	Concordia Parish, Louisiana	23.9
96	Rolette County, North Dakota	23.9
97	Hancock County, Tennessee	23.9
98	Hancock County, Georgia	23.7
99	Knott County, Kentucky	23.7
100	Lewis County, Kentucky	23.7

Source:"Census Bureau's 2003 Small Area Income and Poverty Estimate..."

Yellow Highlight are Kentucky Counties

5/6/2007 USDA RHS Section 502 Direct Financing in Kentucky EXHIBIT B

FY 1997 to FY 2007			Portfolio	
Frontier Counties	Dollars	Numbers		
Bath	$ 69,000	1	$ 2,428,943	63
Carter	$ 7,398,786	147	$ 10,046,298	385
Elliott	$ 682,930	14	$ 1,133,760	28
Fleming	$ 1,270,549	29	$ 2,484,354	71
Magoffin	$ 594,359	13	$ 3,016,780	85
Menifee	$ 2,908,603	42	$ 4,132,807	98
Morgan	$ 4,122,849	63	$ 6,155,654	148
Rowan	$ 2,654,759	52	$ 5,317,915	135
Wolfe	$ 1,126,325	19	$ 3,423,571	100
	$ 20,828,160	380	$ 38,140,082	1113
16 counties of KY that are in the top 100 poorest counties in America				
Bell	$ 1,956,019	38	$ 2,192,035	48
Breathitt	$ 549,466	10	$ 992,153	28
Clay	$ 2,910,655	86	$ 8,888,438	283
Floyd	$ 1,360,036	24	$ 7,161,836	190
Harlan	$ 503,908	10	$ 740,704	18
Knott	$ 161,725	3	$ 766,006	24
Knox	$ 1,940,882	41	$ 2,759,859	66
Lee	$ 3,737,685	67	$ 6,994,190	168
Leslie	$ 496,707	9	$ 1,340,482	32
Lewis	$ 2,787,053	78	$ 448,535	153
Magoffin	$ 594,359	13	$ 3,016,780	85
Martin	$ 111,152	3	$ 361,682	16
McCreary	$ 1,582,743	24	$ 3,815,662	133
Morgan	$ 4,122,849	63	$ 6,155,654	148
Owsley	$ 1,050,705	22	$ 4,163,136	111
Wolfe	$ 1,126,325	19	$ 3,423,571	100
	$ 24,992,269	510	$ 53,220,723	1603
All Kentucky counties last 10 years			Portfolio 502 loans in KY	
	$ 325,674,141	5313	$ 511,664,051	14443

5/6/2007

EXHIBIT C

Frontier Housing
Morehead, Kentucky

	50% of Median	Cash Down
Sales price of $110,000	$110,000	
Annual Household Income for a Family of 4 @ 50% of Median in Wolfe County Kentucky	$20,050	
Poverty level for a family of 4	$20,000	
Maximum Annual Payment the family can afford for PITI @ 29% of Gross Household Income	$5,815	
Amount Family can afford for PITI = Principal, Interest, Real Estate Taxes, Home Owners Insurance per month	$485	
Typical Bank Financing without guarantees or subsidy APR 6.00% on 20 years 20% Down ($22,000) PITI	$678	$22,000.00
Typical Housing Finance Agency Financng 6.00% APR on 30 years 3% Down PITI	$790	$3,300.00
Typical USDA Financing with Guarantee using HFA 100% Financing @6.00% no down PITI add 2% Guarantee Fee	$823	$0.00
USDA Direct 502 Financing @1.00 % APR Zero Down 33 Years PITI	$476	$0.00

Financing for Single Family Home in the Frontier Housing Service Area for a Family of Four at 50% of Median Income

VITA

Name:	Dr. Thomas A. Carew
Address:	340 North Wilson Avenue Morehead, KY 40351
Telephone:	606-784-8011 Home 606- 784-2131 Work tom@frontierhousing.org
Place of Birth:	Manhattan, New York.
Occupation:	Economic/Housing Developer

Education:
Fairfield University, Fairfield, Conn. 1969-1971
(Area of Studies: Politics and Philosophy)
Doctor of Laws (Honoris Causis) Fairfield University June 1992

Work Experience:

December 1, 2004 to Present: Frontier Housing Inc. Director of the Community and Design Division.

January 1, 2000 to November 30, 2004: Kentucky Housing Corporation, the Commonwealth of Kentucky's Housing Finance Agency. Director of the Appalachian Housing Department and beginning March 1, 2003 the Director of the Department of Design and Construction Review. Implemented the first HFA policy on Minimum Design Standards and Universal Design Standards. Created the HouseWorks and HomeStart partnership with USDA, Rural Housing Service,

1974 to December 31, 1999, Co-Founder and Executive Director of Frontier Housing, Inc. in Morehead, Kentucky. A private non-profit grass roots organization located in Appalachian, Kentucky. Involved in the development of housing for low-income families and training the unskilled in residential construction. Development work has included fundraising, construction, rehab, site and subdivision development, joint ventures and Block Grant Administration. Administration of Loan/ Mortgage portfolio for new housing and rehabilitation. Building and financing 30 new single family homes per year.
Personally presented testimony before the U.S. House of Representatives on behalf of Rural Housing programs.

September 1973 to March 1974 Construction Manager- Watauga County Housing Council; Boone N.C. Non- Profit organization providing housing for low-income families.

Farm Manager: 1971-1973, Glenmary Farm, Vanceburg, Kentucky; an arm of the Glenmary Home Missioners. The farm provided a place for volunteers to work on local projects, such as home rehabilitation, new construction and farm work.

Work Objective: To promote efforts that lead to individual and community growth and empowerment through greater participation in social, economic, and political decision making.

Past and Current Memberships
Organization:

H. E. A. D.
Human Economic Appalachian Development Corporation.
Board of Directors and Past Chairperson of the Board, Berea, Kentucky.
HEAD was founded in 1974 by members of the Commission on Religion in Appalachia (CORA) to foster and implement small-scale economic development and housing for low income families.

F.A.H.E
Federation of Appalachian Housing Enterprises. Founding member of the Board of Directors, Berea, Kentucky.
Chairperson 1985-89
Member of the Executive Committee 1990-99.
The Federation is an association of Non-Profit Housing Organizations in the Central Appalachian states of Kentucky, West Virginia, Virginia, and Tennessee.

National Rural Housing Coalition. A national association of RURAL non-profit organizations promoting the development of federal legislation fostering housing opportunities for low-income families. Member of the Executive Committee of the Board of Directors 1990-Present. Treasurer, December 2005 to December 2006. Secretary December 2006 to Present.

The Homeless and Housing Coalition of Kentucky. Board member 2005 to present. Co-Chair 2007.

Kentucky Appalachian Commission: Elected representative of the Appalachian Advisory Council to the Commission 1995 through 1999. Designee of the CEO of Kentucky Housing Corporation 2000-2003.

Kentucky Office of Housing Buildings and Construction Board Member Designee of the CEO of Kentucky Housing Corporation.

Morehead Area Habitat for Humanity. Founding member of the Board of Directors 1988-98.

Christian Social Services. An Ecumenical outreach group, providing emergency assistance, financial counseling, and social services.
Board Member 1987-2006.

Saint Claire Regional Medical Center, Morehead, KY. Board of Directors 1998–Present. Member of the Executive Committee and Treasurer 1999-Present.

Moreh [illegible] rd; Board Member 1998- Present.
Vice C [illegible])5 – Present.

Work Objective:

Moreh [illegible] s Joint Planning Commission 1994-Present. Vice Chairperson 2006-Present.

Christian Appalachian Project; Board Member 2005-Present.

Awards and Honors:

Recipient of The "Dorothy J. Williams" "Lifetime Achievement Award" for "Outstanding Achievement in Promoting Affordable Housing". November 2, 1990. This award is given annually by the Commonwealth of Kentucky's Housing Corporation (KHC).

Catholic Diocese of Lexington: Mission Award 1994

Morehead Rowan County Chamber of Commerce "Service Above Self" Award 1998.

NATIONAL RURAL HOUSING COALITION

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Statement of Peter Carey
Before the
Subcommittee on Housing and Community Opportunity
Committee on Financial Services
US House of Representatives
May 8, 2007

Madame Chairwoman my name is Peter Carey, I am the Executive Director of Self Help Enterprises and I am also past president and current board member of the National Rural Housing Coalition.

Self-Help Enterprises is a nonprofit housing and community development organization serving California's vast San Joaquin Valley for over 4 decades. While the San Joaquin Valley is known as the nation's richest agricultural region, it has been referred to as the Appalachia of the West. Home to as many as half of California's farmworkers, the Valley is stigmatized by the low incomes, high poverty rates, substandard housing and unsafe drinking water often facing rural America.

And yet this Valley is also a region of potential and progress, where solutions to rural challenges become reality. In the past 42 years, Self-Help Enterprises has assisted over 5500 farmworkers and other low income families to work together to build homes for themselves and their children, we have added 1000 units of affordable rental housing, and we have assisted small rural communities to provide safe drinking water to over 10,000 households. These achievements are mirrored in the work of organizations and communities across rural America. While these efforts tap local initiative and resources, in the vast majority of cases, it is the United States Department of Agriculture which supplies critically needed and locally responsible funding that turn vision into reality. Unfortunately, despite progress, the needs of our communities far outstrip the resources available. As one small indicator, despite the fact that the mutual self-help housing program requires each family to contribute of 40 hours of labor to their group each week for 10 to 12 months, just last week, Self-Help Enterprises had 14,939 families on the list, waiting for the chance to build decent homes for themselves and their neighbors.

The National Rural Housing Coalition

The National Rural Housing Coalition (NRHC) is a national membership organization that advocates for federal policies which improve housing and community facilities in rural America. NHRC has stood for the principle that all rural people have the right to a decent place to live, safe drinking water, and basic community services. We have testified before this Committee previously and appreciate the opportunity to testify today on rural housing issues.

Rural Housing Need

America's rural communities continue to suffer from elevated poverty rates and substandard housing. According to the Economic Research Service, some 4 million rural families live in "housing poverty" which is a multidimensional indicator that combines measures of economic need, housing quality and neighborhood quality.

Rural households on average are poorer when compared to urban households. According to the 2000 Census, the poverty rate in rural America is 14.6 percent higher than the national rate. It is also higher when compared to the rate for big cities because rural households tend to pay more of their income for housing than their urban counterparts. The 2000 Census revealed that 5.5 million people, one-quarter of the non-metro population, face cost overburden and over 1.6 million non-metro housing units are either moderately or severely substandard.

The Budget

The lead federal agency for providing assistance to our nation's small towns and farming communities is the United States Department of Agriculture (USDA) through their rural development programs. Congress and the Administration have already made substantial cuts in federal rural development spending. Over the last 6 years, federal spending on rural housing loan and community development programs has been reduced by more than 20%. The Administration's Fiscal 2008 budget takes square aim at these programs which are critical to the survival of rural America.

Overall, the budget shifts federal rural development policy away from families and communities with greatest need. The budget proposes to replace the current mix of housing loans, grants and related assistance with unsubsidized guaranteed loans. For water-sewer, the budget proposes to reduce grants in favor of loan financing. This new configuration substantially reduces the ability of the Agriculture Department to increase the supply of affordable housing or improve community facilities in rural America.

The budget cuts spending for the rural housing by some 71% and eliminates over $1.3 billion in rural housing lending assistance targeted to low income families. The budget also cuts self-help housing grants, reduces farm labor housing financing by two-thirds, trims $100 million from water-waste water grants, and makes substantial reductions in budget authority for rural community facilities – including elimination of rural capacity building funding – and rural business grants.

This budget proposal will devastate our efforts and those of other organizations across the country to improve housing conditions for rural America.

For example, the budget proposes to eliminate the section 502 program. Section 502 is the only federal program targeting homeownership opportunities to low- and very-low income rural households, defined as between 50 and 80 percent of area median income (AMI) for low, and below 50 percent of AMI for very-low income. The annual average income of a direct borrower is 55 percent of area median income, and some 46 percent of Section 502 families have incomes at 40 percent of area median. The average income of households assisted under Section 502 is $18,500, and about 3 percent of participating households have annual incomes of less than $10,000.

Since its inception, Section 502 has provided loans to almost two million families at an extremely low cost to the federal government of less than $11,000 in budget authority per unit. Unfortunately, while there is unprecedented demand for Section 502, actual loans made to low-income people are decreasing in number. In fiscal year (FY) 2004 RHS provided 14,641 Section 502 loans and in FY 2005 12,315. The projected number falls to 10,500 loans in FY 2006 and FY 2007. In contrast, as of February 28, 2007 RHS had on hand over 35,000 loan requests totaling $3.4 billion.

The FY 08 budget eliminates the section 502 direct program in favor of the guaranteed loans for homeownership. There is substantial evidence that this approach will not provide assistance for the low and very low income homeowners who are helped by the direct program. The average annual income of the borrowers on section 502 direct is $18,500. The average annual income on guaranteed loans is almost $40,000.
NRHC is proposing funding for Section 502 at $1.25 billion.

The budget proposes to eliminate the Section 515 Rural Rental Housing Loan Program. Over 500,000 households in rural communities live in section 515 housing which sometimes is the only affordable option because the average annual income of a section 515 tenant is less than $10,000. It is an essential resource for elderly people, single-parent families, the disabled, and other less mobile residents.

Under Section 515, non-profit and for-profit entities can receive 1 percent loans for acquisition, rehabilitation or construction of rental housing and related facilities. While for much of the history of Section 515 the loan term was 50 years, the term of the loan was recently reduced to 30 years in a cost cutting move. Most Section 515 loans have gone to for-profit entities such as developers, who combine the subsidized loan with rental assistance and tax subsidies to finance housing. About 75 percent of these loans are further subsidized by the RHS Section 521 Rental Assistance program and The Department of Housing and Urban Development Section 8 program, both of which provide rent subsidies to ensure that tenants pay no more than 30 percent of their income toward rent.

Historically, Section 515 has been the key tool for improving the quality and quantity of rental housing in rural areas: at its peak in the early 1980s, the program created about 1,000 new properties a year. However, since the mid-1990s the program has faced severe budget cutbacks, limiting USDA's ability to finance much-needed rehabilitation of existing properties and the construction of new properties to serve the 900,000 rural renters who live in substandard housing.

The President's FY 2008 budget recommended the elimination of Section 515. This is the fourth consecutive year that USDA has not requested money for section 515.
NRHC supports Section 515 at a funding level of at least $100 million.

The budget proposes a 70% reduction in Section 523 Self Help Housing. Self-Help Housing makes homes affordable by enabling future homeowners to build their homes themselves. Section 523 Self-Help Technical Assistance Grants are provided to qualified nonprofit and local government organizations to provide technical assistance to low and very low-income families who are building homes in rural areas in conjunction with the Section 502 Mutual Self-Help Housing Loan Program. The grant funds are used to assist eligible families in applying for Section 502 loans, provide pre-purchase homebuyer education, and supervise construction of the housing by the families.

Currently 134 organizations in 36 states, Puerto Rico and the Marshall Islands participate in the Self-Help Housing program. These organizations support groups of eight to 12 self-help families who construct each others' homes, performing approximately 65 percent of the construction labor. By working in groups reminiscent of barn-raising, these families are building more than homes — they are building neighborhoods and community, and no one moves in till all the homes are done. Through this "sweat equity", each homeowner earns equity in his or her home, decreasing the cost burden and investing in the community. This enables very-low and low-income families, defined as between 50 and 80 percent of area median income (AMI) for low, and below 50 percent of AMI for very-low income, the opportunity to own their home. At least 40 percent of the families participating in self-help housing programs have incomes at or below 50 percent of AMI.

The average number of homes built each year over the past 3 years is approximately 1,500. Some 68 percent of the participants in self-help housing are minority households. Despite the fact that families participating in self-help housing have lower incomes than others receiving Section 502 loans, default and delinquency rates for self-help families are lower.

It is ironic that the budget cuts self-help housing so dramatically. Because of the success in serving minority households, doubling self-help housing is one of the elements of USDA's 'Five Star Commitment to Increasing Homeownership'.

Despite the proven success of the self-help model and the momentum it has built over recent years, budgetary restrictions have made it difficult for RHS to keep pace with demand for Section 523. In Fiscal Year 2007, a total of $34 million is available for self-help housing grants. However, the total necessary for extending grants for performing programs that expire in 2007 is $60 million which is also the total necessary for FY 2008.
NRHC supports Section 523 funding at $60 million.

The budget slashes farm labor housing loans and grants authorized under Sections 514/516. Farmworkers and their families are some of the poorest yet least assisted people in the nation. In 2003, at least one-half of the individual farmworkers earned less than $7,500 annually, while one half of the farmworker families brought in less than $10,000 which is well below the 2003 poverty level of $8,980 for an individual and $18,400 for a family of four. [1] Some of the predominant problems farmworkers face are a severe shortage of decent, safe, and affordable housing; substandard housing quality; crowding, affordability issues; and low homeownership rates.

There are only two federal housing programs which specifically target farmworkers and their housing needs: USDA's section 514 loans and 516 grants. Section 514/516 Farm Labor Housing Program provides funding to buy, build, improve, or repair housing for farm laborers. Funds can be used to purchase a site or a leasehold interest in a site; to construct or repair housing, day care facilities, or community rooms; to pay fees to purchase durable household furnishings; and to pay construction interests. Section 514 loans and Section 516 grants are made available to various groups which include farmers, associations of farmers, family farm corporations, and nonprofit organizations. Typically the loan applicants are unable to obtain credit elsewhere. In most cases, Section 514 loans are for 33 years at 1 percent interest. Section 516 grants may cover up to 90 percent of the development costs. The remainder of the development costs is usually covered by a Section 514 loan.

[1] U.S. Poverty Guidelines are released by the U.S. Department of Health and Human Services are available online at http://aspe.hhs.gov/poverty.

Since the early 1960s the USDA has allocated more than $569 million in Section 514 loans and over $413 million in Section 516 grants, for a total of nearly $1 billion for the development of Farm Labor Housing.

The FY 08 budget proposes $14 million for Section 514 and $4 million for Section 516 which is about a 67% reduction of the funding received in FY '07. These drastic cuts come at a crucial time given the high program demand and the poor condition of farmworker occupied housing. The current funding levels for these programs are not nearly enough to address the tremendous need for decent, affordable housing.

NRHC is proposing at least $50 million in funding for each Section 514 and 516.

Acknowledgements:

We appreciate the leadership role that Congressman Hinojosa, Chairwoman Waters, Chairman Franks, and others on the Financial Services Committee have taken by opposing the Administration's budget cuts to these federal rural housing programs with a proven track record of success.

Program Reform: Section 515 Restructuring

As stated previously, over 450,000 low-income families and elderly households live in rental housing financed under Section 515 which often provides the only decent, affordable rental housing in many rural communities. However, properties in the loan portfolio are also aging. Some 89 percent of these properties are at least 10 years old, and 64 percent are at least 15 years old. Their major infrastructure systems are at or near obsolescence and need rehabilitation or replacement. But in recent years, the Administrations and Congress have not provided adequate Section 515 or rental assistance funds to rehabilitate the Section 515 portfolio, deliver sufficient long-term preservation incentives, or protect tenants from rent overburden.

In November 2004, USDA released the *Comprehensive Property Assessment and Portfolio Analysis of Rural Rental Housing (CPA).* The purpose of this report was to assess the status of the Section 515 portfolio in terms of prepayment options and long term rehabilitation needs.

This report had at least three key findings including:

1. Only 10 percent of the units in the Section 515 portfolio are in 'hot markets' and could become market rate housing if the owners were to prepay;
2. 90 percent of the units are not in markets where prepayment is an option and are in need of additional funds to ensure adequate operation. The report indicated that the average age of Section 515 housing projects is 26 years, and most are in need of renovation; and
3. The projected cost for ensuring adequate operations and addressing long term rehabilitation needs is $2.6 billion for 20 years.

With its work in 2006 on *H.R. 5039, Saving America's Rural Housing Act of 2006* the House Financial Services Committee took an important step toward addressing the need to revitalize the section 515 program. HR 5039 authorized prepayments of Section 515 loans made prior to December 15, 1989 provided that these projects have met their 20 year restrictions and have not received preservation incentives and have not had any servicing actions. Loans made after the December, 1989 date were not given the right to prepay.

- Authorized vouchers, along the lines of Section 8. The tenant contribution on the vouchers is in most cases 30 percent of income. An owner who prepays may not refuse a voucher for a household living in the project. For communities with a lack of affordable housing, USDA can provide an enhanced voucher as authorized under the Section 8 statute.

- Authorized a restructuring assistance program. In return for such assistance, the owner must agree to a use restriction of an additional 20 years or the balance of the loan term, whichever is longer. The legislation establishes a planning process for the owner and USDA to determine the physical and financial needs of the project and the future rents (that are affordable to eligible households under Section 515). The bill also projects a rate of return to the owner that is comparable to other similar properties. Restructuring assistance can include reduction or elimination of interest on the loans, deferral of loan payments, loan forgiveness, subordination of the loan, re-amortization of the loan, grant payments for the long term plan of the project, third party investments, and a direct loan or guarantee. At the end of the use restriction term USDA and the owner divide the proceeds. . Minimum rents are set at the lower of 30 percent of income or $25.
- The bill took an important step with regard to tenant protection by setting maximum rents for restructured projects at 30 percent of income. Some 18,000 low income section 515 tenants pay more than 30% of income for rent and NRHC believes that restructuring should not result in rent increases for these tenants.

While HR 5039 was improved as it went through the legislative process in the House and does set rents at 30 percent for all tenants in restructured projects, the bill does not make prepayment contingent on the availability of vouchers. Therefore, if there is not an adequate appropriation for vouchers, families could be displaced and left without assistance to find other housing. For these and other reasons, the legislation falls short in terms of protecting tenants.

The following National Rural Housing Coalition recommendations would address the Section 515 inventory's most pressing preservation needs. In general, Congress should not repeal section 502 (c) of the Housing Act of 1949, the law regulating prepayments and providing preservation incentives. Instead the Congress should authorize and appropriate adequate funds to preserve rural rental housing project.

NRHC Recommends that:

1. RHS should create and Congress should fully fund a national preservation plan for the Section 515 portfolio that addresses prepayment, transfers, and rehabilitation of properties that do not change ownership. NRHC recommends a minimum funding level of $250 million to address recapitalization needs and additional appropriations for section 515 to add enough new units to replace those lost to prepayment. RHS should also provide full Section 521 rental assistance for rent overburdened tenants; secure grant funding for performing properties that cannot afford increased debt service; and offer budget-based rental assistance or a new operating subsidy program for performing properties where the lack of a market of comparable properties results in operating costs that exceed market rents.
2. Congress should provide rent vouchers for tenants displaced by prepayment lawsuits. Tenants who lose their RHS housing because of prepayment lawsuits may find themselves without other housing options. In such cases tenants should receive portable Section 8 or rental assistance vouchers.
3. RHS should provide RD field staff with better guidance on how to protect minority residents from the adverse consequences of prepayment. While RHS has procedures to protect minority residents, in many cases RD field staff do not understand them well and need additional training.
4. Congress should open the prepayment transfer process to LIHTC partnerships with non-profit general partners. This change would allow tax credit funding for preservation transfers in cases where RHS mandates the sale of a property to a non-profit to protect minority tenants.

5. RHS should allow non-profit purchasers to receive a return on any equity they bring to the property, including government funds that do not require repayment. This change would put non-profit purchasers on equal footing with for-profit purchasers that bring equity to a 515 transaction. It would also give non-profits another tool to finance housing costs.
6. Congress should provide exit tax relief so that owners will be more inclined toward selling rental housing projects to non-profit organizations. Exit options for owners of Section 515 projects are limited. Many Section 515 owners face steep exit taxes if they sell their properties because they have taken depreciation substantially in excess of their original investments. Unless a property can generate a sales price that covers the exit taxes, its owners are usually better off retaining the property. In considering any sale transaction, owners must weigh the continual taxes on phantom income against the one-time exit tax hit, and potential buyers must ensure that they can meet the owner's price and still accomplish the necessary rehabilitation. The Tax Issues and Preservation Task Forces of the Millennial Housing Commission concluded that if a preservation tax incentive were created to provide full tax relief at the time of sale, as many as 68,000 Section 515 units in 2,510 properties could be recapitalized and preserved.
7. Increase RHS revitalization demonstration to $50 million in budget authority. Congress currently provides $28 million for the Section 515 restructuring demonstration, and of this amount, $16 million is allocated for vouchers. Some 4,100 Section 515 developments sought assistance under this demonstration, totaling some $3 billion in debt deferral and related subsidies. With only about $8 million in budget authority RHS provided some $65 million in assistance with the largest share going to partial or full loan deferral;

RHED and HAC

On behalf of the National Rural Housing Coalition, I would like to applaud Congressman Hinojosa for introducing HR 1982 The Rural Housing Economic Development Improvement Act of 2007 and HR 1980 The Housing Assistance Council Act of 2007.

The Rural Housing Economic Development program provides capacity building assistance, funds for innovative activities for established organizations, and seed support for new programs. Grants have supported micro-enterprise development, affordable housing construction, small business incubators, and staff development and computer software. There is a real need for this type of flexible funding. The program has had numerous accomplishments since its implementation. Since its inception in fiscal year 1999, over 5,000 jobs have been created and 15,000 individuals have been trained. In addition, 5300 housing units have been constructed and 5700 units rehabilitated. Finally, some 600 new and 2300 existing businesses have received assistance.

Non-profit organizations, Native American tribes, community development corporations, state housing finance agencies, and state community and/or economic development agencies are eligible for funding under RHED. Rooted in their communities and increasingly experienced in responding to community housing needs, these groups have taken on a central role in providing housing for lower-income families.

NRHC fully supports HR 1982: The Rural Housing Economic Development Improvement Act of 2007.

The Housing Assistance Council (HAC) helps local communities build affordable rural housing. HAC works throughout rural America but has a special focus on the most economically challenged rural areas. Since 1971, the HAC has helped increase the capacity of local, grass roots development organizations by providing loans, grants, training, technical assistance and information to for profit, nonprofit and public sponsors of affordable housing in underserved, high poverty rural areas. HAC is one of the nation's oldest community development loan funds, with over $217 million in financing provided to help local partners develop almost 60,000 modest, affordable housing units. HAC works closely with community-based groups, targets assistance to the neediest, and diligently cares for its scarce resources. In its 35-year history, HAC's loan fund has a loss rate of less than 2 percent.

NRHC fully supports HR 1980-: The Housing Assistance Council Authorization Act of 2007

Thank you for the opportunity to testify today. I would happy to answer any questions.

**For release only by the
House Committee on
Financial Services
May 8, 2007**

USDA RURAL DEVELOPMENT

Statement of Russell T. Davis, Administrator of the Rural Housing Service before the Subcommittee on Housing and Community Development.

Madam Chairwoman and members of the Subcommittee, thank you for this opportunity to present the President's Fiscal Year (FY) 2008 Budget for the USDA Rural Development rural housing and community facilities programs.

As an integral part of Rural Development, each year the rural housing programs assist nearly 40,000 new home buyers, 470,000 individuals who rent, and nearly 2,000 communities that obtain essential community facilities and equipment.

The FY 2008 budget sets three clear priorities. First, we protect the lowest income and most vulnerable residents. Second, we accelerate the movement of our funding approach from direct to guaranteed loans; this will broaden our reach to more families and a wider range of incomes. Third, we modernize our programs to meet the needs of private markets.

The proposed budget for rural housing and community facilities programs in FY 2008 calls for budget authority of $715 million, supporting a program level of approximately $6.3 billion in loans, loan guarantees, grants, and technical assistance.

Program Highlights

In FY 2008 the President's budget requests $567 million in Rental Assistance in order to renew 100 percent of the Rental Assistance contracts set to expire. FY 2008 presents a difficult year, as 70,000 more units are up for renewal in FY 2008 than in FY 2007. However, the Administration is committed to fully meeting this increase.

This funding level will allow us to assure that all eligible tenants will retain their subsidy for another year. With an average income of less than $8,000 per year, these are our most vulnerable program members.

Across the board, we are moving grant funding to loans, and direct loan funding to guaranteed loans. This will allow us to leverage a much greater amount of budget authority. Community Facilities program level funding is $512 million with a budget authority cost of $25 million. Single Family Housing program level funding is nearly $5 billion for home purchase loan guarantees, home repair loans and grants, and mutual and self-help technical assistance grants, with a budget authority cost of $57 million.

Our proposal to rely exclusively on guaranteed loans for single family housing is consistent with other major Federal housing programs, including those administered by Housing and Urban Development and the Department of Veterans Affairs. In addition, we propose legislation to authorize subsidized single family housing loan guarantees, which will allow us to continue to serve the mortgage needs of very low and low-income rural families.

The Administration will also resubmit the Multi-Family Revitalization proposal for this session of Congress. Under a demonstration program in FY 2006, we were able to provide rehabilitation and preservation of 78 properties nation-wide, at a cost of less than $30,000/unit, compared to new construction at a cost of $150,000/unit. We were also provided 350 housing vouchers to tenants who may be subject to rent increases as a result of property owners prepaying their loans. Through cost-effective tools such as deferrals, grants, and loans with flexible repayment terms, we are able to revitalize existing multi-family properties. The success of the demonstration program lends credibility to our proposal, which will provide long term portfolio sustainability and affordability for our Section 515 Program.

Multi-Family Housing Programs

The Multi-Family Housing (MFH) budget preserves Rural Development's commitment to maintaining affordable housing for the many rural Americans who rent their homes. Our existing portfolio provides decent, safe, sanitary, and affordable residences for about 470,000 tenant households. The total program level request is $822.7 million, of which $567 million dollars for Rental Assistance contract renewals.

The FY 2008 budget request for Section 514/516 Farm Labor Housing is approximately $17.5 million in program level funding. This request is lower than previous years due to several challenges facing the program. These include high development costs, an aging housing stock, inadequate land availability, and adverse environmental conditions. These challenges have led to hesitancy by eligible entities in pursuing new Farm Labor Housing construction.

Section 538 Guaranteed Rural Rental Housing Program

We propose doubling of the Section 538 Multi-Family Guaranteed Program to a program level of $200 million with a budget authority of $18.8 million. This increase will also double the number of newly constructed units of affordable housing to those in need including very low-income families. Under the Section 538 Program, we will be able to construct new properties with less government development costs and greater third party leveraged funds in comparison to the Section 515 Direct Program. The Section 538 Guaranteed Program continues to experience ever-increasing demand and brisk growth, and is rapidly becoming recognized within the multi-family housing finance, development, and construction industry as a viable conduit to facilitate the financing of housing projects in rural areas.

In FY 2006, we distributed more than $99 million in guarantees to fund housing projects that attracted over $320 million in other sources of funds. The risk exposure to the government continues to be very low, as loan guarantees to total development costs are well under 31 percent. Roughly 90 percent of the applications were awarded nine percent Low-Income Housing Tax Credits from the various State governments where the projects were located. This type of leveraging helps ensure that properties are affordable for low-income families.

Since inception of the program, the Section 538 Guaranteed Program has closed approximately 132 guarantees totaling over $248 million. These closed guarantees will provide over 7,600 rural rental units at an average rent per unit of approximately $494 per month. In addition, the program has more than 156 applications being reviewed.

Single Family Housing Programs

The Single Family Housing (SFH) programs provide several opportunities for rural Americans with very low- to moderate-incomes to purchase homes. Of the $4.9 billion in program level requested for the SFH programs in FY 2008, $4.8 billion will be available as loan guarantees for private sector loans made for home purchases. This level of funding will provide homeownership opportunities for approximately 39,118 rural families. No funding is requested for direct homeownership loans, but our commitment to serving those most in need in rural areas remains strong. We are planning on implementing new ways to serve more lower income borrowers with our guaranteed program, at a reasonable cost.

Effective outreach and a quality guarantee product, coupled with low interest rates, have increased demand for the Section 502 guaranteed program. Currently, approximately 2,000 lenders participate in the guaranteed SFH program. The low home mortgage interest rate environment has enabled the guaranteed rural housing program to serve low-income families who may have typically received a Section 502 direct loan. To help decrease the Federal cost of this program, we are requesting the authority to charge up to a 3 percent guarantee fee for purchase loans. Without the proposed fee change, the budget authority requested will support only $825 million in loans compared to $4.8 billion available if the 3 percent fee were in place.

Section 523 Mutual and Self-Help Housing

The President's FY 2008 budget requests $10 million for the Mutual and Self-help Housing Technical Assistance Program. In FY 2006, nearly $34 million was awarded for contracts and two-year grants. This included 22 "pre-development" grants, mostly to first-time sponsors, several faith-based groups, and groups in States with no self-help housing programs. Pre-development funds may be used for market analysis, determining feasibility of potential sites and applicants, and as seed money to develop a full-fledged application. Groups in the pre-development phase typically need 6 to 12 months before they are ready to apply for full funding.

We are decreasing funding for Section 523 Mutual and Self-help Grants because we believe the program can become more self-sustaining. Shifting the selection process to a competitive basis and encouraging nonprofit intermediaries to contribute matching grant funds, will be able to create additional sources of funding. Overall, our goal is to expand the program from thirty-three to fifty states with a strong emphasis on industry partnerships.

The FY 2008 proposed budget also includes program levels of approximately $52.85 million for Home Repair Loans and Grants, $5 million for Site Development Loans, and $10 million for loans for sales of acquired properties.

Community Programs

The Community Facilities budget request will provide essential community facilities, such as educational facilities, fire, rescue, and public safety facilities, health care facilities, and child care centers in rural areas. The total requested program level of $512 million includes $302 million for direct loans and $210 million for loan guarantees.

In partnership with local governments, State governments, and Federally-recognized Indian Tribes, the FY 2008 budget will support more than 240 new or improved public safety facilities, 140 new and improved health care facilities, and approximately 60 new and improved educational facilities to serve rural Americans.

In FY 2006, we invested over $95 million in 117 educational and cultural facilities serving a population totaling over 2.3 million rural residents, over $113 million in 568 public safety facilities serving a population totaling over 2.2 million rural residents, and over $241 million in 146 health care facilities serving a population totaling over 2.2 million rural residents. Funding for these types of facilities totaled over $449 million. The remaining balance was used for other essential community facilities such as: food banks, community centers, early storm warning systems, child care centers, and homeless shelters.

Conclusion

Through our budget, and the continued commitment of President Bush, rural Americans will have the tools and opportunities they can put to work to improve both their lives and their communities. We recognize that we cannot do this alone and will continue to identify and work with partners to improve the lives of rural residents.

I would like to thank each of you for your support of the rural housing and community facility programs' efforts. I look forward to working with you in moving the FY 2008 budget forward, and welcome your guidance as we continue our work together.

Statement of
Moises Loza, Executive Director,
Housing Assistance Council
before the Subcommittee on Housing and Community Development,
U.S. House of Representatives
May 8, 2007

Chairwoman Waters, Members of the Committee, thank you for the opportunity to submit testimony before you today about the housing conditions impacting millions of rural residents across the nation and the resources that are needed to effectively address these issues.

My name is Moises Loza and I am the Executive Director of the Housing Assistance Council, a national nonprofit organization dedicated to improving housing conditions for low-income rural Americans. HAC operates on the basic principle that effective community development – particularly in rural areas – requires collaborative solutions. Congress has been a strong partner in our efforts to address the persistent challenges affecting rural America. Thank you for your ongoing support and we look forward to working with you all in the future.

The Housing Assistance Council (HAC) was established more than 35 years ago to provide financing, information, and technical services to nonprofit, for-profit, public, and other providers of rural housing. HAC exists to meet the housing needs of the poorest of the poor in the most rural places and we fulfill our mission by working in close partnership with local organizations in rural communities throughout the nation. HAC has worked in rural communities in almost all 49 states, Puerto Rico, and the Virgin Islands. These relationships provide us with first-hand knowledge of the issues impacting rural areas and help us develop the strategies we believe have led to sustainable growth in many communities across the nation.

This afternoon, I would like to share HAC's perspectives on the FY proposed 2008 budget for Rural Housing Service, H.R. 1980 – authorizing legislation for the Housing Assistance Council, H.R. 1982 – authorizing legislation for the Rural Housing and Economic Development Program, and the preservation of the Section 515 portfolio. I would like to begin with a brief overview of rural housing needs and concerns.

RURAL HOUSING CONDITIONS AND TRENDS

In many respects, the quality and condition of rural housing has improved greatly over the last few decades. Homeownership remains high and more than 64 percent of all low-income rural families own their homes.[1] Substandard housing rates have declined by more than 90 percent[2] since the 1970s and mortgage credit is more readily available, resulting in increasing homeownership and more consistent loan terms between urban and rural borrowers. Policy and funding resources made available on the federal and state levels coupled with innovation by and the resiliency of local communities and leaders have contributed to these successes.

Despite these improvements, other housing problems persist. While housing costs are lower in rural America, so too are incomes and there is a growing affordability concern, particularly

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[1] HAC Tabulations of 2005 American Housing Survey Data.
[2] HAC Tabulations of 2000 Census Data. More than 2 million substandard rural units in 1970 as compared to 200,000 in 2000.

among rural renters. Nearly 3.6 million rural households are cost burdened, paying more than 30 percent of their monthly income for housing costs

Rural areas are becoming increasingly diverse. Immigration and other population shifts have dramatically altered the face of rural America and consequently, community development needs are changing. Currently, less than 16 percent of the rural population are minorities; however, this population is disproportionately impacted by poor housing conditions as 37 percent are cost burdened and rural minorities are more than three times more likely that rural whites to live in substandard housing.[3]

HAC's analysis of 2005 Home Mortgage Disclosure Act Data shows us that over one-quarter of all reported rural mortgage loans were high cost loans. [4] Among borrowers with incomes of less than $25,000, the high cost mortgage lending rate increases to almost 40 percent. Given the higher interest rates and fees, higher cost mortgage loans can put borrowers in a precarious financial position and ultimately lead to foreclosure for those families that live on the margins.

Coupled with these challenges is the overall lack of attention to rural issues. While more than 20 percent of the nation lives in a rural area, these residents are spread out across 80 percent of the land mass. This presents many challenges related to collecting data and information, presenting a case in funding applications, and serving dispersed populations.

Rural community based organizations, which are often the catalysts of community change, are finding it increasingly difficult to operate. Program funding is declining in many areas and administrative funding is hard to find. Competition for scarce funds, including CDBG and HOME, is made more difficult given the smaller populations rural organizations must serve and the deep subsidies needed to make these projects affordable for low-income residents.

There are several rural housing programs that take these issues and conditions into consideration and allow local communities to develop innovative solutions. HAC has worked with rural communities across America and used these programs to help create housing solutions. The United States Department of Agricultures Rural Housing Service single family direct loan program, Section 523 program, and Section 515 rental housing loan program are examples of resources that have been directed to provided much needed affordable housing for low-income rural residents.

HAC'S PERSPECTIVES ON THE PROPOSED FY 2008 BUDGET FOR RHS

I would like to speak specifically about the Administration's proposed FY 2008 budget would impact rural communities and families.

The proposed budget for fiscal year 2008 would dramatically change the federal funding landscape for rural housing. It would zero out direct loans for first-time homebuyers and for rental developers, reduce support for self-help housing organizations, and eliminate grants to increase local organizations' ability to help their communities.

Single-Family Housing

[3] HAC Tabulations of 2005 American Housing Survey Data.
[4] High cost loans are mortgage loans with interest rates at least three percentage points higher than that of U.S. Treasury securities of comparable maturity.

For the first time, this year's budget proposes no funding for USDA's popular and productive Section 502 single-family direct loan program. Defunding the direct loan program would eliminate the possibility of homeownership for thousands of rural families.

The subsidies provided through the Section 502 direct program has allowed USDA to extend homeownership to more than 2 million very low- and low-income families. In 2006 the average income of homebuyers receiving direct Section 502 loans was $22,992.

Rural housing programs often work in concert and Section 523 is an important piece of rural self-help development. The Administration's budget would drastically slash the funding levels of the Section 523 self-help technical assistance program. Section 523 covers the administrative costs of nonprofit community organizations or local public agencies participating in self-help housing.

Self-help construction, coupled with Section 523 support for sponsoring organizations and direct Section 502 mortgages for participants, puts homeownership within the reach of low- and very low-income families who could not otherwise purchase homes. In addition, some 68 percent of the participants in self-help housing are minority households. Despite the fact that families participating in self-help housing have lower incomes than others receiving Section 502 loans, default and delinquency rates for self-help families are also lower.

Here are several examples of organizations that have used these Rural Housing Service programs effectively to build much needed affordable housing:

- Self Help Enterprises of California
- Proyecto Azteca working along the border in Texas
- Frontier Housing, Kentucky
- Tierra Del Sol in New Mexico
- Rural Development, Inc. of Massachusetts

HAC has been pleased to work with these, and many other, organizations for many years. We know from working with these groups that the Section 502 guaranteed loan program, which serves higher income groups, could not be used effectively to provide affordable homeownership opportunities for many if not most of the low-income families they have served. HAC is not opposed to the guaranteed program; however, we strongly believe that the direct program should not be substituted by the guaranteed program.

At a time when rising foreclosure rates show all too clearly the consequences of our nation's already existing shortage of affordable housing credit. Given the centrality of the Section 502 single-family direct program to improving the nation's rural housing, HAC urges Congress to save, if not increase funding, for these critical programs.

Rental Housing

The Administration proposes no funding for the Section 515 rural rental housing loan program, which produces rental units affordable for the lowest-income rural residents. The Section 515 program enables USDA Rural Development to make direct loans to rental housing developers, creating decent, affordable homes for the lowest-income rural residents. As of January 1, 2006, Rural Development data show that Section 515 tenant incomes averaged less than $10,000.

Nearly 60 percent were elderly or disabled, and thus likely to be living on fixed incomes. In short, Section 515 renters have few, if any, other housing options.

In a final blow to rental housing, the budget proposes to shorten Section 521 Rental Assistance contracts to one year. The Rental Assistance (RA) program, used in developments funded under the Section 515 and 514 programs, ensures that extremely low-income residents pay no more than 30 percent of their income towards rent.

The guaranteed rental housing program, Section 538, cannot be used to affordably house the lowest income rural residents. While this program serves a specific need, the guaranteed program should not replace the direct program. Efforts should be made to protect the stock of affordable Section 515 units, and when possible, develop more of these projects.

PRESERVATION OF THE SECTION 515 RENTAL PORTFOLIO

Preservation has become a major issue for the over 464,000 units in USDA's Section 515 portfolio. A recent property assessment conducted for USDA concluded that 92 percent of those properties will need significant capital improvements in the next 20 years.[5] At the same time, numerous owners have sought to prepay their Section 515 mortgages; some prepaid units remain affordable for low-income people, but it is not known how many. Thus preservation means not only physical maintenance and renovation of the units, but also keeping them in the stock of rentals affordable to low-income people. As I noted earlier, Section 515 tenants have few alternative housing options.

Rural preservation issues were addressed in H.R. 5039, introduced in the last Congress and passed by the Financial Services Committee, although tenant advocates and Section 515 owners did not agree on all the provisions of that bill.

The proposed FY 2008 budget does not appropriately address the need for preservation and revitalization of existing Section 515 properties. The FY 2008 budget would provide a total of only $27.8 million to cover both rental property revitalization and also vouchers for tenants living in developments whose owners prepay their mortgages and, freed of Section 515's affordability requirements, raise rents. Based on prior years, this would fund less than 2 percent of the revitalization applications.

HAC is working with several nonprofits across the nation to address rental housing needs that are compounded by prepayment issues.

- Rural Housing and Development in Kansas
- Kitsap County Consolidated Housing Authority in Washington State
- South East Alabama Self Help Association, Alabama
- Hudson Valley Housing Development Fund, New York
- Northeast Community Action Corporation, Missouri
- Community Housing Partners Corporation, Virginia

[5] ICF Consulting. 2004. *Rural Rental Housing – Comprehensive Property Assessment and Portfolio Analysis, Final Study Report* and *Appendix*. Fairfax, Virginia: ICF Consulting.

This year, the Housing Assistance Council is collaborating with the Council on Affordable and Rural Housing, the National Housing Law Project, the National Rural Housing Coalition, and others to devise ways to address rural preservation challenges.

H.R. 1982: THE RURAL HOUSING AND ECONOMIC DEVELOPMENT PROGRAM

Since 1999, the U.S. Department of Housing and Urban Development's Rural Housing and Economic Development (RHED) program has provided $175.3 million to support innovative housing and economic development programs across the country. According to Office of Management and Budget numbers, RHED has helped to create more than 9,100 jobs and more than 12,000 housing units; more than 78 percent of the participants trained found jobs and families saved an average of more than $1,200 annually because of the energy efficient improvements made using RHED funding.

RHED fills critical gaps left by other programs by providing resources to support comprehensive community development efforts that address the interconnected housing and economic development needs of rural communities. This targeted resource has enabled rural community organizations across the country to design and implement innovative programs and stabilize their communities.

The RHED program emphasizes specific high needs regions and populations and gives extra weight to applications that propose to serve areas with populations of 2,500 or less. Funding is allocated based on community need, measured by poverty and unemployment rates, as well as by other indicators such as substandard housing or housing affordability problems. Because of this targeting, the RHED program has reached isolated rural communities and populations in a very direct way. Almost one-third of these grants have been allocated to organizations serving the most remote rural counties.[6]

At least 60 percent of the organizations that have received RHED funds over the program's history serve high needs regions, which include Appalachia, the Mississippi Delta, the Border Colonias, Native American lands, and farmworkers. RHED's flexible design encourages community level approaches that combine both economic and housing development.

The Oglala Sioux Tribe Partnership for Housing used its RHED grants on the Pine Ridge Reservation in Shannon, South Dakota, one of the poorest counties in the nation. While it has been difficult to use other federal programs in Native communities, $500,000 in RHED grants have been used to provide critically needed housing counseling and to capitalize a loan fund for mortgage financing and economic development.

Azteca Community Loan Fund, which operates in Hidalgo County, Texas, used RHED grants to develop and deliver financial literacy training specific to the needs of families living in the colonias, combining microenterprise loan assistance with housing assistance. Resources like RHED have enabled Azteca to serve families in the Border Colonias region, where annual incomes can be as low as $6,000. Other federal assistance programs are difficult for many of these families to access because of program design or family income and credit issues.

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[6] This analysis is based on the Urban-Rural Continuum Codes, a classification scheme that distinguishes metropolitan (metro) counties by the population size of their metro area, and nonmetropolitan (nonmetro) counties by degree of urbanization and adjacency to a metro area or areas. RHED grants that were awarded to organizations in the most rural counties (Codes 7, 8, and 9) are considered remote.

With a 2001 RHED grant Kentucky Mountain Housing, serving rural Appalachia, was able to purchase a 50 acre tract of land, a dump truck for hauling materials, and update training materials. The flexibility of RHED enabled Kentucky Mountain Housing to increase its capacity and expand production of affordable housing units, resulting in the creation of 30 jobs and leveraging funds and garnering support from several key partners.

HAC has partnered with each of these organizations as they have pursued their community goals. Based on these partnerships and others across the country, we know that effective community development requires collaborative solutions. For HAC and the organizations we partner with, RHED has been a valuable community development tool and this program deserves your support.

H.R. 1980: THE HOUSING ASSISTANCE COUNCIL

In rural areas, where many local governments and community based organizations have limited capacity, simply having programs is not enough. There is a definite need for a mechanism to work between people, programs, and communities. For 35 years, the Housing Assistance Council has filled that role.

I would like to share with you some of the impacts that HAC has had in rural communities across the nation.

Using a comprehensive community development strategy, HAC has used its resources to provide lending dollars, technical information and assistance, training, and research resources all focused on meeting housing needs of rural communities.

HAC has committed loans totaling more than $218 million to over 700 local housing developers in almost all 50 states, Puerto Rico and the Virgin Islands. These resources have resulted in more than 60,000 housing units and water/sewer connections. HAC has loaned more than $50 million to support the development of nearly 17,000 units in high need areas. These lending resources help to bring additional dollars into underserved communities. On average, HAC has leveraged $11 for every dollar invested in rural communities.

These loans help to create homeownership and decent rental housing for the nation's lowest income groups. The median income of households assisted with HAC funds is $22,000, less than half the national median income. Despite the low income of the residents, housing costs for HAC-supported households are less than 26 percent of the monthly income. These resources have also helped to expand minority homeownership.

More recently, through the U.S. Department of Housing and Urban Development's Self Help Homeownership Opportunity Program, HAC and its partners have helped families gain nearly $16,000 in equity assets at closing to families that build their own homes by contributing labor. This is three times the average total amount of assets held by low-income families nationally.

HAC has worked to develop local capacity, providing targeted capacity building grants to local rural organizations, training over a 1,000 local representatives each year, and providing countless hours of direct technical assistance.

A recent example of HAC's activity can be highlighted by the modest grants made to rural organizations struggling to meet the needs of families in their communities affected by hurricanes Katrina and Rita. While the nation was focused on the disaster's impact in urban areas, HAC was able to support housing and financial counseling and rehabilitate housing units.

HAC serves local rural leaders by developing and sharing current research, information, and policy concerns on a range of topics. This information is shared through HAC's biweekly newsletter, *HAC News*, a quarterly magazine, *Rural Voices*, research reports, data analyses, and technical manuals, and the HAC web site, www.ruralhome.org. HAC currently serves 7,500 *HAC News* subscribers and is proud to report over 600,000 web site hits each month.

It is critical that HAC's funding be authorized in order to continue to meet the needs of rural communities that are not always able to advocate for themselves.

RURAL HOUSING RECOMMENDATIONS

Rural housing needs can improve with the appropriate level of policy and resource support. The following policy recommendations would help rural communities identify and implement sustainable programs.

- **Fund direct single family and rental housing programs to support homeownership for low-income and minority families.** HAC recommends:
  - Keeping the Section 502 direct loan program in place with full funding of at least $1.14 billion (the FY 2007 level) or expanded funding of $1.25 billion.
  - Ensuring funding for the Section 523 self-help technical assistance program at $60 million.
  - Funding the Section 515 rental program at FY 2007 levels, at least $100 million, and preferably at $150 million.
  - Increasing funding for the Sections 514 and 516 farm labor housing programs to at least $50 million for each program.

- **Preserve and revitalize affordable Section 515 rural rental housing, and protect the tenants of properties that cannot be preserved.** The following provisions of H.R. 5039, as passed by the Financial Services Committee in the 109th Congress, includes some key provisions that should be reflected in any rural revitalization and preservation legislation in the 110th Congress:
  - Enable owners to refinance their properties and obtain additional monies to revitalize aging properties, in exchange for keeping their properties affordable.
  - Enable USDA to provide vouchers to tenants in prepaying properties.
  - Ensure tenants receiving USDA vouchers have the right to remain in prepaid properties.
  - Require owners to notify tenants 120 days before prepayment.
  - Ensure USDA vouchers remain in the same communities after their original users are no longer using them.

- **Adopt H.R. 1982, authorizing HUD's Rural Housing and Economic Development program.** RHED has filled critical gaps for organizations operating in remote rural and underserved communities. RHED's flexible design encourages community level approaches that combine both economic and housing development.

With appropriate support, this program can provide resources to design innovative programs and leverage greater funds for these communities.

- **Adopt H.R. 1980, authorizing the Housing Assistance Council.** As the only national intermediary organization focused solely on improving housing conditions in rural communities, HAC has an important and valuable role to play and is deserving of your support. Since its inception, HAC has worked to build the capacity of rural organizations that strive to create or sustain affordable housing in their communities.

  This effort has depended on hundreds of partnerships with local organizations that have received one-on-one technical assistance, attended regional and national training events, and accessed grants, loans, or information from HAC. By supporting HAC and the various federal rural housing programs, you are honoring the work of these many rural partners and supporting rural communities spread all across America.

CONCLUSION

In conclusion, I would like to thank you all for this opportunity to comment on the housing needs rural residents. I would be happy to respond to any questions.

STATEMENT OF PAMELA HUGHES PATENAUDE

Assistant Secretary for Community Planning and Development
U.S. Department of Housing and Urban Development

Hearing before the Committee on Financial Services
Subcommittee on Housing and Community Development

United States House of Representatives

RURAL HOUSING PROGRAMS: REVIEW FISCAL YEAR 2008
BUDGET AND PENDING RURAL HOUSING LEGISLATION

MAY 8, 2007

Thank you Chairwoman Waters, Ranking Member Biggert, and Members of the Subcommittee. On behalf of Secretary Jackson, I am pleased to appear before you this afternoon. My name is Pamela Hughes Patenaude. As the Assistant Secretary for HUD's Office of Community Planning and Development, I am responsible for the administration of the Rural Housing and Economic Development program.

In 1998, Congress established the Office of Rural Housing and Economic Development under Public Law 105-276. The law contained three congressional directives: first, establish an office called the "Office of Rural Housing and Economic Development;" second, administer a competitive program called the "Rural Housing and Economic Development Program," with a congressionally mandated announcement deadline of June 1 or September 1 of each year; and finally, develop a clearinghouse of ideas for innovative strategies for rural housing and economic development and revitalization. The purpose of the Rural Housing and Economic Development program is to develop capacity at the state and local level for producing housing and for economic development in rural areas.

The Rural Housing and Economic Development program is designed to address the problems of rural poverty, inadequate housing, and lack of economic opportunity with a specific focus on high-need rural areas, including the Lower Mississippi Delta Region (8 states and 240 counties), Appalachia's Distressed Counties, federally recognized Indian tribes, seasonal farm workers, and the Colonias. Under the Rural Housing and Economic Development program, the Colonias are defined as any identifiable rural communities that are: located in the states of Arizona, California, New Mexico, or Texas; within 150 miles of the U.S.-Mexico border; and determined to be a colonia on the basis of objective need criteria, such as a lack of potable water supply, lack of adequate sewage systems, and lack of decent, safe, sanitary, and accessible housing.

Two types of grants – capacity building and innovation – are awarded to local rural nonprofits, community development corporations, federally recognized Indian tribes, state housing finance agencies, and state community and/or economic development agencies.

Since Fiscal Year 1999, the Rural Housing and Economic Development program has awarded 760 grants totaling $189.6 million. These grants have resulted in the construction of 7,605 housing units, rehabilitation of 11,924 housing units, creation of 12,134 jobs, job training for 34,299 people, creation of 2,205 businesses, and assistance for 5,959 existing businesses through nonprofit organizations for people who live in rural America's poverty-stricken communities – the poorest of the poor.

President Bush's FY 2008 budget does not request new funding for the Rural Housing and Economic Development program. Since FY 2003, the Administration has consistently proposed to consolidate the program's activities within the Community Development Block Grant (CDBG) program. The fiscal impact of the Rural Housing and Economic Development program upon rural America is limited and many of the activities can be funded through the state CDBG program. Furthermore, USDA's Rural Housing

Service and Rural Business and Community Development programs are specifically intended to address these needs.

For the past 25 years, HUD's State Community Development Block Grant program has funded affordable housing activities in non-metropolitan and rural areas. For FY 2007, the total State CDBG allocation is approximately $1.1 billion, the same amount provided for FY 2006. States distribute these funds to units of general local government by a "method of distribution" that describes the state's funding priorities. States are free, within the context of the CDBG program, to fund any eligible activity that meet their particular needs, including rural housing.

The CDBG program also addresses housing needs in two specific rural areas. One area is along the U.S.-Mexico border: the Colonias. Each year, the four states containing Colonias are required by statute to allocate up to 10 percent of their State CDBG allocations to address needs in this region. Historically, approximately 70 percent of Colonias set-aside funds are spent on basic infrastructure activities that are a prerequisite to improving housing and general conditions. While CDBG funds are occasionally used for housing rehabilitation, they are often used in conjunction with HOME program dollars to provide a complete rehabilitation funding package.

The second specific rural area in which CDBG has a role is Appalachia. HUD partners with the Appalachian Regional Commission (ARC) to provide administration for the ARC program. ARC funds are used to meet basic development needs throughout Appalachia and, in many cases, are paired with CDBG funds to ensure adequate financing for projects that contribute to the economic well-being of these communities. As with the Colonias, most of these projects involve infrastructure, but housing is occasionally the primary activity.

Another HUD program assisting rural areas is the Self-Help Homeownership Opportunity Program (SHOP). SHOP funds national and regional nonprofit organizations that facilitate small, local sweat equity homeownership programs in rural areas across the country. President Bush's FY 2008 budget request of $40 million for SHOP attempts to build upon the growing capacity of self-help housing organizations and to expand upon successes in making homeownership a viable option for low-income families who otherwise would not have the resources to acquire a home.

The SHOP program embodies HUD's focus on nurturing partnerships with non-profit organizations by providing competitive grants to national and regional non-profit housing organizations and consortia that specialize in self-help homeownership where the homebuyer contributes a significant amount of sweat equity to the construction. Current SHOP grantees include Habitat for Humanity International and the Housing Assistance Council (HAC).

Since FY 1996, SHOP grantees have been awarded $235 million and have completed construction on almost 17,000 housing units with the typical new homebuyer having an average income between 50 to 65 percent of area median income. The homebuyer's sweat equity contribution reduces the cost of construction, and has resulted in purchase prices as low as $31,000. For every SHOP dollar expended, approximately $7 from other sources is leveraged. This does not include the value of sweat-equity contributed by homebuyers.

The Housing Assistance Council (HAC) has received SHOP funding annually since 1998. Each year HAC has provided SHOP funds to over 50 local nonprofit affiliate organizations in rural areas reaching homebuyers for whom, except for the infusion of SHOP funds and their own contributions of sweat equity and other volunteer labor, homeownership would otherwise not have been an option. Through FY 2006, $76.8 million has been awarded to HAC for development of 6,552 units.

HUD, along with USDA's Rural Housing Service, continues to address our nation's rural housing needs. Thank you for giving me the opportunity to appear before your Subcommittee. I look forward to answering any questions you have.

Council for Affordable and Rural Housing
Serving the Affordable Housing Needs of Rural America

Testimony of Robert L. Rice, Jr.

Representative from the
Council for Affordable and Rural Housing
Before

The U.S. House of Representatives
Committee on Financial Services
Subcommittee on Housing and Community Opportunity

May 8, 2007

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TESTIMONY OF ROBERT RICE ON BEHALF OF THE COUNCIL FOR AFFORDABLE AND RURAL HOUSING BEFORE THE SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY, HOUSE COMMITTEE ON FINANCIAL SERVICES

RURAL HOUSING PROGRAMS: REVIEW FISCAL YEAR 2008 BUDGET AND PENDING RURAL HOUSING LEGISLATION

MAY 8, 2007

Chairman Frank, Chairwoman Waters and members of the Subcommittee:

I am Robert Rice, president of Crest Realty located in Frankenmuth, Mich. I have been involved in the rural housing industry for over 30 years. My company is a full-service real estate company with an emphasis on the management of affordable multifamily housing. I am appearing here in my capacity as President of the Council for Affordable and Rural Housing (CARH). CARH is a national organization headquartered in Alexandria, Va. CARH has sought to promote the development and preservation of affordable rural housing throughout its 27-year history as the association of for-profit, non-profit and public agencies that build, own, manage and invest in rural affordable housing.

On behalf of myself and CARH, I want to thank you and the Committee for the opportunity today to address issues surrounding federal rural housing programs, the 2008 Budget and pending rural housing legislation. We very much appreciate the Committee's ongoing interest and focus on affordable rural housing.

The condition of our nation's housing stock, in general, has improved over the last thirty years, but affordability of that stock is a growing problem. In rural areas throughout the country, there continues to be an overwhelming need for both affordable and decent housing. The need for rental housing is even more acute. With lower median incomes and higher poverty rates than homeowners, many renters are simply unable to find decent housing that is also affordable. While the demand for rental housing in rural areas remains high, the supply, particularly of new housing, has decreased. This is in large part due to a reduction in federal housing assistance. Neither the private nor the public sector can produce affordable rural housing independently of the other. It has been and should be a partnership. Therefore, CARH believes that a number of legislative initiatives should be supported and enacted to address this crucial need.

CARH supports H.R. 1980 and H.R. 1982, two bills introduced by Representative Hinojosa of Texas, co-founder and chair of the Congressional Rural Housing Caucus, together with Chairman Frank, Chairwoman Waters, and Representative Renzi of Arizona, vice chair of the Congressional Rural Housing Caucus. H.R. 1980 assists the Housing Assistance Council (HAC), with whom CARH has worked for decades to further rural rental housing. HAC offers valuable services to public, nonprofit, and private organizations in rural areas throughout the country, with a special focus on high-need groups and regions: Native American country, the Mississippi Delta, farmworkers, the Southwest border colonias, and Appalachia. By building their capacity through providing loans, training, technical assistance, and information, HAC enables communities to assist themselves.

H.R. 1982 further supports the U.S. Department of Housing and Urban Development's Rural Housing and Economic Development (RHED) program. RHED provides support directly to community organizations in rural places with high needs, small populations, and/or locations far from sizeable cities. Designed to be flexible in order to fit local conditions, RHED encourages innovative approaches that combine both economic and housing development.

For all of the reasons stated above, CARH believes that a greater financial commitment is needed. This certainly means more financing than provided in the Administration's FY 2008 Budget. We note the U.S. Department of Agriculture (USDA) Rural Development (RD) Housing and Community Facilities (HCF) FY 2008 budget is reduced by $175 million, which amounts to a 1/3 cut in the entire RD HCF budget over the last six years. Primary budget cuts include the Section 515 multifamily direct loan program, which is again budgeted for zero funding (compared to $100 million passed by Congress last year). In addition, Section 514/516 farm labor housing direct loan/grant programs suffer a $21 million cut in the budget – funding is reduced from $31 million to $10 million. The Section 502 single family direct loan program is also zeroed out, while the Section 523 self-help housing grant program, which covers administrative costs for nonprofit community organizations running self-help housing programs, sustains a $24 million cut. CARH seeks funding at least at the FY 2007 levels passed by Congress as a starting point. Indeed, a substantial budget increase is needed.

The Section 521 Rental Assistance (RA) contracts, which were originally five years in length, were cut to four years in FY 2005 and FY 2006 in order to lower the budget outlay for RA. The FY 2007 budget proposed shortening them to two years; P.L. 110-5, the joint funding resolution effective through September 30, 2007, provides two-year contracts in the total amount of $616 million. The proposed FY 2008 budget would provide $567 million for rural rental assistance; with the funds to be provided under one-year contracts.

CARH believes there are two problems with RA. The first is that RA contracts, even if subject to annual appropriations, should be 5- to 20-year renewable terms, similar to Section 8 renewals. The administrative strain of more frequent renewal processing is already being felt by our members and observed in RD staff. Shorter term renewals and static staffing levels cause more work without corresponding increases in resources. Second, the movement to one-year RA contracts has caused a budget paradox, causing the various multi-year RA contracts in place today to be renewed with ever shorter terms, causing all or nearly all of the RA contracts to be again renewed and reprocessed together in 2011. This will make the budget jump to about $1.1 billion in 2011 just to keep the contracts we have today.

Increases are being proposed for the agency's guaranteed loan programs. The budget contains $200 million for Section 538 guaranteed multifamily loans. CARH supports use of the Section 538 Rural Rental Housing Guaranteed Loan Program. While the focus of the Section 538 program has been in new construction, we believe that the program can be used for preservation of the Section 515 portfolio. There have been a few transactions where the Section 538 program has been used for this purpose, but we believe that more transactions will follow as soon as the viability is proven. The program should also be expanded to communities with populations not in excess of 50,000.

The Fiscal Year 2008 proposed budget also allows for $27.8 million for rural housing vouchers for low-income tenants in Section 515 projects where loans have been prepaid. CARH recommends that RD should be allowed to carry over unobligated funds from one fiscal year to the next year. To the extent that these funds are not spent this year for vouchers they can be used to for revitalization/preservation activities, subject to an authorization bill.

In addition, we believe there are several other legislative initiatives that can further housing preservation, and particularly, rural housing preservation. Prime among these is a reintroduction of the revitalization provisions of the "Saving America's Rural Housing Act of 2006" that was introduced in the 109th Congress by Representative Davis of Kentucky and many other Representatives. We want to thank Representative Davis for taking the lead on this bill, and we want to thank the other members of the Committee last session and presently for their ongoing efforts supporting the legislation. CARH had supported H.R. 5039, as introduced, but in all the discussion about 5039's prepayment provisions that followed, the paramount issue of preservation and revitalization of the Section 515 portfolio seemed to get lost. CARH continues to work with other industry groups for the key and central point of preservation and revitalization. We look forward to working with the Committee in your efforts to pass legislation during this Congress that will provide the necessary tools for owners to restructure the current debt on many properties across the country, thus preserving an integral part of the affordable housing stock.

CARH also supports the RD demonstration program effort known as the MPR – Multifamily Preservation and Revitalization. (Funding for the MPR program has been provided from RD's appropriations bills during the last two years.) MPR has funded some properties, but of equal importance, with perhaps even wider impact, is what the MPR and RD are able to do on an ad hoc basis, with just a few regulatory tools. Unfortunately, RD authority today is not enough to translate these ad hoc efforts into broader preservation, and the demonstration program has not had the impact we had hoped, notwithstanding RD's substantial efforts. We believe this is for two reasons. First, RD needs additional staff at the National Office to coordinate these activities. By all reports, much or most of the nearly 17,000 Section 515 apartment complexes are some 30 years old or older, with extremely thin capitalization. This has kept program costs extremely low but the deferred need is widespread and means we now need new funding for revitalization on most properties. The State Offices have begun working on these issues too, but preservation is in addition to the existing asset management work already demanded of the State Offices. RD needs to hire additional National Office staff to oversee this effort, but also needs authorization and funding to hire outside contractors, which is something that we discovered the Department of Housing and Urban Development (HUD) needed in its Mark-to-Market preservation program and the Resolution Trust Corporation (RTC) needed in its real estate restructuring efforts. Second, RD would benefit from new legislation and a single program rather than individual annual efforts. The demonstration programs are appreciated but it seems RD needs to ramp-up the effort anew each year. Developers and housing advocates also need to refocus their efforts and this does not advance the goal of a consistent program.

In addition to a housing preservation bill, CARH believes certain tax-related issues must be addressed by Congress. While tax issues are under the jurisdiction of the House Ways and Means Committee, we thank you for the strides this Committee, Mr. Frank and staff have made in working more in tandem with Ways and Means. Many of you on this Committee, because of your co-sponsorship of H.R. 1491, the "Affordable Housing Preservation Tax Relief Act of 2007," introduced by Representative Davis of Alabama and Representative Ramstad of Minnesota, understand the need to have "exit tax" relief for owners. H.R. 1491 would correct an imbalance inadvertently caused by the Tax Reform Act of 1986 and remove a barrier to preservation and reduce preservation costs. Almost all Section 515 properties were constructed through limited partnership arrangements and before 1986, were heavily reliant on tax depreciation. This structure makes it exceedingly difficult to introduce new capital into these properties, either through additional capital contributions from current owners or through the transfer of such properties to new owners. Because of rent restrictions that limit any cash flow from the property, new capital contributions would only generate additional passive losses which cannot be utilized by current investors. Yet, if the current owners sell the property it is almost impossible to generate sufficient cash to pay off the steep recapture taxes that would be owed. The best alternative for investors, many of whom are elderly themselves, is to hold the investment until death enabling their heirs to acquire the property with a stepped up basis that avoids any recapture taxes.

There are other important concepts as well, such as allowing financing based on statewide median income rather than local limits, which for rural areas are usually set in a nearly arbitrary manner and we believe artificially deflate median income limits. We also believe there is an important need to amend Section 42 of the Internal Revenue Code, so that Low Income Housing Tax Credits provide to Section 515 properties similar treatment as HOME-funded properties, which would allow for the first time nine percent tax credits with new Section 515 financing. These two changes will allow a more efficient use of existing affordable housing development and preservation tools without creating additional bureaucracy or new programs.

CARH also supports development of single family housing and continued funding of the direct Section 502 program and the Single-Family Guaranteed Rural Housing Loan Program, to enable eligible low- and moderate-income rural residents to acquire modestly priced housing for their own use as a primary residence. Rental properties and homeownership are complementary efforts that largely reach different economic populations. While some people can be helped with either rental housing or homeownership, a vibrant housing economy provides a choice, which also promotes fair housing efforts.

On issues that affect the broader housing industry, we applaud this committee reporting to the full House of Representatives H.R. 1427, the "Federal Housing Finance Reform Act of 2007." This bipartisan legislation would overhaul the regulatory oversight of the government sponsored enterprises (GSE) of Fannie Mae, Freddie Mac and the Federal Home Loan Banks, and provide for an off budget and non-taxpayer financed affordable housing fund.

On behalf of CARH, we again thank the Committee for this opportunity to highlight the important issue of rural housing preservation. With a few relatively minor changes Congress can provide the tools needed to continue the successful public/private partnership for affordable rural housing.

COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING
"RURAL HOUSING PROGRAMS: REVIEW FISCAL YEAR 2008 BUDGET AND PENDING RURAL HOUSING LEGISLATION"
MAY 8, 2007

QUESTIONS FROM CONG. HINOJOSA

PANEL I – REGULATORS – HUD AND THE USDA

1. **Question:**
   By their very nature, rural areas have less access to other supportive services. Non-profits in these communities tend to be very small and have limited capacity and low paid limited skilled employees. Many federal programs target funds to these smaller remote communities.

   USDA RHS Administrator Davis, isn't the proposed budget a vast retreat from 57 years of commitment to housing the rural poor? What happened to the 5 Star program for promoting homeownership, particularly minority homeownership?

   To protect the government's investment and interest, it is essential that larger more sophisticated entities have the resources to train and build the capacity of these smaller non-profits in rural America. This is money well spent and increases the efficiency of federal dollars in these communities. I hope will agree with my assertion and/or consider it.

   Response: Each year the rural housing programs assist nearly 40,000 new home buyers, 470,000 individuals who rent. Our goal is always to house more people. In fact, we will be housing several thousand more people in 2008 than 2007, in spite of house price increases. We can do that by using the budget dollars that we're given in the most efficient way possible. The proposed budget for rural housing and community facilities programs in FY 2008 calls for budget authority of $715 million, supporting a program level of approximately $6.3 billion in loans, loan guarantees, grants, and technical assistance. We also have proposals that will broaden our reach to more families and a wider range of incomes. And, we are modernizing our programs to meet the needs of private markets.

2. **Question:**
   Assistant Secretary Patenaude, in your testimony, you cite the successes of the Rural Housing and Economic Development program but then recommend that the program be eliminated. Can you explain this contradiction? I think RHED recipients in my district would strongly disagree.

3. **Question:**
   I understand that many minority families served by section 502 Single Family Housing come into the program through self-help housing. The budget proposes to cut self help housing by 75 percent. How does the Administration propose to increase home ownership when self-help technical assistance grants are being cut?

   Response:
   The Self-Help program, Section 523 Technical Assistance grants and the accompanying loans, is one of our great success stories. Over the last five years, we have taken a program that had few applicants and, basically built an industry. Several non-profits that specialize in providing self-help housing assistance have graduated from receiving Rural Development grants, to being wholly self sufficient. We will continue to work with the non-profits to provide homeownership opportunities.

Questions of Hon. Ruben Hinojosa

PANEL II

Mr. Loza, how will HR 1980 help you provide additional affordable housing in rural America?

HR 1980 will help HAC continue and expand its successful program of supporting and financing affordable rural housing development by community-based nonprofits, for profits, faith-based groups, and local agencies. HR 1980 will provide the support needed by HAC to continue providing loans, grants, technical assistance, training, information products, research, and initiatives on green building and rental housing preservation. This support helps build local capacity to develop affordable housing in local areas. Since 1971, HAC has helped local communities build approximately 60,000 affordable housing units with its loan fund alone. HAC would use the support provided by HR 1980 to continue to build on this track record. Without the support HR 1980 provides, HAC would cease to provide the services that help build affordable housing in rual America for low-income families. For example, as of May 2007, HAC had a backlog of loan applications for more than $14 million. HAC needs HR 1980's support to process these applications which we estimate should help build about 1460 units. Demands for HAC's loans and assistance will continue to grow and HAC's ability to respond to it will depend on the support HR 1980 would make possible. With this support, HAC will help build and preserve more affordable housing in rural areas.

To all the panelists, do you support the HAC Authorization Act of 2007 and the Rural Housing and Development Improvement Act of 2007. If so, why?

HAC supports both bills. HR 1982 is vitally important to many local rural nonprofits and does not duplicate USDA Rural Development programs. For the reasons stated in response to the question above, we support HR 1980.

Mr. Loza, HUD's testimony seems to imply that HAC receives enough funding from HUD's Self-help Homeownership Opportunity Program (SHOP). How do you use those SHOP funds and how is that related to HR 1980?

HAC has successfully used the HUD SHOP program since the inception of SHOP. The program is one of several HAC uses to support and finance affordable housing development around the country. Most of the SHOP funds are passed through by HAC to local housing nonprofts. SHOP funds are very narrowly focused to support self-help housing land and infrastructure needs. SHOP represents about 15 per cent of HAC's activities. HR 1980 provides the support for the much broader HAC work of lending, grantmaking, training, technical assistance, and information that has enabled hundreds of community-based groups to succeed in the preservation and development of self-help, other single-family, and rental housing for low- and moderate-income rural people.

SHOP is an outstanding program that HAC hopes to continue using. Recently SHOP received the highest possible OMB PART rating, "Effective," and is only the third HUD program out of 30 to receive this top rating.

**QUESTIONS OF THE HONORABLE RUBEN HINOJOSA
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING
"RURAL HOUSING PROGRAMS: REVIEW FISCAL YEAR 2008 BUDGET AND PENDING RURAL HOUSING LEGISLATION"
MAY 8, 2007**

PANEL I – REGULATORS – HUD AND THE USDA

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2. Assistant Secretary Patenaude, in your tesimony, you cite the successes of the Rural Housing and Economic Development program but then recommend that the program be eliminated. Can you explain this contradiction? I think RHED recipients in my district would strongly disagree.

   Answer: The Rural Housing and Economic Development program was created to encourage new, innovative approaches to serving the housing and economic development needs of the nation's rural communities. With the Department's proposed revisions of the Community Development Block Grant (CDBG) program, the needs of America's rural communities will be addressed through the State CDBG program, the HOME program, and through the U.S. Department of Agriculture (USDA). USDA manages a portfolio of rural housing and economic development grant and loan programs that vastly exceed the Rural Housing and Economic Development program in terms of programs and services provided to America's rural communities.

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PANEL II

1. Mr. Loza, how will HR 1980 help you provide additional affordable housing in rural America?

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April 16, 2007

The Honorable David R. Obey
Chairman
House Appropriations Committee
2314 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Jerry Lewis
Ranking Member
House Appropriations Committee
2112 Rayburn House Office Building
Washington, D.C. 20515

The Honorable John W. Olver, Chairman
Subcommittee on Transportation, HUD, and Related Agencies
House Appropriations Committee
2358 Rayburn House Office Building
Washington, DC 20515

The Honorable Joe Knollenberg, Ranking Member
Subcommittee on Transportation, HUD, and Related Agencies
House Appropriations Committee
1016 Longworth House Office Building
Washington, DC 20515

Dear Representatives:

We urge you to support Congressional funding for the Housing Assistance Council (HAC), a national nonprofit intermediary organization, which has been committed for more than 35 years to supporting the development of affordable housing in the nation's most rural and underserved places. HAC has an excellent record as a lender, capacity builder, and information provider and should be included in the 2008 Department of Housing and Urban Development appropriation.

We, the undersigned 266 organizations, represent vibrant, rural communities across America. Our efforts to build and sustain affordable housing for low-income rural residents are often complicated by funding cuts and capacity challenges. Throughout, HAC has been a staunch advocate, a lender, a source of information and technical advice, and a friend to rural housing providers. At times, when others have ignored rural America's needs, HAC has stood firm and kept rural issues at the forefront of the national discourse.

Congressional funding allows HAC to support rural communities and provide:

- ***Lending***. HAC has loaned more than $217 million dollars to 1,875 organizations to develop 56,000 units of affordable housing. These loans have helped thousands of families own or rent affordable, decent homes in 49 states and the Virgin Islands and Puerto Rico.

- ***Capacity Building Grants, Technical Assistance, and Training***. HAC has raised and distributed more than $5 million in capacity building grants to nurture over 300 local nonprofit organizations engaged in affordable housing development. Grants, supported by technical assistance and training have a ripple effect, enabling recipient organizations to begin to sustain themselves and better serve their communities.

- ***Research and Information***. The HAC website, ruralhome.org, helps to overcome the geographical isolation that impacts many rural communities and brings up-to-date information and technical resources to often disconnected rural communities. *Taking Stock* and other HAC research provide objective analysis of rural housing and poverty conditions that impact more than 55 million rural residents.

With continued Congressional support, HAC can sustain and expand its exceptional work in the rural communities you represent across America.

Thank you for your consideration.

1

Alabama

Alabama Non Profit Housing Inc.,	Oneonta
Ecumenical Ministries,	Fairhope
Habitat for Humanity Hale County, Inc.,	Greensboro
HERO,	Greensboro
North Glover CDC,	Mobile
SE Alabama Self-Help Association, Inc.,	Tuskegee
Sowing Seeds of Hope,	Marion

Alaska

Alaska CDC,	Palmer
RurAL CAP,	Anchorage

Arizona

Comm. Action Human Resources Agency,	Eloy
Emanika Associates Architects, Inc.,	Florence

Arkansas

CHICOT Housing Assistance Corp.,	Lake Village
Crawford-Sebastian Comm. Dev. Council,	Fort Smith
Delta Studies Center,	State Univ.
East AR Strategic Planning Initiative,	Brinkley
Eldorado Housing Authority,	El Dorado
SACD,	Arkadelphia
St. Francis County CDC,	Forrest City
Universal Housing Development Corp.,	Russellsville

California

Cabrillo Economic Dev. Corp.,	Ventura
California Coalition for Rural Housing,	Sacramento
California Housing Partnership Corp,	San Francisco
California Human Dev. Corp.,	W. Sacramento
Center for Community Advocacy,	Salinas
Comm. Hsng. Improvement Program,	Chico
CHISPA	Salinas
Legal Services of Northern California,	Chico
Mercy Housing	W. Sacramento
Organizacion en California de Lideres Campesinas,	Pomona
National Housing Law Project	Oakland
Peoples' Self-Help Housing Corporation,	San Luis Obispo
Rural California Housing Corporation,	W. Sacramento
Rural Community Assistance Corp.,	W. Sacramento
Self Help Enterprises Inc.	Visalia
Self-Help Home Improvement Project	Redding
Torres Martinez Desert Cahuilla Indian Nation,	Thermal

Colorado

Century 21 Real Estate	Pagosa Springs
Colorado Housing, Inc.	Pagosa Springs
Grand County Housing Authority	Fraser
Habitat for Humanity of Colorado	Denver
Habitat for Humanity of Montrose Cty	Montrose
Housing Justice	Denver
Housing Resources of Western Colorado	Grand Junction

Delaware

Delmarva Rural Ministries, Inc.	Dover
NCALL Research Inc	Dover

Florida

Coalition of Florida Farmworker Orgs.	Florida City
Florida Home Partnership, Inc.	Ruskin
Florida Low Income Housing Associates	Inverness
Florida Non-Profit Housing, Inc.	Sebring
Homes in Partnership, Inc.	Apopka
Indiantown Non-Profit Housing	Indiantown
Rural Neighborhoods	Homestead

Georgia

East Athens Development Corp	Athens
GA State Trade Assn. of Nonprofit Developers	Atlanta
Home Development Resources, Inc.	Gainesville
Hsng and Econ. Leadership Partners, Inc.	Athens
Ropheka Rock of the World, Inc.	Atlanta
Sams Memorial Community Econ. Dev.	Darien
Seminole County Training School CDC	Donalsonville
Southwest Georgia HDC	Cuthbert
Washington Clay CDC	Atlanta

Hawaii

Hawaii Human Dev. Corp.	Honolulu
Self-Help Housing Corp. of Hawaii	Honolulu

Idaho

Community Council of Idaho	Caldwell

Illinois

Franciscan Ministries, Inc.,	Wheaton
Housing Action Illinois,	Chicago
Illinois Migrant Council,	Chicago
YouthBuild McLean County,	Bloomington

Indiana

Community Action of East Central IN,	Richmond
Comm. Action Program of Evansville,	Evansville
Heart House,	Aurora

Iowa

Northeast Iowa CAC	Decorah

Kansas

21st Century Homestead,	Altamont
Emporia Comm. Hsng Org., (ECHO),	Emporia
Interfaith Housing Services, Inc.,	Hutchinson
Mental Health Assoc. of the Heartland City	Kansas City
NEK-CAP,	Hiawatha
New Beginnings, Inc.,	Hutchinson
Northwest Kansas Housing, Inc.,	Hill City
See-Kan Cooperative Development, Inc.,	Sedan

Kentucky

Community Housing, Inc.,	Winchester
FAHE	Berea
Frontier Housing,	Morehead
Housing Development Alliance,	Hazard
Kentucky Housing Corporation,	Frankfort
Kentucky Mnt Hs Dev' Corporation,	Manchester
Low Income Hsng Coalition of E. KY,	Prestonsburg
McCreary Cty Comm. Hsng Dev. Corp.,	Whitley City
Owsley County Action Team,	Booneville
Partnership Housing, Inc,	Booneville

Louisiana

United for Fair Economy,	Mandeville
Greater North Louisiana CDC,	Jonesboro
MET - La. Housing,	Hammond
Mt. Olive Waterworks District,	Grambling
Project 2000, Inc.,	Hammond

Maine

Bread of Life Ministries,	Augusta
Coastal Enterprises, Inc.	Wicasset
Community Concepts	South Paris
Rumford Group Homes, Inc.,	Rumford

Maryland

Interfaith Housing Alliance, Inc,	Frederick
Southern MD Tri-County CAC, Inc.,	Hughesville

Massachusetts

Hilltown CDC,	Chesterfield
RCAP Solutions,	Gardner
Rural Development Incorporated,	Turners Falls

Michigan

Bay Area Housing, Inc,	Bay City
Channel Housing Ministries, Inc.,	Hart
G.A. Haan L.P.,	Harbor Springs
Human Development Commission,	Caro
Jackson Affordable Housing Corp.,	Jackson
Marquette County Habitat for Humanity,	Marquette
NW Michigan Human Services Agency,	Traverse
Northern Homes CDC,	Boyne City
Saginaw County CAC,	Saginaw
Washtenaw Affordable Housing Corp.,	Ann Arbor

Minnesota

American Indians in Unity,	Saint Paul
Becker County Housing,	Fergus Falls
Grand Portage Indian Housing Authority,	Grand Portage
Minnesota Housing Partnership,	Saint Paul

Mississippi

African American Cultural Society,	Starkville
Central Mississippi, Inc. (CMI),	Winona
Christian Housing Dev. Org., Inc.,	Columbus
City of Picayune,	Picayune
Delta Foundation, Inc.,	Greenville
Esther Stewart Buford Foundation,	Yazoo City
Southwest Mississippi Opportunity, Inc.,	McComb
West Holmes Community Dev. Org.,	Tchula

Missouri

Economic Security Corp. of SW Area,	Joplin
Green Hills Community Action Agency,	Trenton
Missouri Valley CAA,	Marshall

Montana

Midwest Assistance Program,	Lewistown
N. Cheyenne Housing Improvement Prog.	Lame Deer
Neighborhood Housing Services,	Great Falls

Nevada

Rural Community Assistance Corp.,	Dayton

New Hampshire

Laconia Area Community Land Trust,	Laconia
NeighborWorks Greater Manchester	Manchester

New Jersey

Crusaders CDC,	Bridgeton
Mendham Area Senior Housing Corp.,	Mendham

New Mexico

Centro Fuerza Y Unidad,	Mesquite
City Of Lordsburg,	Lordsburg
Eastern Plains Housing Dev. Corp.,	Clovis
Greater Hidalgo Area Chamber of Comm.,	Lordsburg
Habitat for Humanity – Gila Region,	Silver City
HELP-New Mexico, Inc,	Albuquerque
Hsng Authority of the City of Las Cruces,	Las Cruces
Navajo Partnership for Housing, Inc.,	Gallup
Santo Domingo Tribe, Santo Domingo	Pueblo
Siete del Norte,	Embudo
SW Neighborhood Housing Services,	Albuquerque
Supportive Housing Coalition of NM,	Albuquerque
Tierra del Sol Housing Corporation,	San Miguel

New York

ADD Community Services Programs, Inc.	Wappingers Falls
Bishop Sheen Ecumenical Hsng Fdn, Inc.,	Rochester
Cuba CDC,	Cuba
Hudson Valley Housing Development Finance Corp.	Wappingers Falls
NYS Rural Advocates,	Blue Mntn Lake
NYS Rural Housing Coalition,	Albany
Rural Development Leadership Network,	Prince St. Stn
Rural Opportunities, Inc.,	Rochester

North Carolina

Design Corps,	Raleigh
Habitat for Humanity of Moore County,	Aberdeen
Herrington Village, Ltd.,	Elizabeth City
Hinton Rural Life Center,	Hayesville
Housing Assistance Corporation,	Hendersonville
Inez Community Development Co.,	Greensboro
Lincoln Apartments, Inc.,	Durham
Moore County Habitat for Humanity,	Aberdeen
Mount Sinai Homes,	Fayetteville
Mountain Projects Inc.,	Waynesville
North Carolina Housing Coalition,	Raleigh
Panola Heights Housing Dev. Corp.,	Tarboro
Princeville Housing Development Corp.,	Princeville
Robeson County CDC,	Rowland
Southern Real Estate Mgmt & Cons.	Durham
Telamon Corporation, Rowland	Rowland

North Dakota

Southeastern North Dakota CAA,	Fargo
Spirit Lake CDC,	Saint Michael
Standing Rock Housing Authority,	Fort Yates

Ohio

Adams Brown Counties. Econ. Op. Inc.,	Winchester
COHHIO,	Columbus
Habitat for Humanity of Morrow Cty,	Mt. Gilead
Rural Appalachian Housing Dev.,	Glouster

Oklahoma

Latimer County Housing Authority,	Stigler
Native American Housing Services, Inc.,	McLoud
Tri-County Indian Nations CDC,	Ada

Oregon

CASA of Oregon,	Newberg
Junction City/Harrisburg/Monroe Habitat for Humanity,	Junction City
LeBanon Area Habitat for Humanity,	Lebanon
Rural Collaborative,	Portland
Umpqua CDC,	Roseburg

Pennsylvania

Alliance for Better Housing,	Kennett Square
Columbia County Housing Corporation,	Bloomsburg
Housing Alliance of Pennsylvania,	Glenside
Livable Hsng & Comm. Dev. Software	York
Sisters of St. Francis,	Aston
Threshold Housing Development, Inc.,	Uniontown
Trehab,	Montrose

South Carolina

Allendale County ALIVE,	Allendale
CDC of Marlboro County,	Bennettsville
Lowcountry Hsng and Econ. Dev. Fdn,	Charleston
United Methodist Relief Center,	Mt Pleasant

South Dakota

Inter-Lakes Comm. Action Partnership,	Watertown
Oti Kaga, Inc.	Eagle Butte

Tennessee

Affordable Housing Resources,	Nashville
Buffalo Valley, Inc,	Hohenwald
Carey Counseling Center,	Paris
Crossville Housing Authority,	Crossville
Eastern Eight CDC,	Johnson City
Foothills CDC,	Alcoa
Hawkins Habitat for Humanity,	Rogersville
Joshua & Nehemiah Comm. Ministry,	Jackson
Riverview Kansas CDC,	Memphis

Texas

Action Gypsum, LP, ,	Houston
Amigos del Valle,	Mission
Association of Rural Comm. in Texas,	Austin
Comm. Council of Southwest Texas,	Uvalde
CDC of South Texas, Inc.,	McAllen
Futuro Communities,	Uvalde
Housing Plus, Inc.,	Harlingen
Lower Valley Housing Corp.,	Fabens
McAllen Affordable Homes,	McAllen
Motivation, Education and Training, Inc.	Austin
Organizacion Progresiva de San Elizario,	San Elizario
Paso del Norte Civil Rights Project,	El Paso
Proyecto Azteca,	San Juan
Self-Help Housing of East Texas,	Newton
South Texas Civil Rights Project,	San Juan
Texas C-BAR,	Austin
Urban County Program,	College Station
Walker-Montgomery CHDO,	New Waverly

Utah

Mountain Lands Comm. Housing Trust,	Park City
Neighborhood Nonprofit Housing Corp.	Logan
Rural Housing Dev. Corp. of Utah County	Provo

Vermont

Brattleboro Area Comm. Land Trust,	Brattleboro
Lamoille Housing Partnership, Inc.	Morrisville
RNA Community Builders,	Rutland
Vermont Affordable Housing Coalition,	Burlington
Vermont Housing & Conservation Board	Montpelier

Virginia

Bay Aging,	Urbanna
Blue Ridge Housing Development Corp.,	Roanoke
Community Housing Partners Corp.,	Christiansburg
HOPE Community Services,	Farmville
Mountain Shelter,	Wytheville
Rappahannock Tribe, Inc.,	Indian Neck
Southeast RCAP,	Roanoke
Trailview Development,	Abingdon
Volunteers of America,	Alexandria

Washington

Diocese of Yakima Housing,	Yakima
Homes for Islanders,	Friday Harbor
Kitsap County Consolidated Hsng Auth.,	Silverdale
Office of Rural and Farmworker Housing	Yakima
Okanogan County CAC,	Okanogan
Shelter Resources, Inc.,	Bellevue
WA State Farmworker Housing Trust,	Bellingham
WA State Housing Finance Commission,	Seattle
Whatcom Skagit Housing,	Bellingham

West Virginia

Comm. Homebuyer Investment Program	Wheeling
Harts Community Development Inc.,	Harts
Housing Authority of Mingo County,	Williamson
Stop Abusive Family Environments,	Welch
Telamon Corporation,	Martinsburg
Woodlands Development Group,	Elkins

Wisconsin

America's Dream, Inc.,	Seymour
Coalition of Wisconsin Aging Groups	Madison
Southeast Wisconsin Housing Corporation	Burlington
UMOS,	Milwaukee

Wyoming

Habitat for Humanity of the Greater Teton Area,	Jackson

cc: Hon. Judy Biggert
Hon. Artur Davis
Hon. Geoff Davis
Hon. Sam Farr
Hon. Barney Frank
Hon. Rubén Hinojosa
Hon. Marcy Kaptur
Hon. Alan Mollohan
Hon. Ed Pastor
Hon. David Price
Hon. Rick Renzi
Hon. Bennie Thompson
Hon. Maxine Waters

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-7000

ASSISTANT SECRETARY FOR
COMMUNITY PLANNING AND DEVELOPMENT

MEMORANDUM FOR: Carter L. Cornick III, General Deputy Assistant Secretary for Congressional and Intergovernmental Relations, J

FROM: Pamela H. Patenaude, Assistant Secretary for Community Planning and Development, D

SUBJECT: Response to Rep. Randy Neugebauer on CDGB Funding

This memorandum is in response to a request by Rep. Randy Neugebauer (R – TX 19) during the May 8, 2007 hearing on rural housing issues conducted by the House Financial Services Committee's Subcommittee on Housing and Community Opportunity. Congressman Neugebauer is seeking information on the distribution of Community Development Block Grant (CDBG) funding in his congressional district.

There are only two CDBG entitlement grantees in his district – the cities of Abilene and Lubbock. Listed below is the CDBG entitlement formula funding directed to these two communities for Fiscal Years 2005-2007:

	FY 2005	FY 2006	FY 2007
Abilene	$1,255,055	$1,125,812	$1,120,611
Lubbock	$2,637,531	$2,370,340	$2,364,737

Both communities choose to begin their program year annually on October 1, meaning that they will not receive their FY 2007 CDBG grants (and other CPD formula funding) until October 1, 2007. Both communities will submit their consolidated plan/action plan for these funds to HUD for review not later than the middle of August. Listed below are website links to the respective city CDBG programs.

http://www.abilenetx.com/ONS/index.htm

http://housing.ci.lubbock.tx.us/index.htm

The vast majority of the district receives CDBG funding through the State of Texas CDBG program. There are a total of 27 counties either partially or totally within the district and in the period from February 1, 2004 through May 9, 2007, the state awarded 61 grants totaling more than $15 million to the counties or local governments within those counties. A complete list of these grants was provided to HUD by the Texas Office of Rural Community Affairs (ORCA) and is attached to this memorandum.

In summary, CDBG grant funds went into 23 of the 27 counties in the 19th district during this period. Eight counties and 43 different local governments within those counties received grants through the program. Water and sewer improvement activities constituted the most common use of funds as 38 of the grants addressed these needs. The only counties not receiving CDBG awards during this period at either the county or local government level were the counties of Borden, Lubbock, Kent and Stephens.

Hopefully this information is response to Rep. Neugebauer's request. If additional data is required, please let me know.

Attachment