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Committee on Appropriations
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USDA RURAL DEVELOPMENT

Statement of Russell T. Davis, Administrator of the Rural Housing Service before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration and Related Agencies.

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 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 with outside private sector money. 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.

In merging the Single Family direct and guaranteed programs we will continue to serve low and very low-income customers by developing new sources and mechanisms for providing

additional assistance by introducing legislation to create a Subsidized Guaranteed Loan (SGL) program. Features could include interest rate buy-downs, payment subsidies similar to those provided to borrowers under the direct program, 40-year loan terms, or other models aimed at assisting lower income families achieve homeownership.

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 soft loans, 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.

We are increasing program funding for our Section 538 Multi-Family Guaranteed Program by leveraging our budget authority more efficiently. This will allow us to increase our program level to \$200 million with a budget authority of \$18.8 million. Overall, we will be able to increase the total amount of newly constructed units, which will allow us to continue to provide affordable housing to those in need including, very low-income families. Additionally, 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.

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. Five hundred and sixty seven million dollars will be used 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

The FY 2008 budget request will fund \$200 million in Section 538 guaranteed loans, funds that may be used for new construction and repairing Section 515 properties. 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. We also have a delinquency rate of zero. 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 evaluating ways we can serve more lower income borrowers with our guaranteed program, at a lower 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 level 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.