RURAL DEVELOPMENT
Statement of Tammye H. Trevino, Rural Housing Services Administrator
Before the House Financial Services
Subcommittee on Insurance, Housing and Community Opportunity

The Obama Administration's Response to the Housing Crisis
October 6, 2011

Chairwoman Biggert, Ranking Member Gutierrez and Members of Subcommittee, it is my privilege once again to be with you today. As we discussed last month, the mission of Rural Housing Service (RHS) is to create vibrant, thriving rural communities, a strong housing stock, access to safe, decent and affordable rental housing and access to high quality essential community infrastructure. For over 60 years, the Rural Housing Service, part of the Department of Agriculture's (USDA's) Rural Development Mission Area, along with the Rural Utilities Service (RUS) and Rural Business – Cooperative Service (RBS), has been supporting the community development needs of rural America. By providing essential credit access to areas in which low population density has hindered capital formation and infrastructure development, RHS helps foster the economic stability needed to sustain rural America, preserving its vital contribution to our nation's prosperity, security and success.

To ensure the effectiveness of efforts to improve capital access in rural areas, RHS over the past two years has reevaluated programs from both delivery and beneficiary perspectives, and made important enhancements, including:

- Reengineering the Section 502 Single Family Housing Guaranteed program such that fees are expected to offset losses, allowing the program to facilitate rural borrowers' access to credit while mitigating costs to the taxpayer;
- Increasing flexibility in lending programs for better responsiveness to changing economic conditions; and
- Actively emphasizing loan modifications and work-out solutions designed to keep homeowners in their homes.

What we do

Our programs, as you know, are far-reaching. The Single Family Housing, Multi-Family Housing and Community Facilities Service areas are closely integrated through the 47 state offices and 500 area offices that comprise our field office structure. This integration enables better resource management, improved data gathering and, most critically, more responsive interaction with the communities we serve. With a budget authority of $1.3 billion, RHS leveraged a program level of approximately $27.2 billion in loans, loan guarantees, grants and technical assistance in FY 2011. In undercapitalized rural economies across the nation, the significance of this level of commitment can hardly be overstated.

Since FY 2008, the program level for the Section 502 Single Family Housing Guaranteed program has increased almost four-fold. The strategic realignment of the fee structure, lowered the cost of new guarantees and has helped the program expand to the current program level of $24 billion from $6.2 billion in Fiscal Year (FY) 2008. The number of loans provided families throughout rural America more than doubled from 63,833 in FY 2008 to 129,560 in FY 2011. In the three years from FY 2009 to FY 2011, this program spurred $49.7 billion in new loans, making the dream of home ownership a reality for more than 395,000 Americans with limited credit access. Looking forward, the 2012 budget proposes a $24 billion program level for the Section 502 loan SFH guarantees which is anticipated to fully meet demand. The 2012 fee structure will be a 1.97 percent up-front fee and an annual fee of 0.3 percent.

For the Single Family Home (SFH) Direct Program in FY 2008, 15,199 loans were made totaling $1.17 billion. In FY 2009, the number of loans increased to 16,820 and the total loan amount grew 26.9% to $1.48 billion bolstered in part by the housing provisions within the American Recovery and Reinvestment Act (ARRA). ARRA's influence was also felt in 2010, as the number of loans and the loan amount rose to 22,266 and $2.17 million, respectively, the latter a 46.4% increase versus the previous year. In the three years from FY 2009 to FY 2011, more than 52,000 SFH Direct loans with obligations totaling $4. 79 million were made to very low and low-income rural Americans.

The Section 502 SFH Direct Program is unique to RHS. It is a means-tested mortgage loan program targeting low- and very low-income families and households to assist them in purchasing decent, safe and sanitary housing in eligible rural areas. Low-income is defined as 80% of Area Median Income (AMI) or less. Forty percent of the funds are set aside for Very Low-income (50% of AMI or less) applicants. This program assists applicants who are unable to obtain credit from other sources on terms and conditions they can reasonably be expected to fulfill.

The SFH Direct and Guaranteed homeownership programs reflect the long-term benefits such ownership confers not just on families, but on society as a whole. Homeowners enhance community stability and they attract private capital in the form of businesses seeking established communities in which to invest. But above all, under normal conditions, home ownership provides one of the few opportunities for meaningful wealth creation which too often proves elusive for low income Americans. Even if housing prices only keep pace with inflation, the leveraging that occurs through a mortgage loan, coupled with the long homeownership terms that are typical in the direct and guaranteed programs, often provides a critical foundation for financial independence that can support families in present and future generations, that can fortify communities, and ultimately return tax dollars to state coffers.

When focus widens beyond financial returns, it becomes clear these are not the only benefits. Harvard's Joint Center for Housing Studies have repeatedly demonstrated that children of low-income homeowners achieve more in school, attaining higher math and reading scores, and have fewer behavioral problems than children in rental housing who move more frequently.

In addition to the credit extended through these loan programs, two RHS Single Family grant programs, 504 Direct (very low-income) and 523 Mutual and Self-Help (low income), provided an additional $195.8 million to rural Americans needing home improvements or seeking to build their own homes from the start of FY 2009 through FY 2011.

For families and individuals who often could not qualify for Single Family Housing (SFH) loans during that period, the RHS Multi-Family Housing (MFH) programs helped secure financing to build housing projects containing more than 9,300 units, through the 515 Direct, Farm Labor Housing, and 538 Guaranteed Rural Rental Housing programs. In addition, more than 28,700 units were renovated, through the Multi Family Preservation and Revitalization Demonstration Program. Preservation of existing rental housing stock has ensured that program beneficiaries have acceptable housing that both meets safety standards and protects the substantial investment the US taxpayer has made in rural communities. The leverage inherent to these programs greatly enhances their effectiveness. In FY 2009 and FY 2010 (the most recent years for which information is available) , the USDA investment of $648.8 million attracted an additional $1.74 billion in third-party investments for rental housing in rural America.

These improvements to multi-family housing stock benefited some of the more than 460,000 Americans living in Rural Development units across the country. More than 270,000 of these people were provided rental assistance allowing them to live in rental apartments of their own.

These MFH programs are recognized by many as a lifeline not only for some of the poorest of America's rural poor, but also for many elderly and persons with disabilities.

The current Community Facilities portfolio consists of about $5.3 billion in outstanding loans and grants that have been made to 11,276 facilities that received either individually, or in combination, a direct loan, guaranteed loan, or grant. At the close of FY 2011, a total of $ 714.9 million has been invested in America's rural communities through this program, providing 17,247,983 rural Americans with access to new and improved services in 1,064 rural community facilities. Of these projects, $ 354.8 million was invested in 147 health care facilities, $96.0 million was for 414 fire, rescue, and public safety facilities, and $ 117.4 million was invested in 217 education facilities. These facilities are located in rural communities across the 50 States, the American territories, and the Commonwealth of Puerto Rico.

Since FY 2009, the CF programs have invested over $3.8 billion in 4,858 essential community facilities.

A Legacy of Economic Revitalization

These cumulative statistics provide an incomplete measure of the success of these programs. Using program resources to encourage healthier, more efficient credit markets, RHS field offices develop innovative and holistic solutions to meet the prosperity challenges unique to rural communities. The needs of these communities are complex and RHS works closely with the other Rural Development Service groups to address the complicated environmental and economic dynamics. The goal to create viable and sustainable communities, means the overall needs of the community, not simply its residential needs must be foremost.

This work entails much more than raising roof beams. The loans and grants provided through the Community Facilities program support a broad range of facilities from hospitals and health clinics, to public safety buildings, school facilities and rural libraries. Municipal infrastructure such as town halls, courthouses, county office buildings, and streets and bridges are also eligible.

Not uncommonly, a CF-sponsored project is a community's largest employer. This is often the case with critical access hospitals, which offer a variety of jobs at all professional skill levels. The value to the community of jobs created and retained can be enormous.

In FY 2011, 2,221 jobs and 4,627 jobs were estimated to have been retained and created respectively through projects financed by the CF programs.[1] While some of these jobs are temporary construction jobs, a large complex project such as a critical access hospital or college multipurpose building may employ teams of various construction specialties for two years or more. During that period, those workers support the local economy through purchases of groceries, gas, and other necessities.

But construction jobs are only part of the story—there are secondary and tertiary effects. States and communities benefit financially from sales taxes on building materials, corporate taxes on builders' profits, income taxes on construction workers, and fees for zoning inspections and the like. This in turn spurs additional economic activity and supports the broadening of credit market access that is a central part of the RHS mission

Similar dividends are paid by home building. Increased home construction is essential to the future US economic rebound, and home improvement jobs are at least as critical to local economies. Within the construction sector, home improvement and maintenance added more jobs than new construction from the start of the year through June. This has implications beyond primary construction wages, since home improvement can potentially bring greater secondary benefits to the local economy because of the typically smaller reliance on national distributors of building materials.

[1] The estimates of job creation rely on an input-output multiplier framework used to assess the effects of an exogenous shock on the different sectors of production. The input-output framework is based on the fixed inter-industry relationships embedded in the national input-output accounts published by the Bureau of Economic Analysis. These accounts record flows of goods and services used in the production processes of industries in the U.S. economy. The multiplier derived from this analysis provides an estimate of the number of jobs demanded in producing $1 million in output. It was generated to provide insight into the employment impact of the American Recovery and Reinvestment Act (ARRA). Determining the means by which this demand is addressed, whether through the additional productivity of existing employees or through new hiring, involves further analysis beyond the scope of this testimony. The application of the multiplier to months immediately preceding and succeeding ARRA's enactment and term was never specifically envisaged when the multiplier was conceived, and is further reason to use the multiplier for estimation purposes only.

The credit access provided by the Single Family Housing and Multi-family Housing programs is estimated to have generated sufficient demand in the US economy to have sustained or created hundreds of thousands of jobs in FY 2011 alone. Many of these jobs are in industries prominent in parts of rural America that lack diversity of employment opportunities and are therefore especially vulnerable. For example, the timber and lumber products industries' recoveries, which continue at a snail's pace, are closely tied to the health of the housing and home repair markets.

Since FY 2009, the Single Family Housing program has invested $4.7 billion, creating or sustaining an estimated 66,548 jobs (see footnote 1 on previous page). The Multi-Family Housing program has invested $824.2 million, creating an estimated 17,773 jobs. [2] The $3.1 billion invested by Community Facilities since FY 2009 is estimated to have directly created 9,996 jobs and saved 22,384 jobs. Of that amount, over $1.66 billion was invested in 464 rural health care facilities and is estimated to have created 4,124 jobs and saved 10,319 jobs. (See footnote 1 on previous page).

Cost-Effective Response to Current Circumstances

Actively managing the cost of the housing and CF programs is more essential than ever, and RHS is pursuing several strategies toward that end:

- **Portfolio Management:** RHS has compiled a superior portfolio performance record over the past decade. Foreclosure rates in the Single Family housing portfolios are typically lower than those of other private and public portfolios with comparable borrower bases. The use of stringent eligibility requirements, risk management technology, and effective tracking procedures and controls has helped manage foreclosures and minimize default-related costs for the borrower, the community and ultimately the U.S. taxpayer. [3]

- **Efficiencies:** Through asset redeployment and operational realignment, RHS is pursuing streamlining initiatives in several key areas:
  - **State Network:** Rural Development has three service components—Rural Housing Service (RHS), Rural Utility Service (RUS), Rural Business and Cooperative Service

[2] These estimates are derived from a National Association of Home Builders analysis in 2008 which estimates that each $100,000 invested in multi-family housing remodeling generates 1.1 jobs and each newly constructed unit creates 1.16 new jobs. (See "The Direct Impact of Home Building and Remodeling on the U.S. Economy," October 7, 2008.)

[3] The overall costs of foreclosure are often more significant than realized. A 2006 study suggests that each home foreclosure on a block reduces the price of nearby homes by 0.9%, and continues to exert downward pressure on community housing prices for as much as two years. Immergluck and Smith; 2006b

(RBS). They share resources and insights via a field office network through which they can leverage knowledge across all programs and coordinate responses in essential ways to promote community stability. This enables greater responsiveness to complicated issues that might otherwise entail protracted top level negotiation between government agencies. Absent the need to involve numerous Agency heads, RHS can expedite service delivery at times when delay means avoidable cost.

- **Centralization:** To contain overhead costs, create a more favorable fixed/variable cost structure and consolidate workflows across the network, RHS strategically centralizes a significant portion of core operations through the Central Servicing Center (CSC) in St. Louis, Missouri. Individual state operations will also become increasingly centralized in the coming fiscal year to promote more uniform and efficient service delivery.
- **Field Offices:** RHS employs a variety of cost saving practices at the field office level, including teleworking and mobile computing. Pending required changes to Rural Development's automated system called the Comprehensive Loan Program, it is redeploying staff and realigning functional responsibilities to meet strategic priorities in the current fiscal year.

- **Partnerships:** In instances of shared interests, Rural Development (RD) has developed partnerships with various entities and agencies, including private and non-profit organizations that increase the effectiveness and reach of our service delivery model.
    - In response to the American Recovery and Reinvestment Act (ARRA), RHS partnered with five housing nonprofits via cooperative agreements to utilize their network of affiliates to package Section 502 direct loan applications in persistent poverty, colonias, and underserved counties. The housing nonprofits act as intermediaries between their affiliates and the Agency, ensure those engaged in packaging activities under the agreements have adequate experience/training, and conduct quality control reviews on loan application packages prepared by their affiliates prior to submitting the packages to the Agency. With the expiration of ARRA, those agreements have been extended with an expanded focus on counties in need of outreach and application volume.

- RHS has been working with HUD, Treasury, OMB and other Federal partners in an effort to better coordinate Federal rental policy and identify administrative changes that could improve overall programmatic efficiency and further enhance the ability of communities to create and preserve affordable housing. Pilot implementations are being pursued in several states to test some of these administrative alignment activities on a small scale before implementing them at the national level. RHS has taken the lead on two of these very important pilot projects: physical inspections and subsidy layering review. On September 29th, in Mt. Pleasant Michigan, USDA, HUD and the Michigan State Housing Development Authority (MHSDA) signed a three party MOU to coordinate subsidy layering reviews for rental housing development's funded by more than one source in Michigan. These reviews help assure that government housing resources are properly and efficiently used. The MOU is designed to streamline and clarify the regulatory process so that transactions can be approved faster and more efficiently. The MOU is the first written agreement in the nation and will pilot test national efforts to better align Federal rental housing policies and programs across the country.
- Through Community Facilities programs, we also have longstanding partnerships with Health and Human Services, the Economic Development Administration, and the Appalachian Regional Commission which have included Memorandums of Understanding that set forth the ways in which the agencies collaborate and leverage resources to improve access to critical health care, education, and public safety facilities. For example, USDA RD and HHS have a strong history of collaborating to help meet the health care needs of rural communities, and today's economic realities make this cooperation vital to providing improved health services, economic growth and jobs to rural communities. In August of 2011, USDA RD executed a Memorandum of Understanding with HHS to leverage resources to increase access to capital for health care facilities and health information technology. Similarly, USDA RD is improving access to emergency communication systems and disseminating critical information to rural communities through collaboration with the Department of Homeland Security/FEMA and the Federal Communications Commission.

What We Must Keep Doing: Protecting Rural Americans Most at Risk in Times of Economic Hardship

The protracted economic downturn has had a profound effect on rural America. Poverty rates are rising faster in rural communities than in urban areas, and jobs remain scarce.[4] RHS mortgage loan portfolios reflect this hardship. Delinquency rates have been inching up for more than a year and staff is investing significant time in the drafting and negotiation of delinquency workout agreements (DWAs) so that families can resume payment and not be forced from their homes. When circumstances threaten a borrower's ability to meet mortgage obligations, RHS immediately advises the borrower of the tools available to help navigate successfully through periods of financial challenge.

RHS makes multiple attempts to contact homeowners who fall behind their mortgage payments. Through multiple calls and written notifications, RHS representatives at the CSC invite delinquent borrowers to learn about their options. Borrowers who are experiencing loss of income might have payments reduced. Others who have lost a job, or whose resources are strained by the financial burden of medical crisis, death in the family, or other condition might have payments temporarily suspended through a moratorium process. If under the new terms, a borrower is then able to meet mortgage obligations for a period of time, a loan can be re-amortized and the more accommodative structure formalized.

In August 2011, RHS' Central Service Center made more than 229,000 outbound calls to alert borrowers of late payments and offer help in cases of financial distress. CSC received more than 28,000 incoming calls from borrowers seeking information and assistance. In FY 2011, RHS has initiated approximately 30% more Delinquency workout negotiations (calculated on a percentage of portfolio basis) than it had through the comparable period in FY 2008. This practice of proactive and very deliberate intervention has kept many homeowners from losing the single most important asset they own and has helped sustain community housing values, which in turn support local tax revenues.

Conclusion

As these procedures suggest, the RHS commitment to preserving the health of one of our nation's most vulnerable communities begins with that community's most vulnerable members. Rural

[4] USDA Economic Research Service, "Rural America at a Glance"; September 2011

America has looked to USDA for more than 60 years to uphold the promise of "a decent home and suitable living environment for every American Family," as put forth in the 1949 Housing Act. We have made every effort to do so in recent years and to help the 50 million citizens of rural America meet the unique challenges they confront each day. We thank Congress for your continuing support of our mission.