

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

**Legislative Proposals to Determine the Future Role of FHA, RHS and GNMA in the Single
and Multi Family Mortgage Market Hearing**
September 8, 2011

Chairwoman Biggert, Ranking Member Gutierrez and Members of Subcommittee, it is my privilege to be with you today to discuss USDA's role in supporting America's continuing need for safe, affordable places to call home. 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 and Rural Business – Cooperative Service, has been working to help rural America thrive by supporting the housing needs of these communities.

Rural Development is a collaborative agency. Our programs build upon one another ultimately creating efficiencies for the taxpayer and the communities we serve.

We have exceptional staff in our network of 47 state offices and 500 area offices across the rural landscape working closely with dedicated partners in the for-profit and non-profit sectors. Rural Development State Directors deliver programs for all three agencies in the Mission Area. By being located in rural communities, we are able to cultivate important relationships with lenders, realtors, community-based organizations, county housing and redevelopment authorities, and others. We are able to be more efficient with our overhead costs because we strategically centralize a significant portion of core operations, while leveraging the community knowledge of our field structure across all programs. For example, staff delivering Rural Housing Service's Community Facilities program to eligible municipalities, tribes, and non-profit organizations also work with these same partners on the Rural Utilities Service's Water & Waste Disposal program. The importance of our local staffers cannot be overemphasized; they know the needs of their neighbors and their rural communities, and provide critical support both effectively and efficiently.

Rural Development's Rural Housing Service has single-family homeownership programs, multi-family housing programs, housing loans and grants for repair and rehabilitation, and community programs.

As part of the Rural Development Mission Area, Rural Housing Service programs are integrated into a more holistic approach to rural community and economic development. As a vital part of Rural Development, the Rural Housing Service helped more than 150,000 rural American families become homeowners in FY 2010, and an additional 108,000 this fiscal year (through July 2011); provided safe, decent, affordable rental housing to 460,000 individuals; and provided financing to assist over 1,000 small communities develop essential community buildings and equipment. Utilizing a total budget authority of \$1.03 billion, the Rural Housing Service leveraged a program level of approximately \$26.3 billion in loans, loan guarantees,

grants and technical assistance in FY2010. Our budget targeted resources to programs that are most needed and most effective in rural communities.

Rural Development also assists rural communities – often led by volunteer municipal governments with little or no staff of their own – in planning their future. We assist with building basic infrastructure, from electricity to public water and sewer to broadband, that facilitate home construction. We create and sustain rural job opportunities and support entrepreneurs from the micro-enterprise level to large-scale manufacturing and biorefineries so those who live in rural communities don't have to commute to metropolitan areas in order to support their families and pay their mortgages. In the wake of natural disasters, Rural Development programs have worked in concert to build communities from the ground up. No other Department in the Federal family offers rural communities the range of financial services available from USDA Rural Development and staff nearby to provide technical assistance.

Rural Housing Service is able to offer full life-cycle residential options to rural citizens by virtue of the programs we provide through the Housing Act in combination with the programs we offer through the Consolidated Farm and Rural Development Act, or ConAct. If you were born in a rural hospital, that hospital might have been financed through Rural Housing Service's Community Facilities program, authorized in the ConAct. Your parents might have brought you home from the hospital to an affordable rental unit financed under our Multi Family Housing (MFH) Section 515 or 538 programs or to a home financed through the Single Family Housing (SFH) Section 502 program, either as a direct or guaranteed loan. Most of the home ownership loans and loan guarantees we make are to families, and giving rural children a safe and supportive environment in which to grow up is at the heart and soul of our Mission Area. As you become ready to rent or own your home, or you need to improve a home you already own, Rural Housing Service can offer direct financing under SFH Section 502 of the Housing Act to applicants at or below 80% of median income for the county – a program unique to USDA among Federal agencies involved in housing – or we can guarantee a loan for an applicant whose income is up to 115% of median income for the county. As you age and begin looking in your rural community for housing options with less maintenance than a single family home, we can offer elderly rental housing. Or, as your needs increase, the Community Facilities program steps in again to finance assisted living facilities and even nursing homes. Over the course of your lifetime, the quality of life in a rural town might be improved by a new library, schools, and community centers, again financed through the Community Facilities program.

Rural Housing Service is a big part of Rural Development's overall success in effective program operations. Delinquencies are less than two percent of our outstanding loan portfolio of over \$150 billion. Despite doubling our borrower numbers over the last two years, Rural Housing Service's direct and guaranteed loan portfolios continue to perform well, thanks in large part to our state of the art call center, the Centralized Servicing Center in St. Louis, MO.

The delinquency rates in the 515 Multi-family Direct Loan, 514 Farm Labor Housing and 538 Multi-Family Guaranteed programs were 2.4%, 3.3%, and 7.1%, respectively on July 31, 2011. The July 31, 2011 delinquency and foreclosure rates for the Single Family Guaranteed Program were 10.2% and 3.2%.

The delinquency rate in the Single Family Guaranteed Program, which includes moratorium and other accounts in the workout process, was 18.7% on July 31, 2011. If we exclude moratoriums, which our studies indicate return a significant portion of delinquent accounts to the current portfolio, and also exclude foreclosures, the delinquency rate drops to 12.3%. The foreclosure rate in the Single Family Direct program was 5.0% on July 31, 2011, which is unexceptional when compared to current commercial levels, but the advantages conferred upon very low and low income families and their communities by homeownership are extraordinary. Homeowners enhance community stability, they reap the benefits of forced savings through their expanding home equity, they are partially shielded from the effects of inflation which can be financially debilitating at these income levels, and they attract private capital in the form of businesses seeking established communities in which to invest. But above all, 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 that might otherwise be depleted.

Through the Single-Family Housing programs, opportunities are provided for rural Americans with very low to moderate incomes to purchase homes. The Single Family Housing programs have assisted 92,786 families during FY 2011 to purchase or refinance a home thereby strengthening communities and neighborhoods and helping families build equity for their future. In FY 2010, the Single Family Housing programs assisted 146,890 families purchase or refinance a home, helping boost rural economies and creating thousands of new jobs in rural communities.

For FY 2011 and FY 2012, the SFH Guaranteed program has a negative subsidy rate because of a low and stable default rate coupled with increased program fees. The 2012 fee structure will be a two (2) percent up-front fee and an annual fee of 0.3 percent. The \$24 billion guaranteed loan level allows USDA's Rural Housing Service to provide more assistance for single family housing in rural areas. Currently, approximately 2,000 lenders participate in the program.

The Multi-Family Housing program also carries out Rural Development's commitment to provide affordable housing options to the poorest citizens in rural America. Our existing portfolio provides safe, sanitary, and affordable residences for 460,000 tenant households.

USDA provides financing for nearly 16,000 multi-family properties in rural America, which provide housing for over 600,000 tenants, most of whom are very-low income residents in need of affordable housing. Unlike our public housing authority partners, RHS field structure is able to serve families in remote rural areas where public housing is limited. In addition, by structure and design, Rural Housing Service transactions are able to attract third party financial resources, such as Low Income Housing Tax Credits, that are not directly available to public housing authorities. We anticipate renewing 204,503 rental assistance contracts for the benefit of tenants considered low and very low income and severely rent over-burdened.

In FY 2010, Multi Family Housing program investment was used to renovate or build 214 multi-family housing projects, containing more than 8400 units, through the 515 Direct, Farm Labor Housing, and 538 Guaranteed Rural Rental Housing programs. This budget authority represented a \$259 million investment by USDA, and was used to attract an additional \$690 million in third-party investments for rental housing in rural America.

This year, USDA will provide approximately 2,000 grants to very-low income, elderly, rural homeowners in order to make essential repairs to their homes to make them safe and to remove health hazards through the Single Family Housing Repair grant program.

RHS is constantly looking for ways to streamline and improve its program delivery. The Agency's housing and community facilities programs have a variety of partnerships with Interior, HUD, Treasury, FDIC, FCC, HHS, and other federal partners to improve efficiency and maximize service to rural Americans. For example, 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 increase 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.

While we appreciate Congress' intent to identify duplication of services across the Federal government, we do not support the draft proposal in its current form. While RHS and HUD share an important commitment to meet the housing needs of rural America; we believe that the mission and delivery of programs in RHS and HUD are different and distinctive. Rural Housing, through Rural Development has the flexibility to respond to changing needs across the rural landscape and lead other public sector and private sector for-profit and non-profit partners to invest strategically in rural people and places, particularly those who are traditionally underserved by conventional financial models. With our long record of success at attracting private capital to rural areas, primarily through loan guarantees and leveraged grants; providing public capital for economic and community development where the private sector is unable to step in; and building capacity in rural communities through technical assistance, Rural Development enables significant improvement in job opportunities and quality of life for millions of rural Americans. The synergistic structure within Rural Housing Service through Rural Development enables close coordination of programs across all mission areas. This is a critical asset in rural America that is not duplicated elsewhere in the Federal Government.

A robust housing sector is critical to growing and sustaining the rural economy, and housing programs are an essential component of rural community development that serve as a catalyst for rural jobs. Rural communities have a unique set of challenges, quite different from those in urban areas, and it is imperative that we not lose focus on the specific needs and challenges in rural America. RD is well suited to address those challenges. With RD's network of Agencies and programs, we provide services and opportunities specifically targeted to improving the quality of life and promoting economic development in rural America. As policy makers look to

the future of the Federal role in housing, it is important that the discussion addresses needs that are inherently rural.

Mr. Chairman, thank you for the opportunity to be here today. I look forward to addressing any questions you and other members of the Subcommittee might have.