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Subcommittee on Housing and Community Opportunity
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Chairwoman Waters, Ranking Member Capito, and distinguished Members of the Subcommittee, thank you for the opportunity to appear before you to discuss multi-family housing preservation in rural America. This is a critically important issue and in broad terms we believe that the strategy outlined in the Rural Housing Preservation Act of Title VIII of the proposed legislation is very promising. I would like to thank all of those involved in crafting this legislation for your hard work. I am pleased to testify before you today on behalf of Secretary Tom Vilsack, Under Secretary Dallas Tonsager, and the United States Department of Agriculture's (USDA's) Rural Development (RD) Housing Programs, and look forward to working with you to further the preservation agenda.

At USDA, we advocate a strong national housing policy that both supports the American dream of homeownership and provides affordable rental opportunities. For 60 years, our rural housing programs have provided invaluable support for low and very-low income families in rural areas. We are thrilled by the committee's focus on legislation that will create national housing preservation standards for all government agencies that specialize in housing assistance, especially in rural communities.

Key multi-family housing programs currently include the Section 514/516 Farm Labor Housing Program, the Section 515 Rural Rental Housing Direct Loan program, and the Section 538 Rural Rental Housing Guaranteed Loan program. The USDA multi-family housing portfolio currently accounts for over 15,900 multi-family and farm labor housing properties financed with direct loans and grants for \$11.4 billion. These two direct loan programs have been providing decent, safe, and sanitary affordable rental housing to countless rural Americans since the 1960's.

In our direct portfolio, we house over 450,000 tenant households across the country, and our tenants' average income is \$11,000. Two of every 3 households are headed by a person who is elderly or handicapped, 1 of every 3 is a minority headed household, and 7 of every 10 households are headed by a female. While 99 of every 100 tenants are low or very low income, 2 out of 10 receive no deep tenant subsidy, such as RD's rental assistance or Housing and Urban Development (HUD) vouchers.

The RD's multi-family housing programs were established because sufficient access to capital and credit was not available to serve the needs of very low-income renters who wished to live and work in rural communities. Although the overall capacity of the American credit system has grown since the middle of the last century, low-income rural residents continue to be underserved. The difficult economic times we are now experiencing add to the stress. We therefore continue to face two immediate challenges. The first is to provide new affordable rental housing units in rural communities. The second is the rehabilitation and revitalization of a critically important but now aging rural rental portfolio. I appreciate the opportunity to provide you with feedback on the legislation proposed to address the latter.

Currently, our revitalization program is authorized as a demonstration program, not in permanent authorization legislation. The lack of permanent authorization makes it difficult for the Agency to promulgate permanent program regulations and to address long term issues, including the length of vouchers. By providing permanent authorization for our revitalization efforts, this legislation would dramatically enhance the quality of the housing stock in rural America, helping our Agency meet Secretary Vilsack's priority of ensuring that rural regions and communities are creating wealth, self-sustaining, repopulating and thriving economically.

Two key features of the proposed Rural Housing Preservation Act will work to improve affordable housing policy at the Federal, state, and local levels. First, the legislation provides the Agency with a number of revitalization tools that would provide cost effective preservation options for the existing multi-family housing rental housing portfolio so that these projects can continue to serve their communities throughout rural America. Secondly, the proposed legislation contains voucher authority that will help protect tenants in properties that leave the program. In addition, I am grateful to the committee for specifically recognizing and including RD's farm labor housing programs in this legislation and removing provisions affecting borrowers who have participated in legal action settlements.

The benefits of preserving existing housing rather than financing new multi-family housing properties are clear. It is cost efficient – roughly one-third to one-quarter the cost of new construction; it can be accomplished faster, with site and acquisition issues already resolved; it presents many opportunities to upgrade existing properties' energy efficiency; and it minimizes the

NIMBY effect since most communities welcome an upgrade to existing rental properties in place. Moreover, the tools provided in this legislation have been tested through the Multi-Family Housing Preservation and Revitalization demonstration and their effectiveness has been proven.

The results of our restructuring demonstration, which were reported to Congress on December 28, 2009, are extremely encouraging. The report showed that when the application window closed on April 17, 2006, approximately 4,000 Section 515 property owners applied for debt restructuring. This represents 25 percent of the total portfolio. In the four full years of implementation as a demonstration program, USDA has obligated over 400 transactions that will improve the housing conditions of 14,000 tenants. These results indicate a tremendous interest among the ownership community in seeking a resolution to the revitalization challenge most are facing.

We realize that the rehabilitation and capital needs of the portfolio are significant. However, at approximately \$27,000 program cost per unit, the cost effective rehabilitation tools and our ability to leverage third party financing have actually led to reductions in post-transaction rents, rather than modest increases as first anticipated. The revitalization program has also been designed to provide financing options to both sophisticated developers who work with third party financing and small owners who need affordable, accessible, and relatively simple financing options. We are pleased to see that the basic structure of the rigorous underwriting policy we developed under the demonstration will be reflected in this legislation to assure that our preservation efforts are sustainable well into the future.

I am very excited to see that the proposed legislation contains voucher authority that will help protect tenants in properties that leave our program. At the present time, in a Section 515 property where the mortgage is prepaid either by borrower action or through foreclosure, the property owner can increase rents to market rates. At the same time, by leaving the 515 program, the property is no longer eligible for Rental Assistance. The current RD demonstration voucher program provides protection against rent increases or the tenant having to relocate as a result of prepayment or foreclosure.

Our demonstration voucher program is in its fifth year and has been highly successful. Over the last four-years, more than \$13.5 million in voucher funds have been obligated and over 3,500 new and renewed vouchers have been provided to rural residents. Over 90 percent of voucher recipients have elected to remain in the property they have called home for a period of years. The intention behind this “soft landing” voucher approach was to provide a simple, direct and responsive solution to an immediate and growing problem without duplicating other federal rental assistance programs. The voucher authority proposed in this legislation would provide our Agency with the ability to protect more of our tenants over an extended period of time.

I am pleased to see that the proposed legislation includes provisions for long-term viability planning. We continue on a demonstration basis to carry out many of the objectives authorized by the proposed bill in regard to such planning. In our multi-family housing units, we are conducting physical needs assessments with an emphasis on our older properties. We also offer a range of financial tools that include loan restructuring and rent adjustments. This approach has helped to contain growing foreclosure and default rates in these tough economic times.

We recognize that in order for us to successfully carry out our goals, we must work closely with the other agencies that provide government assisted housing. In general, the proposed legislation makes that goal easier by introducing the concept of a national database that will give us access to the information needed to track America's affordable housing stock. Specifically, the revitalization tools provided by Title VIII give us the ability to be full partners with other Agencies as we work together to preserve the portfolio.

Finally, in cooperation with the Department of Housing and Urban Development, I will ensure that information regarding any covered multi-family properties will be available to the public within the 18-month period after the enactment of this legislation.

In the ten months I've served as the Administrator for the RD's Housing and Community Facilities programs, I've had the opportunity to travel across the country to visit with tenants and observe the condition of our multi-family housing portfolio. During this time – and during the ten years I spent running a regional rural development non-profit in south Texas – I have seen the best and the worst of our multi-family housing properties. Many of our properties – some 30, 40, or 50 years old – are in a deplorable state and are in desperate need of rehabilitation. With your help, I know Rural Development can do the hard work of revitalizing these properties. through our demonstration program, I have seen first hand the hope and appreciation that these efforts inspire in our tenants across the nation. Madam Chairwoman, I applaud your committees efforts to enshrine this national preservation effort into law.

Thank you for allowing me to share USDA's perspective as you address this important issue. I am available to answer your questions now or at any time in the future.