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RURAL DEVELOPMENT
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United States Department of Agriculture
Before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration and Related Agencies

Chairman Kingston, Ranking Member Farr and Members of the Subcommittee, thank you for this opportunity to present the President's 2013 Budget for the Department of Agriculture's (USDA) Rural Housing Service (RHS).

In 2011, the RHS helped nearly 140,000 rural American families become homeowners, provided safe, affordable, rental housing to an additional 470,000 individuals, and provided financing to assist more than 1,000 small communities develop essential community facilities and equipment.

In 2013, the mission of the RHS remains unchanged. Through mortgage finance and refinance, as well as rental subsidies, we will continue to make housing opportunities available to rural Americans as they continue to work to ensure the security and prosperity of our Nation. We will seek to ensure that communities have access to the capital they require to expand local infrastructure and build a lasting foundation for renewed economic growth. The proposed budget for the RHS in 2013 requests total budget authority of $1.08 billion, supporting a program level of approximately $27.9 billion in loans, loan guarantees, grants, and technical assistance.

A portion of this budget will support a 54 percent increase in the Community Facilities Direct loan program. With a new loan level of $2 billion, this program will sow change across the rural landscape, bringing libraries, roads, schools, hospitals and other essential facilities to hundreds of communities, many of which are still trying to regain their economic footing. All of these projects fulfill program directives by eliminating infrastructure gaps and either directly or indirectly generating the employment opportunities that help revitalize local and regional economies. This increased level of assistance is being provided at no increased cost to taxpayers.

But we enter this year with a new mandate as well: to address the pressing housing and community needs of our rural areas with smaller staff and fewer resources. Some of our programs have grown significantly in recent years and that expansion has helped satisfy the homeownership and community development aspirations of many thousands of families across rural America. As we embark upon an era of much tighter budgets and significant reductions to salary and expenses, our success will be gauged not only by how many new loans we can provide, but by how well we continue to manage the program and portfolio risks associated with existing loan obligations. Careful monitoring of our portfolio and effective management of its risk, which have always been among our topmost priorities, are even more important today with reduced staffing levels and training budgets. We view the expansion of our programs as tacit recognition of their importance to underserved rural communities, and we are grateful to Congress for the shared commitment to our mission.

Today, after deep staffing reductions in offices around the country, our shrinking portfolio servicing and risk management capability struggles to keep pace with the origination requirements of our expanding programs. We will work to deliver our programs up to their enacted levels, but we recognize that even at their current size, our programs cannot satisfy the public's demand. As Secretary Vilsack emphasized in his testimony on the 2013 budget, any further reduction in funding for our back office operations would significantly impair our ability to deliver critical services, and would imperil our efforts to manage an increasingly complex workload with less money and fewer workers.

Single Family Housing (SFH)

The impressive 2011 results posted by the Single Family Housing (SFH) Guaranteed program underscore both the successes and the challenges of expansion. With the increase from the 2010 program level of $12 billion to $24 billion in 2011, the SFH Guaranteed program, which serves low and moderate income borrowers, enjoyed a record-breaking year. More than 130,000 guaranteed loans were made, totaling approximately $16.9 billion. USDA has now provided more than 860,000 new and refinance guaranteed loans to rural families since the SFH Guaranteed pilot program was introduced in 1977.

The current budget request proposes a continuation of the program level for the SFH Guaranteed program at $24 billion. This level of funding is supported by a fee structure which, coupled with low and stable default rates, results in a negative subsidy program requiring no budget authority. As in 2012, the fee structure is expected to include a 2 percent up-front fee and 0.4 percent annual fee for both purchase and refinance transactions.

A newly introduced pilot program could increase the applications for refinancing loans in 2012 and 2013. Refinance loans are currently made to borrowers with existing USDA mortgages. In response to the strong economic headwinds many states still encounter, RHS has initiated a pilot program to expand the eligibility pool for mortgage refinancing by eliminating the need for a credit report if a borrower has been current on loan payments for 12 consecutive months. Providing homeowners a new refinance option will help them keep their homes, pay their bills, and invigorate the local economy through increased consumer spending. Because these loans are already part of the existing USDA portfolio and because this pilot will lower monthly payments for borrowers, it will also mitigate portfolio risk and help protect U.S. taxpayers by reducing the incidence of default and subsequent foreclosure. The pilot is currently in effect in 19 states, 18 of which were so severely affected by home price declines and unemployment through the economic downturn, that they were included in the U.S. Treasury's "Hardest Hit" Fund. The District of Columbia was also part of the Treasury fund, but given its non-rural character, RHS elected instead to include in the pilot New Mexico, a largely rural state struggling to revive a weak economy that has a very high level of school district poverty relative to other states.

SFH Direct loans and housing repair grants are both funded at reduced levels for 2013. This again reflects budgetary constraints, which have pressured funding levels and increased emphasis within RHS on cost-efficiency as an important determinant of program viability. On an absolute basis, the expansion in 2012 of the lower-cost guaranteed loan program, which serves low and moderate income homeowners, dwarfs the reduction of the SFH Direct program, which serves very low and low-income homeowners. At a requested program level of $652.8 million, the direct loan program is expected to be used primarily for strategic initiatives, such as targeted funding for teachers who are badly needed in rural areas, and support for beneficiaries of the Mutual and Self-help grant programs. Given the current budget limitations, reduced funding is also proposed for Mutual and Self-Help grants to local non-profit groups that provide assistance to families building their own homes. Some housing assistance grants were eliminated.

Through the SFH Housing Repair grant program, USDA will provide approximately 5,000 grants to very-low income, elderly, rural homeowners in order to make essential safety- and health-related repairs to their homes. This program is designed to help the most vulnerable residents in rural America.

In response to tightening budgets, RHS has continued to explore more cost efficient business models. Among them are the Real Estate Owned (REO)/Foreclosure and Single Family Housing Guaranteed centralization initiatives that could eliminate operational redundancies both within and among states. In addition to their cost benefits, these streamlining efforts reflect the Department's commitment to a "best-practices" approach with regard to the implementation of business process controls.

Multi-Family Housing Programs (MFH)

The Multi-Family Housing (MFH) budget reaffirms Rural Development's commitment to providing affordable housing options to the poorest of the poor in rural America. The average income of these program tenants is approximately $8,000 per year. The total program level request for MFH programs is $1.16 billion, 78 percent of which, or $904 million, is allotted for MFH Rental Assistance contract renewals. The requested rental assistance is sufficient to accommodate the expected 207,489 rental assistance contracts that will be renewed. Along with our Budget request, the 2013 Budget includes a re-proposal of legislation to gain authorities for USDA's RHS staff to have access to the Health and Human Service National Database of New Hires as well as Internal Revenue Service data, similar to what Housing and Urban Development has for its project based rent programs. This will help reduce improper payments in its means-tested programs, where the biggest benefit will most likely be in the Rental Assistance Grant Program.

The 2013 Budget request proposes to shift funding for the Section 515 direct loan program to the Multi-Family Preservation and Revitalization (MPR) Program, which will result in a sizable program level increase from $2 million to $54.7 million. The high cost of housing replacement and the need to protect taxpayer investment in housing assets necessitates the 2013 Budget focus on preservation and management of RHS' existing housing portfolio. The funding of the revitalization program provides the tools needed to preserve RHS' aging portfolio of rental housing, and to do so more efficiently than the Section 515 program. The 2013 Budget also includes a legislative proposal to provide permanent authorization for MPR tools. The MPR tools we have been using though annual demonstration program authority are a more efficient way to revitalize the existing multi-family housing portfolio. Enacting permanent authority for the current MPR tools will provide flexible financial tools for critical multi-family housing preservation. In addition to pursuing this authority, RHS is moving forward with the development of regulations for the MPR program, in anticipation of its permanent authority and because of the perennial nature of the pilot program.

The 2013 Budget request proposes $13 million for the Rural Housing Voucher Program. The voucher funding will be used to offset some of the reductions in rental assistance by providing a short-term rental subsidy to supplement the tenant's rent payment. Should a MFH property offering rental assistance leave the portfolio, vouchers will be offered to all low-income tenants presently receiving rental assistance.

The 2013 Budget request for MFH Section 514/516 Farm Labor Housing is approximately $34.8 million in program level funding.

Community Programs (CF)

The Community Facilities (CF) budget request will provide financing for the construction and improvement of essential community infrastructure and facilities across rural America, including hospitals, schools, libraries, clinics, child care centers, and public safety facilities. The 2013 Budget proposes to increase the CF direct loan program from $1.3 billion in 2012 to $2 billion. The performance of these loans, coupled with the current economic assumptions and interest rate projections have translated into a negative subsidy cost for this program in 2012 and 2013. The demand for the CF direct loan program is high across rural America, as communities come together to modernize critical infrastructure that is vital to improving rural health and educational outcomes and spur sustained job creation and economic growth.

The budget proposes the elimination of the CF guaranteed loan program. This program originated as an inexpensive alternative to the direct loan program, designed to stimulate additional assistance to moderate income communities in rural areas. However, the defaults in the program have been much higher than originally projected, making it more expensive than the direct loan program. The proposed increase in the direct loan program will more than offset the effects of the guaranteed loan program termination.

In 2011, we invested over $89.1 million in CF funding in 217 educational and cultural facilities serving a population totaling more than 2.2 million rural residents; over $93.8 million in 414 public safety facilities serving a population totaling more than 2.5 million rural residents; and over $308.5 million in 133 health care facilities serving a population totaling more than 3.1 million rural residents. The remaining balance was used for other essential community facilities such as food banks and other food security projects, community centers, early storm warning systems, child care centers, and homeless shelters.

Conclusion

As we consider the ways in which we can best deploy RHS program resources in 2013 to serve the complex needs of rural America, we can't help but see evidence that the landscape much closer to home has changed. A slow rise in delinquency rates and foreclosure rates against a backdrop of the reduction in servicing staff poses new portfolio management challenges that will be met.

We have prepared this budget proposal to help rural America win the future. It includes targeted investments and program increases to lay the foundation for long-term job creation and renewed economic expansion. I thank each of you for your support and look forward to a 2013 Budget that helps fulfill the promise of prosperity for rural communities.