

## **RURAL HOUSING SERVICE**

### **Statement of Tony Hernandez, Administrator Before the Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies**

Chairman Aderholt, Ranking Member Farr and Members of the Subcommittee, thank you for the opportunity to present the President's 2016 Budget for the Department of Agriculture's (USDA) Rural Housing Service (RHS).

As the only Federal Department with the primary responsibility of serving rural communities, USDA's Rural Housing Service (RHS) makes loans and grants to support rural residents and the communities in which they live. Congress has defined for us a tremendous set of housing and community development programs to ensure that rural families have access to safe, affordable homes and thriving communities. RHS is a proud and effective steward of these programs. With its USDA field offices in nearly every rural region, the Federal Government takes in requests from hundreds of communities and thousands of people every year seeking help buying homes and building hospitals, daycare centers, fire halls and more. With Congress' support, RHS is there to support their efforts with a combination of loans, guarantees and grants that are a hand up, not a hand out, for rural Americans.

In Fiscal Year (FY) 2014, we helped: hundreds of communities build or buy essential community facilities; and over 153,400 families with modest incomes purchase, refinance or repair their homes including 32,463 low and very-low income borrowers. Almost 870 families built their own homes through the Mutual Self-Help Housing program, earning approximately \$25,000 in "sweat equity" in their homes through contribution of their own labor. Over 85 percent of our borrowers were first time homebuyers. RHS also helped more than 7,000 very low-income rural families repair their homes through our home repair loan and grant program of which over 4,600 were elderly households who were provided grants to remove health and safety

hazards from their homes. In addition to providing homeownership opportunities, we continued to provide more than 678,659 low and very-low income households live in safe and affordable USDA-financed multifamily housing through RHS' Rural Rental Housing and Farm labor Housing Programs. In addition, RHS provided 33,000 very-low, low and moderate income families with safe and affordable multifamily housing through rental housing loan guarantees. In FY 2014 we built or revitalized over 10,000 units of multifamily housing and continued to support 252,000 rural families with limited means pay rent. RHS's Farm Labor Housing Program helped develop critically needed new housing for over 615 farm worker families in addition to serving 13,800 families through existing housing, who, despite being essential to the agriculture industry, have historically struggled with severe poverty and extremely substandard housing conditions.

The Community Facilities program, also part of the RHS portfolio, contributed to local infrastructure to make rural communities attractive to families, small business owners, and employees by supporting healthcare, education and public safety projects. In FY 2014, RHS helped provide health care services for nearly 4 million rural residents by investing in 133 new health care facilities and helped more than 2 million rural Americans access fire rescue and other critical public safety programs. In addition, more than 3.6 million rural residents were able to access education and cultural infrastructure including schools, libraries, and child care centers. The Community Facilities program leveraged over \$288 million from institutional investors and the capital credit markets to strengthen investment in critical community infrastructure spurring economic growth, job creation, and access to improved health care, education and other critical services.

In FY 2016, RHS remains committed to the future of rural communities. Through mortgage finance and refinance, as well as rental subsidies, we will continue to make housing and community economic development opportunities available and affordable to rural Americans as they continue to work to ensure the security and prosperity of our Nation. I am proud to work for an agency that sees affordable housing as a conduit to family, neighborhood and community. We are making it possible for many rural families to get on the ladders of opportunity and into the middle class. For 2016, RHS requests total budget authority of more

than \$1.39 billion, supporting a program level of approximately \$28.73 billion in loans, loan guarantees, grants, and technical assistance.

Helping rural residents obtain decent and affordable housing is key to stabilizing communities and creating jobs. Homeownership provides a path to long-term financial stability and security for rural families. In 2016, USDA's goal is to provide over 170,000 rural residents the assistance needed to become homeowners by making available nearly \$25 billion in direct loans and guarantees to increase housing opportunities in rural areas. This includes \$900 million in direct loans to ensure that the very-low and low-income rural borrowers with the ability to repay mortgage debt are provided with access to affordable and subsidized mortgage financing. Without these housing programs, it is possible many rural residents could be in substandard housing or without a home and dependent upon other, more costly, assistance programs.

Our programs have grown significantly in recent years and that expansion has helped satisfy homeownership and community development aspirations across rural America, while providing affordable rental options for those most in need. As we continue to serve the needs of rural communities, careful monitoring of our expanded portfolio and effective management of its risk are among our topmost priorities. We recognize the importance of these programs in providing a critical resource to create affordable, sustainable homeownership opportunities for qualified rural residents. We are grateful to Congress for the shared commitment to our mission.

### **Single Family Housing (SFH)**

Since its inception the Rural Housing Service has compiled an extraordinary record of achievement that is etched as clearly in the lives of rural Americans as it is in the communities in which they live. The origin of the Single Family Housing (SFH) programs is rooted in the Housing Act of 1949, and since that time nearly 3.85 million rural Americans have received housing loans and accumulated assets through the equity in their homes, making it one of the most effective anti-poverty initiatives created by the Federal government. Rural Housing Service's SFH programs fill a gap in the private market and are among the most critical tools

available to help smaller, poorer, and remote rural communities gain access to mortgage credit and achieve the dream of homeownership.

In FY 2014, the combined SFH programs provided over 153,400 loans, guarantees and grants to rural families, with housing assistance totaling nearly \$20 billion. Today the demand for our means-tested programs remains strong. Together, the Direct and Guaranteed programs support the specialized needs of smaller, segmented rural markets and economies and offer service along a continuum to meet the needs of the low-income to moderate income rural Americans.

The Section 502 Guaranteed Loan Program has been the USDA single family housing growth engine for several years, growing from approximately \$3 billion in 2007 to its current level of \$24 billion. In 2014, more than 139,000 guarantees were issued; representing over \$19 billion in loan obligations. The impressive FY 2014 results posted by the Section 502 Guaranteed Loan Program underscore both the successes and the challenges of expansion. Increased homeownership stimulates local economies, and expands job opportunities in multiple industries from construction, to home services, to retail. It is positively correlated with community stability, educational achievement, and household financial awareness and planning success. The dividends of increased home ownership for communities can be very significant. However, managing a larger rural housing program requires increased attention to delivery and risk management—capacities which have budget implications.

The 2016 Budget request proposes a continuation of the program level for the Section 502 Guaranteed Loan Program at \$24 billion, which could provide more than 163,757 homeownership opportunities in 2016. This level of funding is supported by a fee structure which results in a negative subsidy program requiring no budget authority. The fee structure includes a 2.75 percent up-front fee for both purchase and refinance transactions. The budget includes a proposal to charge a Guaranteed Underwriting User (GUS) Fee of up to \$50 per loan and to allow the user fee to be retained for administrative purposes related to the enhancement and maintenance costs for the Guaranteed Underwriting System and supporting systems. The authority to charge the fee will allow RHS to modify its origination and servicing systems, and the fee can only be charged once that occurs. RHS anticipates initially charging \$25 per loan

beginning in 2018. The budget also includes language that will make the Section 502 Guaranteed Loan Program a direct endorsement program, delegating loan approval authority to preferred lenders as is already being done by both the VA and HUD guaranteed home loan programs. This will make RHS more efficient, improve the average loan closing time, and allow the single family housing staff to refocus on other program needs.

Single Family Direct loans are funded at steady levels for FY 2016. This reflects RHS's continued commitment to serving low and very-low income rural families by providing an affordable path to sustainable homeownership. At a requested program level of \$900 million, the Section 502 Direct Loan program is expected to create approximately 6,787 homeownership opportunities to very-low and low income borrowers. Mutual and Self-Help grants to local non-profit groups that provide assistance to families building their own homes are funded at a basic level of \$10 million. The Self-Help program uses a small Federal expenditure to harness traditional American hard work and community cooperation, enabling low- and very low-income families to own their own homes by contributing sweat equity to build their own homes, earning approximately \$25,000 of equity in their home when it is finished and making Self-Help a powerful way to generate assets for low- and very low-income people. USDA is pleased to share that this year (2015) marks the 50th anniversary of the Self-Help program and is also the year when we will help build the 50,000<sup>th</sup> Self-Help home. We are collaborating with our Self-Help grantees to celebrate this milestone during Homeownership Month in June.

Through the requested \$25 million budget allocation for the Single Family Housing Repair grant program, USDA will provide approximately 4,097 grants to very-low income, elderly, rural homeowners in order to make essential safety-and health-related repairs to their homes. In addition, for 2016, the budget is requesting approximately \$26 million in the repair loan program which will allow us to serve 4,340 very low-income rural homeowners.

In addition, we are undertaking numerous process improvement efforts to improve program efficiency and better serve our customers. These include the use of loan packagers to extend the Single Family Direct program reach to more remote rural areas and Secretary Vilsack's electronic signature initiative to help realize in the near-term a "paperless" processing

environment for guaranteed loan applications, commitments and guarantees. In addition, we are reengineering loss claims payment and Real Estate Owned (REO)/Foreclosure processes that will streamline business practices and eliminate operational redundancies both within and among States. These streamlining efforts not only entail meaningful cost and service benefits; they also reflect the Department's commitment to the "best-practices" approach that guides all of the agency's operational improvements.

### **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 program households is approximately \$12,000 per year, with many who are elderly and disabled. The total program level request for MFH programs is \$1.33 billion, an increase of more than 4 percent over the 2015 budget. Eighty-one percent, or just over \$1.172 billion, is for MFH Rental Assistance (RA) contract renewals. The requested rental assistance is sufficient to accommodate more than 254,000 rental assistance agreements expected to be renewed. Funding for Section 542 vouchers is requested at an increased level of \$15 million. The budget requests a shift in the use of Section 542 vouchers. Since FY06, when funding for these vouchers was first appropriated, they have been available to tenants only when Section 515 mortgages were prepaid. This year the budget proposes that vouchers be available when properties leave the program for any reason, in order to assist tenants after foreclosure or after a Section 515 mortgage reaches the end of its term.

The 2016 budget includes several legislative proposals to enable more flexible management of the rental assistance program. A proposed minimum rent requirement of up to \$50 for all multifamily housing programs will help reduce the burden on the rental assistance program, better ensure program funds will be available for all rental assistance agreements being renewed, and foster tenant responsibility for program residents. Exemptions will be provided for hardship cases. Over time, and once the policy is applied to all lease renewals, charging a minimum rent will enable RHS to save an estimated \$10 million per year once fully implemented. In addition, Rural Housing Service is seeking authority to prioritize renewals of RA agreements during

continuing resolutions and uncertain budget situations, replacing the current requirement that the agency provide full funding (one year's estimate of need) to agreements on a first-come-first-served basis, until all Rental Assistance funds are expended. This authority will enable RHS to prioritize renewals for properties where the need may surpass that of other properties. There is no budget impact of this proposal. And finally, to ensure appropriate management of our programs, RHS is requesting the authority to access the Department of Health and Human Services income verification databases for use by the multi-family and single family housing programs. Access to such on-time data sources, similar to what HUD has for its project based rental programs, will enable RHS to effectively manage its programs and ensure the agency provides assistance to eligible program participants within their qualification boundaries. 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. There is no FY 2016 budget impact of this proposal.

The 2016 budget request proposes Section 515 rental housing direct loan program be funded at an increased loan level of \$42.3 million and requests \$33.5million in program level for the Multi-Family Preservation and Revitalization (MPR) Program. The high cost of housing replacement and the need to protect taxpayer investment in housing assets supports the request for 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 grants, zero percent loans, soft seconds and modifications. The 2016 budget also includes a legislative proposal to provide permanent authorization for these MPR tools. The MPR tools we have been using through 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.

USDA has made preservation of properties a high priority, with a goal of maintaining the number of units currently assisted with Rental Assistance. The FY 2016 budget proposes a total of \$15 million in budget authority to promote construction, renovation, and retention of affordable rental housing in rural areas where the need for such housing is the greatest. The request is particularly important to the Department's effort to target persistent poverty in rural

areas and will target underserved Strike Force areas and Promise Zones. The funds are included in the Section 515 (\$5 million), MPR (\$5 million), and RA (\$5 million) programs. The funding would provide a modest investment for new construction in these underserved areas, and would provide incentives to owners of existing Section 515 housing to modernize their housing so their residents continue living decent housing. RD will also encourage the development of Section 538 guaranteed housing in underserved areas, at no additional budget cost. The Budget is requesting \$200 million in program level authority for the guaranteed program. There is no budget authority requested for this Program.

The Budget also requests for MFH Section 514/516 Farm Labor Housing is approximately \$32.1 million in program level funding.

### **Community Facilities 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 budget proposes \$2.2 billion for direct loans, consistent with expected demand and underwriting ability of the RHS staff. The CF program will continue to provide critical health, public safety and educational benefits to over 14 million rural residents. 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 FY 2016. The CF program continues to be a resource across rural America, as communities come together to modernize critical community infrastructure that is vital to improving rural health and educational outcomes and attract new businesses, quality jobs and improve economic growth. In addition, CF has been successful in leveraging direct loan funds through public private partnerships with capital credit markets and institutional investors seeking to invest in social infrastructure. Since FY 2012, CF has invested in 335 Public Private Partnership social/community infrastructure projects across rural America in 49 States.



The budget proposes no funding for the CF guaranteed loan program, or the Economic Impact Initiative (EII) Grant program. The CF guaranteed 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 gradual increase in the direct loan program, coupled with private public partnerships, will more than offset the effects of the guaranteed loan program termination. The CF grant program, which provides assistance to rural communities with extreme unemployment and severe economic depression can replace the EII grant program and also be used to fund these projects.

In FY 2014, we invested over \$1.09 billion of Community Facilities funding in educational and cultural facilities providing 14.1 million rural residents with new or improved access to essential health care, public safety and educational facilities.

### **Conclusion**

As we consider the best way to position limited resources in 2016 to serve the complex needs of rural areas, we are confident that RHS will successfully implement the programs needed for a thriving rural America. USDA reaffirms its commitment to rural America in this budget proposal that balances the needs of the poorest residents of rural America, evident in the renewal of rental assistance subsidies, while still responding to the need for wealth creation in rural America, through the enormous growth and investments provided by the Single Family loan programs and Community Facilities programs. The budget proposal continues targeted investments that support long-term job creation and renewed economic expansion.

I appreciate the opportunity to testify before Members of the Committee and with my distinguished colleagues from RUS and RBS. We work well together, collectively serving constituents, to further support American competitiveness and economic growth. This budget supports our efforts and helps us fulfill the promise of rural communities. Thank you for your support of RHS programs. I am happy to answer your questions at this time.