

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 Fiscal Year (FY) 2017 Budget for the Department of Agriculture's (USDA) Rural Housing Service (RHS).

Let me begin by thanking Congress for its ongoing support of rural communities. With your support, since 2009 RHS has made significant and transformative investments in housing and community facilities to strengthen the Nation's small towns and rural communities. RHS, with its network of field offices in nearly every rural region, is a proud and effective steward of a variety of housing and community programs. We help people with modest incomes buy and repair homes. RHS also partners with nonprofit organizations, Federally recognized tribes and government agencies to help communities build hospitals, daycare centers, fire stations, libraries and much more, to ensure that rural America continues to be a great place to live, work, and raise a family.

In 2009, with the support of Congress, the agency took swift, bold action unprecedented in the six-decade SFH program history to minimize hardship in rural communities. As the private banking sector shied from mortgage credit risk, total Section 502 program levels expanded more than five-fold to meet these communities' urgent liquidity needs. As a result, since the passage of the American Recovery and Reinvestment Act, more than 1.1 million rural families secured financing from RHS to purchase or refinance their homes between FY 2009 and FY 2015. Approximately 60,000 more very low income rural families were able to make critical home repairs. This included more than 37,000 elderly rural Americans who received grant funding to remove safety hazards and make the improvements needed to remain in their communities. During the same time period, RHS funded over 80,400 multifamily housing units through a variety of programs to provide safe, affordable rental housing options to rural families. In addition, since 2009 the agency has improved the quality of life for

rural residents by investing \$9.6 billion in more than 9,000 community infrastructure projects.

The achievements of FY 2015 have continued the remarkable role of the Single Family Housing (SFH) programs to aid in rural recovery following the crisis that impacted the Nation's housing markets. In FY 2015 alone, over 148,300 families with modest incomes were able to purchase, refinance or repair their homes including 28,360 low and very-low income borrowers. Approximately 840 of those families built their own homes through the Mutual Self-Help Housing program, lowering their mortgage payment by contributing 65 percent of the labor and earning "sweat equity" in their homes. Approximately 85 percent of our borrowers were first time homebuyers. RHS also helped more than 7,200 very low-income rural families repair their homes through our home repair loan and grant program. Of these families, more than 4,700 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 435,909 low and very-low income households an opportunity to live in safe and affordable USDA-financed multifamily housing through RHS' Rural Rental Housing and Farm Labor Housing Programs. In addition, RHS provided 37,753 very-low, low and moderate income families with safe and affordable multifamily housing through rental housing loan guarantees. In FY 2015, we built or revitalized over 10,840 units of multifamily housing and continued to support 249,000 rural families with limited means to pay rent through rental assistance and vouchers. RHS's Farm Labor Housing Program helped develop critically needed new housing for over 760 farm worker families in addition to serving 16,866 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 2015, RHS served more than 21 million rural residents through \$1.9 billion in Community Facilities direct loans, loan guarantees, and grants to develop essential community facilities such as hospitals, healthcare clinics, schools, police and fire stations, food banks, and community centers. RHS helped provide health care services for nearly 7 million rural residents by investing in 146 new health care facilities and helped more than 4 million rural Americans access fire rescue and other critical public safety programs. In addition, more

than 4.6 million rural residents were able to access education and cultural infrastructure including schools, libraries, and child care centers.

The Community Facilities program leveraged over \$277 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 2017, the mission of RHS remains unchanged. RHS remains committed to building upon its historic accomplishments for the future of rural communities. Through mortgage finance and refinance, rental loans and subsidies, and by contributing to the development of essential community infrastructure, we will continue to make meaningful, lasting investments in rural communities.

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 2017, RHS requests total budget authority of more than \$1.62 billion, supporting a program level of approximately \$29 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 2017, USDA's goal is to provide more than 166,000 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 overcrowded, substandard housing or without a home and dependent upon other, more costly, assistance programs.

RHS' programs have 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, increased automation, partnerships, 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.

RHS is the only Federal agency that provides direct single family loans to low- and very-low income rural borrowers. The origin of the Single Family Housing (SFH) programs is rooted in the Housing Act of 1949, and since that time more than 4 million rural Americans have received housing loans and accumulated assets through the equity in their homes. 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 home ownership.

In FY 2015, the combined SFH programs provided over 148,300 loans, guarantees and grants to rural families, with housing assistance totaling more than \$19.5 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.

This year, USDA celebrates the 25th anniversary of the authorization of the 502 Guaranteed Loan program. In just a quarter century the program has become extraordinarily popular in rural communities where thousands of low and moderate-income families without the savings needed for a conventional down payment have been able to achieve successful homeownership. The Guaranteed Loan Program has been the USDA single family housing growth engine for several years, growing from approximately \$3.3 billion in 2007 to its current level of \$24 billion.

In 2015, more than 134,000 guarantees were issued; representing over \$18.6 billion in loan obligations. The impressive FY 2015 results posted by the Section 502 Guaranteed Loan program helped many families achieve homeownership. Limited affordable housing inventory contributed to the slight decrease in loans compared to last year.

The 2017 budget request proposes a continuation of the program level for the Section 502 Guaranteed Loan Program at \$24 billion, which could provide 160,000 homeownership and refinance opportunities in 2017. 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 up-front guarantee fee and an annual fee that will be reduced from their current levels of 2.75 percent and 0.5 percent,

respectively. Both fees are authorized by the Housing Act of 1949, as amended, and may not exceed 3.5 percent and 0.5 percent respectively. The up-front guarantee fee is paid at loan closing, and the annual fee is collected annually from the lender, though it may be charged to the borrower on a prorated monthly basis and placed in an escrow account. The fee reductions follow the recent deployment of a new econometric model which more accurately forecasts future losses than the historically-based model in use since 1991. The budget includes a proposal to charge a Guaranteed Underwriting User (GUS) Fee not to exceed \$50 per loan to support the enhancement and maintenance costs for systems supporting the Section 502 lending platform. The budget also requests authority to delegate Section 502 Guaranteed loan approvals 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 provide much needed homeownership opportunities for rural families.

Single Family Direct loans are funded at steady levels for FY 2017. 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 6,532 homeownership opportunities to very-low and low income borrowers. Mutual and Self-Help grants to nonprofit groups that provide assistance to families building their own homes are funded at a level of nearly \$18.5 million. We were honored to celebrate the milestone of 50 years and 50,000 homes built through the Mutual Self-help Housing Program in partnership with many of you and are grateful for your ongoing support of this program.

Through the requested \$28.7 million budget allocation for the Single Family Housing Repair grant program, USDA will provide approximately 4,680 grants to very-low income, elderly, rural homeowners in order to make essential safety-and health-related repairs to their homes. In addition, for 2017, the budget is requesting approximately \$26.3 million in the repair loan program which will allow us to serve as many as 7,820 very low-income rural homeowners.

With your support, we have undertaken 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.

The agency's new Certified Loan Packager final rule becomes effective this week on March 19. Through training and certification it will enable more effective delivery of the Section 502 Direct

program to areas in need. In addition, we are reengineering the Guaranteed Program loss claims payment and loss mitigation processes. These streamlining efforts will contribute cost and service benefits and reflect the Department's commitment to implementing "best-practices" that guide 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 tenants is approximately \$12,000 per year, with elderly and/or disabled households occupying about 62 percent of the rental housing portfolio. The total program level request for MFH programs is \$1.751 billion, an increase of more than 6 percent over the 2016 enacted levels. Eighty-one percent, or just over \$1.405 billion, is for MFH Rental Assistance (RA) contract renewals. The requested rental assistance is sufficient to accommodate more than 286,108 rental assistance agreements expected to be renewed. Funding for Section 542 vouchers is requested at an increased level of \$18 million. The budget requests a shift in the use of Section 542 vouchers. Since FY 2006, 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.

And finally, to ensure appropriate management of our programs, RHS is requesting the legislative 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 our means tested programs, where the biggest benefit will most likely be in the Rental Assistance Grant Program. There is no FY 2017 budget impact of this proposal.

The 2017 budget request also proposes Section 515 rental housing direct loan program be funded at a loan level of \$33.1 million and requests \$33.5 million in program level for the Multifamily 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 including rental housing grants, zero percent loans, soft seconds and loan modifications. The 2017 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 an efficient way to revitalize the existing multi-family housing portfolio. Enacting permanent authority for the MPR program will provide flexible financial tools for critically needed multi-family housing preservation.

The budget is requesting \$230 million in program level authority for the guaranteed program. There is no budget authority requested for this program. The budget also requests nearly \$32.1 million in program level funding for MFH Section 514/516 Farm Labor Housing.

USDA has made the preservation of its portfolio of multifamily properties a priority. Our budget request reflects our commitment to promoting construction, renovation, and retention of affordable rental housing in rural area where the need for such housing is the greatest.

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 2017. Since FY 2009, the CF Program has obligated over \$9.6 billion in loan and grant funding, helping rural Americans, build, renovate, and equip over 9,000 essential community facilities. 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.

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 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.

Through our Community facilities program, we provided a record level of support in FY 2015 - \$1.9 billion – to build more than 972 essential community facilities across rural America. Our FY 2017 budget request will expand and strengthen this support.

Conclusion

RHS is confident that we will successfully implement the programs needed for a thriving rural America and welcomes support from Congress for adequate staffing to accomplish our mission effectively. USDA Rural Development reaffirms its commitment to rural America in this budget proposal that balances the needs of the poorest rural residents while providing opportunities for wealth creation in rural America through the Single Family loan programs and Community Facilities programs. We are proud to serve the needs of rural people and places to ensure that rural America continues to thrive.

I appreciate the opportunity to testify before Members of the Subcommittee with my distinguished colleagues from RUS and RBS. We work closely together, collectively serving rural America 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.