

RURAL HOUSING SERVICE

**Statement of Tony Hernandez, Administrator
Before the Subcommittee on Agriculture, Rural Development,
Food and Drug Administration, and Related Agencies
Committee on Appropriations, U.S. House of Representatives**

Chairman Aderholt, Ranking Member Farr and members of the Subcommittee, thank you for the opportunity to present the President's 2015 Budget for the Department of Agriculture's (USDA) Rural Housing Service (RHS).

As the only Federal Department with the primary responsibility of serving rural areas, the presence of USDA field offices in every State helps us serve the specific housing needs of local communities. USDA's housing programs ensure that rural families have access to safe, well-built, affordable homes. In Fiscal Year (FY) 2013, more than 170,000 families with limited to moderate incomes became proud homeowners utilizing our housing programs, approximately 79% of whom were first time homebuyers. We also helped approximately 7,000 rural individuals or families repair their existing homes through our home repair loan and grant program. More than 400,000 low and very-low income households were able to live in safe and affordable USDA-financed multi-family housing. About 286,000 of these households were able to afford this thanks to rental assistance.

We also support the social infrastructure needed to make rural communities attractive to small business owners, employees and families. The Community Facilities program, also part of the RHS portfolio, provided assistance to construct or improve 195 educational facilities and supported 134 health care projects – part of more than 1,054 projects supported nationwide in FY 2013.

In FY 2015, 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 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 2015, RHS requests total budget authority of \$1.22 billion, supporting a program level of approximately \$27.99 billion in loans, loan guarantees, grants, and technical assistance.

RHS is the only Federal agency that provides direct single family housing loans to very low- and low-income rural borrowers. The continuation of this program is essential to ensure the important populations the program serves can obtain affordable mortgage credit. Without these housing programs, it is possible many rural residents could be without a home and dependent upon other, more costly, assistance programs.

Some of our programs have grown significantly in recent years and that expansion has helped satisfy homeownership and community development aspirations across rural America. As we forge ahead in an era of tighter budgets, 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 has always been among our topmost priorities. We are grateful to Congress for the continued support of our mission to serve rural communities.

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 programs is rooted in the Housing Act of 1949, and since that time more than 3.69 million rural Americans have received housing assistance totaling almost \$205 billion through these USDA programs. Multiple generations of very low-, low-, and moderate-income families have seen their children and often their children's

children raised in homes they purchased through these programs. Without the benefit of these programs, the housing alternatives they might have had available are anything but certain.

Today the demand for our means-tested programs remains strong. In FY 2013, the combined Single Family Housing programs again set records for both the number of households we served and the total amount of financing we channeled to local rural economies. We provided 170,000 loans, guarantees and grants to rural families, whose housing assistance totaled \$22.4 billion.

The Section 502 Guaranteed Loan Program has been the USDA single family housing growth engine for several years. In 2013, more than 162,900 guarantees were issued and for the eighth consecutive year, the total amount of rural home loans guaranteed increased. From \$2.89 billion in 2006, the total lending made possible through the SFH guaranteed program increased by more than 650 percent to \$22.35 billion last year. The impressive FY 2013 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 2015 budget request proposes a continuation of the program level for the Section 502 Guaranteed Loan Program at \$24 billion, which could provide more than 163,000 homeownership opportunities. 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 request for budget authority. The budget also includes language that will make the Section 502 Guaranteed Loan Program a direct endorsement program, like both the Veteran's Administration (VA) and Housing and Urban Development (HUD) guaranteed home loan programs. This will make RHS more efficient and allow the single family housing staff to refocus on other program needs.

In recent years, Rural Development has experienced a significant reduction in staffing. By delegating to approved lenders, the authority to issue loan guarantees in a manner similar to the “Direct Endorsement” approach favored by HUD and VA, RD can take advantage of important process efficiencies. Rural Development would perform fewer up-front labor intensive origination reviews and focus instead on a more robust post-closing lender monitoring process using a statistical sampling methodology to determine review frequency without compromising program safeguards. The reduced review requirement would allow a more effective deployment of staff in risk management and other critical program capacities.

The Rural Refinance Pilot Program continues to grow and now serves homeowners in 34 States and Puerto Rico. Launched in mid-2012, this pilot allows eligible rural homeowners to refinance their USDA direct or guaranteed loans at present low interest rates, which equates often to hundreds of dollars per month in savings for rural families. The pilot program expands eligibility for mortgage refinancing by eliminating the need for a credit report if a borrower has been current on loan payments for 12 consecutive months. By lowering monthly expenses, it helps keep rural residents in their homes and energizes the local economy through increased consumer spending. In addition, since these loans are already part of the existing USDA portfolio, this pilot reduces portfolio risk and protects taxpayers by reducing the incidence of default. Since inception, the Rural Refinance Pilot program has helped more than 8,000 families. It will continue to provide important assistance in FY 2015, though with higher mortgage interest rates we do expect fewer refinancing applications in the year ahead.

SFH Direct loans and housing repair grants are both funded at reduced levels for FY 2015. This again reflects an increase cost in the program for SFH direct and the emphasis within RHS on cost-efficiency as a determinant of program viability. The reduction in direct program lending will have little effect on overall single family housing lending because of the small program-size relative to the lower-cost guaranteed loan program.

The smaller SFH Direct program, serves very low- and low-income homeowners. The invaluable contribution of this program is most evident in the important populations it serves. While its absolute lending totals lag the SFH guaranteed program by a wide margin, on a relative

basis the direct program serves proportionally more single mothers and more minorities, many of whom are among the very-low income borrowers the SFH guaranteed program can seldom assist.

At a requested program level of \$360 million, the direct loan program is expected to fund approximately 2,900 homeownership opportunities to very-low and low income borrowers. This request reflects USDA's increased reliance on the \$24 billion guarantee program to ensure broad access to mortgage financing in rural America. Mutual and Self-Help grants to local non-profit groups that provide assistance to families building their own homes are funded at \$10 million.

Through the requested \$25 million for the Housing Repair grant program, USDA will provide approximately 4,200 grants to very-low income, elderly, rural homeowners in order to make essential safety-and health-related repairs to their homes. In addition, for 2015, the budget is requesting approximately \$26 million in the repair loan program which will allow us to serve about 4,250 very low-income rural homeowners.

RHS has continued to explore more cost efficient business models. We are undertaking numerous process improvement efforts, including the use of loan packagers to extend the SFH 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 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 \$12,000 per year, with elderly and/or disabled households making up 61 percent of the rental housing portfolio. The total program level request for MFH programs is \$1.34 billion, an increase of more than 4 percent over the 2014 budget, of which eighty-one percent is for MFH Rental Assistance contract renewals. This includes program authority for Rental Assistance, Section 515 direct loans, Farm Labor Housing loans and grants, Section 538 Guaranteed loans, the Multi-Family Preservation and Revitalization demonstration program, and housing vouchers. The requested rental assistance is sufficient to accommodate the more than 243,000 rental assistance contracts expected to be renewed.

The 2015 Budget includes several legislative proposals to enable more flexible management of the rental assistance program. These proposals will enhance management capabilities and ensure the long term sustainability of the Rental Assistance program. They are designed to help our rental assistance program remain viable even when Rural Development is faced with budget challenges.

These legislative proposals will also allow Rural Development to make better choices in prioritizing rental assistance contracts in times of limited funding to provide some level of rental assistance for the most critically needed affordable housing when there is simply not enough funding Rental Assistance to meet all of our program needs.

Finally, the 2015 Budget also includes a re-proposal of legislation to gain authorities for USDA's RHS staff to have access to the Department of Health and Human Service's National Directory 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 2015 budget request proposes \$28.4 million in program level for the Section 515 direct loan program as well as about \$32.5 million 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. The 2015 Budget also includes a legislative proposal to provide permanent authorization for 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.

The budget request proposes \$28 million in BA for the combined MPR and Rural Housing Voucher Program. The voucher funding provides a rental subsidy to supplement the tenant's rent payment in properties that leave the portfolio either through prepayment or foreclosure. The budget request for MFH Section 514/516 Farm Labor Housing is approximately \$32.2 million in program level funding. The Budget proposes \$150 million in program authority for the Section 538 Multi-Family Guaranteed loan program, with no budget authority necessary.

Community Facilities Programs (CF)

The Community Facilities 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, which is the optimal loan level given 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 11 million rural residents. 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. CF invested in 181 Public Private Partnership social/community infrastructure projects across rural America in 41 States.

In FY 2013, we invested over \$390 million of CF funding in 195 educational and cultural facilities serving a population totaling more than 5.4 million rural residents; over \$64 million in 410 public safety facilities serving a population totaling more than 2.0 million rural residents; and over \$649 million in 134 health care facilities serving a population totaling more than 3.2 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.

The Budget proposes no funding for the CF guaranteed loan program, and 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 direct loan program funding level, coupled with private public partnerships, will more than offset the effects of the guaranteed loan program termination. The regular CF grant program can also replace the EII grant program, which provides assistance to rural communities with extreme unemployment and severe economic depression.

Conclusion

As we consider the best way to position limited resources in 2015 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 most poor, 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 SFH guaranteed and CF direct 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 Rural Utilities Service and Rural Business Service. 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.