

Examining the US Department of Agriculture's Rural Housing Service: Stakeholder Perspectives
Senate Committee on Banking, Housing, and Urban Affairs- Subcommittee on Housing,
Transportation, and Community Development
September 20, 2022

Opening Statements

Chairwoman Smith (D-MN) started by talking about the shortage of affordable housing for rural communities and how it is an impediment to attracting new residents, new business, and new talent. She said that housing remains one of the fundamental needs for Americans. She continued that USDA's Rural Housing Service (RHS) plays an important role in supporting the development of single and multi-family housing in small towns and rural places across the country. She said RHS is a partner for rural America and mentioned the previous hearing where RHS undersecretary, Xochitl Torres Small, shared several ideas about how to improve rural housing services administrative systems to keep housing affordable for residents of section 515 properties. She added that following the hearing, her and Sen. Rounds issued a public call for input on RHS programs. She said the responses pointed to the importance of funding RHS, making administrative improvements, as well as decoupling rental assistance from section 515 mortgages. Smith then asserted that as properties with these mortgages age and their mortgages mature, many low-income families are at risk of unaffordable rent increases. She said they received suggestions on how to address other issues, including updating home repair programs, options to prevent foreclosures, and opportunities to reduce burdens and bureaucratic red tape on homeowners and renters.

Ranking Member Rounds (R-SD) started by thanking Sen. Smith for her work in addressing this issue. He said in South Dakota, RHS has played a key role in supporting affordable home ownership and rental housing for low-income families. He said there are a number of ways to streamline and modernize RHS to serve rural Americans more effectively. He added that the suggestions that they have gathered on how to improve RHS have included common sense reforms, such as increasing the threshold for mortgage requirements on 504 loans, requiring USDA to provide more data transparency, along with an annual report on RHS programs, updating staffing, and more. Rounds said that over the last several decades, the amount of loans made through the section 502 Guaranteed Loan program has increased, while the number of loans made through the section 502 Direct Loan program has declined. He said the direct loan program is more expensive and that it exposes taxpayers to greater risk and that it was failing to meet community's needs. He then advocated for his and Chairwoman Smith's bill that would expand the 502-lending pilot program, which he says is an innovative strategy that utilizes public/private partnerships to make certain funds reach communities that really need them. Sen. Rounds then highlighted the need to make IT upgrades to make RHS as effective as possible. He said RHS, in some cases, is using software that is 25 years old. He continued that the outdated

technology could delay applications from renters and buyers and scare away prospective landlords.

Sen. Shaheen (D-NH) stated that New Hampshire is in the middle of an affordable housing crisis. She said that a 2022 Residential Rental Cost Survey concluded that the vacancy rent for all rentals is just .5 percent, compared to a national vacancy rate of 5.8 percent. She also said rents across the state are continuing to increase at an alarming rate. She said the problem in rural areas is even worse, as vacancy rates are even lower and rent prices are increasing more rapidly. She pointed to the section 515 loan program and how it needs attention to ensure that it can be successful. She continued that under current market conditions, when a section 515 loan matures, there are strong incentives for the property owner to leave the program and convert the units to market rate. She pointed to her legislation, the Strategy, and Investment in Rural Housing Preservation Act, and how it will help scale back these incentives in favor of preserving affordable rural housing and protecting low-income families from displacement. She said the affordable housing crisis in rural communities is a large challenge that no one bill can solve, but that her bill and other committee initiatives will help prevent immediate harm by preserving existing affordable units.

Witness Testimony

Elizabeth Glidden, *Deputy Executive Director, Minnesota Housing Partnership (MHP)*, briefly described the work of MHP in serving rural communities and Native Nations and then described how rural communities are facing a housing affordability crisis given the lack of housing in these areas. She highlighted the importance of the USDA's Sec. 515 program and how they make up a substantial portion of affordable rental options in rural Minnesota. Glidden explained that many of these Sec. 515 properties will mature out of the program so the loss of affordable rental homes will accelerate in the coming years. She then moved on to discuss how Sec. 515 housing is often coupled with Sec. 521 Rental Assistance and how MHP believes rental assistance should be decoupled from mortgages. Glidden also emphasized that the USDA's Rural Housing Service programs should receive increased funding, transfers to mission-focused nonprofits should be incentivized, and how Sec. 521 rental assistance should be extended.

Marcia Erikson, *CEO, GROW South Dakota*, explained that GROW South Dakota is a statewide organization that administers several federal, state, and local programs through three separate private non-profit organizations under their GROW South Dakota branding umbrella. She went on to discuss the benefits of the Section 502 Direct Loan Program and how they recommend relaxing or eliminating the repayment of subsidies under this program among other recommendations. Erikson then discussed their support for the Native American Rural Homeownership Improvement Act (S.2092). She then moved on to discuss the Sec. 515 Rural Rental Housing Program and how they welcome any legislative interventions on the transfer of ownership. Erikson also touched on 504 Single Family Repair Loans and Grants, Housing

Preservation Grant (HPG), the Rural Community Development Initiative, as well as Tribal Trust Land Homeownership Act.

Tonya Plummer, Director, Native American Housing Programs, Enterprise Community Partners, applauded the Committee's interest in and support of the USDA's RHS. She noted the shortage of affordable rental housing in rural communities and how LIHTC, the most effective tool for the development of affordable housing, is oversubscribed, hence rural communities rely on USDA RHS Section 515 funding. Plummer emphasized that because of the unique and vital role that USDA's RHS plays, it is of utmost importance that it is a fully funded, modern organization with adequate staffing and streamlined regulations that respect the unique needs of rural and tribal communities. She then discussed suggestions for improving technology and staffing at RHS, and ways to improve USDA's Sec. 502 Direct Rural Housing Loan, including via the Native American Rural Homeownership Improvement Act and subsidy recapture. She then touched on the foreclosure of properties on tribal lands and how any foreclosure process must respect tribal sovereignty.

David Battany, Executive Vice President, Capital Markets, Guild Mortgage Company, on behalf of the Mortgage Bankers Association, applauded the committee's oversight of USDA's Rural Housing Service and for their consideration of the lender perspective of rural homeownership programs. He said the subcommittee can advance the objective of making RHS lending better serve consumers and industry participants through addressing three areas: better workflow, better technology, and better loan products. Battany highlighted how the rural market is constrained by its very nature with limited housing supply, much of which is aging single-family housing. However, he did say that rural residents have available to varying degrees the same housing finance options available to other borrowers in addition to RHS programs, such as options offered by Fannie Mae, Freddie Mac, FHA, and the VA. He added that RHS loans are meaningful lifelines to economic security for the individuals they help and the communities they bolster. Battany commended RHS on its new proposed rule to implement a provision of the Housing Opportunity Through Modernization Act (HOTMA), to enable the Secretary of Agriculture to delegate approval authority to "Preferred Lenders." He said USDA currently does not delegate approval authority to lenders in this manner, which he says is a major barrier to more lender participation. Additionally, he said the aging technological infrastructure supporting the backbone of RHS operations is widely acknowledged as outdated and in need of substantial upgrades. He went on to say that once the capacity to serve rural borrowers is improved, then various RHS loan parameters can be reviewed to ensure they are not unduly restricting access to credit or responsible use of RHS offerings. Battany then said RHS could expand pilot projects to match GSE standards, including manufactured housing and ADUs. He said RHS financing will increase affordable housing options in rural areas.

Member Questions

Chairwoman Smith (D-MN) asked about properties exiting the 515 program and what happens to a tenant if they are living in a property where this mortgage expires. Glidden said if the property has 521 rental assistances when the mortgage expires, then the rental assistance also goes away from the property. She said that they are trying to dig deeper into what happens to the tenants in this situation and that in most cases, there are very few opportunities for residents to stay within the community. Smith then asked about what the best recommendations are to address the large number of 515 properties leaving the program as the mortgages mature. Glidden said that while there is a declining interest in 515 properties from private owners and investors, mission-driven owners are maintaining strong interest in 515s. She said she feels they need to do all they can to assist those owners in being able to access those properties and maintain them as affordable. She added that the transfer process is a huge barrier as well. Smith then asked about the need for refurbishing of these properties, which Glidden said that most do need refurbishing. Smith then asked Glidden if she could explain why the decoupling of the rental assistance programs from section 515 mortgages would be beneficial to addressing the challenge of providing affordable housing to rural communities. Glidden said that when the rental assistance goes away it is a loss for the resident and that it also affects the property's ability to maintain as affordable, which she says needs to be looked at, given the shortage of affordable properties. She added that decoupling would allow the rental assistance product to remain with the unit and help create an opportunity to create conditions that the property would remain affordable into the future.

Ranking Member Rounds (R-SD) asked Erikson how she would like to see USDA increase flexibility for the smallest communities in South Dakota to promote uptake of the USDA RHS programs. She said there are deficiencies in the staffing and technology shortages that prevent this effort. She also said that there has been a lack of communication from USDA's Loan Servicing Center. She said communication lines being improved could help efficiency and help provide more assistance as well. She also said that increasing the amount of money in the 504-grant program could help with affordability. Rounds turned to Battany and asked him to detail the single most important update he would like to see to the RHS program. Battany said he would like to see increased funding, which would allow RHS to make more investments in technology. He said this would help free up stuff to provide better communication and service. Rounds then asked Plummer about how the Native American Rural Home Ownership Improvement Act would make an impact in states like Montana. Plummer said the pipeline in Montana is vast and that there would be immediate access to home ownership in those communities. Rounds said it is a matter of the CDFIs understanding how to work in Indian country and how to work in tribal trust land. Plummer said native CDFIs are close to the problem and are good at building the social and emotional infrastructure needed and they understand the complicated land processes that USDA staff stumble over.

Sen. Tester (D-MT) started by talking about how the witnesses said the RHS program is valuable but is underutilized because of staff and technology. He said this disparity negatively impacts rural and native communities that rely on this program and its resources. Tester asked Plummer if there are creative solutions to explore in this space other than more staff and more technology. Plummer said that staffing is functioning at 25 percent of what it was five years prior, which led Tester to ask why. She said that she believes it is because of underfunding of the USDA rural housing programs. Plummer then advocated for S. 2092, which would help train staff and improve best practices. Glidden then spoke on the Multifamily Preservation Technical Assistance program and how it is not a full solution to the depth of issues with staffing and technology, it is an important program for 515s and others as well. She said permanently authorizing this program and increasing its resources could be beneficial. Next, Glidden spoke about simplifying processes within the 515 area. Tester then asked Battany about how RHS' closing response can be up to 10 days and asked what the standard is there. Battany said that for most lenders, the USDA's requirement could be one to two and even sometimes up to 10 days. Battany said the process could be slowed down by a government shutdown. Tester then asked about a subsidy recapture and asked him to explain when and/or why that is used. Plummer said the subsidy is applied early in the loan process, which lowers the rate to help with affordability of the home. However, she says this is not a permanent benefit because it must be repaid if the homeowner sells the home or passes away or the home changes ownership.

Sen. Moran (R-KS) first asked if housing programs consider the issue of inflation, given the increased cost of materials, rent, and the cost of construction. Battany said manufactured homes could be an effective way to circumvent this issue and alleviate the issue of a lack of housing units and cost of construction. Moran then asked if there is an impediment to these programs financing allowing this type of construction. Battany said yes and that today's USDA guidelines typically excludes existing manufactured homes. He urged USDA to align with Freddie Mac and Fannie Mae standards to allow more of this housing to flow to this part of the market. Moran then asked if there is justification for the position that rural development takes on this topic. Battany said this is a newer item to hit the market and that he does not know that there is a strong argument against it. Additionally, Moran asked if a lack of personnel is a common circumstance around the country. Battany said there is widespread feedback from lenders, saying that these teams are spread thin and are using their time on manual processes, which he says could be eliminated through technology and free up their time to be more responsive in other areas. He said every lender who does not get help is a borrower who is waiting for an answer. Moran then turned to Plummer and asked about how the DOI's BIA programs are valuable in housing. Plummer said BIA has the Home Improvement Program, adding that it is not broadly used and is used for restoration. Moran then asked about the expense associated with tariffs and what it means to homebuilding. Battany said the increased costs have directly increased the cost of home ownership and indirectly increased rental costs as well. He said it also provides incentive to developers to build more high-end homes, which prevents home ownership opportunities.

Sen. Daines (R-MT) started by saying how the cost of construction rises the further the build site is from materials and labor sources. He said he has heard the costs are much higher on a per square foot basis for tribal communities. He asked Plummer how inflation has affected housing projects in Indian territory. Plummer said inflation has serious impacts on the everyday lives of urban, rural, and Native Americans across the country. She said tribal communities feel this more broadly on the development side due to increased cost of goods and materials and a limited task force. Daines pivoted to how small communities are being overlooked and asked Plummer how tribal colleges are developing a pipeline of skilled workers. She said this is a growing effort and they are in every tribal community across Montana and that there is a lot of potential to improve this.