

EXAMINING THE U.S. DEPARTMENT OF AGRICULTURE'S RURAL HOUSING SERVICE: STAKEHOLDER PERSPECTIVES

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING, TRANSPORTATION, AND COMMUNITY
DEVELOPMENT

OF THE

COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
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ON

EXAMINING THE U.S. DEPARTMENT OF AGRICULTURE'S RURAL HOUSING SERVICE FOCUSING ON HOW TO IMPROVE ACCESS TO HOUSING IN RURAL COMMUNITIES

SEPTEMBER 20, 2022

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TUESDAY, SEPTEMBER 20, 2022

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING, TRANSPORTATION, AND
COMMUNITY DEVELOPMENT,
Washington, DC.

The Subcommittee met at 2:30 p.m., via Webex and in room 538, Dirksen Senate Office Building, Hon. Tina Smith, Chair of the Subcommittee, presiding.

OPENING STATEMENT OF CHAIR TINA SMITH

Chair SMITH. Good afternoon. I call this Subcommittee to order. Good afternoon. Senator Rounds, I want to thank you for working together with me on today's hearing focusing on what we can do to improve access to housing in rural communities. I want to thank Chair Brown for his encouragement and support of our Subcommittee work, and I want to thank Senator Shaheen from New Hampshire for joining us today as well.

So small towns and rural places are creative, entrepreneurial, diverse, and wonderful places to live and to work and to raise a family. They produce our food and our energy. They are hubs of manufacturing and small business, education, health care, arts, and culture. And when I travel to rural communities in Minnesota, I find hardworking, passionate people who love their communities and want them to be even better.

Yet, we know that for many rural communities the shortage of affordable housing is an enormous impediment to attracting new business, new residents, and new talent. The reality is if you do not have a safe, affordable place to live, nothing else in your life works or in your community, not your job, not your education, not your health. Housing challenges can be about families trying to find a place to live for disabled family members or seniors that are faced with living in overcrowded conditions. I mean, it could be workers who want to take a job in a grain elevator or a meat processor or a manufacturing facility, but the closest home they can find is 40 miles away.

One hiring manager in Minnesota told me that they spend almost half their time just helping new employees find housing, and I know that Senator Rounds has heard similar stories in South Dakota.

And I am grateful to you for the work that we have been able to do in a bipartisan way on this Subcommittee to look for solutions to some of these problems.

The U.S. Department of Agriculture's Rural Housing Service, which Congress created in 1949, plays an important role in supporting the development of single and multifamily housing in small towns and rural places across the United States. RHS is a trusted and well-known partner for rural America, which faces unique challenges when it comes to developing and financing housing.

This is our Subcommittee's second hearing focused on rural housing. In May, we heard from Xochitl Torres Small, who is the Under Secretary for Rural Development. She runs the Rural Housing Service, and she shared several ideas for how to improve Rural Housing Service's administrative systems to keep housing affordable for residents of Section 515 properties as those properties—those USDA mortgages for those properties mature.

Following the hearing, Senator Rounds and I made a public call for input on RHS programs, and we received nearly two dozen responses. I appreciate so much the thoughtful comments, and we learned a lot from them. Nearly all the letters we received pointed to the importance of fully funding the Rural Housing Service, and I certainly agree with that. Commenters also noted the importance of making administrative improvements, similar to what we heard from Secretary Torres Small.

We also heard about the need to decouple rental assistance from Section 515 mortgages. As properties with these mortgages age and their mortgages mature, many low-income families are at risk of unaffordable rent increases. Senator Shaheen and I introduced a bill yesterday to fix this problem, and I appreciate your partnership on this issue.

In addition, we heard about the unique challenges that Native communities face in obtaining mortgages, particularly on trust land. Senator Rounds and I have been working on a bill to expand an innovative USDA pilot program to address this issue, and I look forward to hearing more from our witnesses about that today as well.

Finally, we received some very interesting suggestions for addressing other issues that exist, including how to update home repair programs, options to prevent foreclosures, which can both help keep residents in their homes and save the USDA money, and opportunities to reduce burdens and bureaucratic red tape on homeowners and renters, especially very low income families.

So I look forward to hearing from all of today's witnesses about these issues and more, and I hope that we can continue the productive conversations that we have had so far about how to address the housing challenges facing small towns and rural places.

Senator Rounds, I recognize you for your opening remarks.

OPENING STATEMENT OF SENATOR MIKE ROUNDS

Senator ROUNDS. Thank you, Madam Chair. Once again, I want to thank you for the cooperative effort in which this Subcommittee has continued to work, and I want to thank our witnesses, specifically, Ms. Erickson, for joining us virtually from Sisseton, South

Dakota, for offering your stakeholder feedback on how to improve the Rural Housing Service, or RHS.

In South Dakota, RHS has played a large role in supporting affordable home ownership and rental housing for lower-income families. I believe there are a number of ways that we can streamline and modernize RHS to more effectively serve rural Americans. Over the last several months, our offices have been collecting recommendations from stakeholders, like those testifying today, on ways to achieve this. Their proposals have included commonsense 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, improving staffing, updating old IT systems, and more.

Over the last several decades, the number 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. The Direct Loan Program, a more expensive program that exposes taxpayers to greater risk, was failing to reach communities, more specifically, members of tribal communities, in a meaningful way.

In order to better serve Native American communities, USDA launched a 502 lending pilot program in 2018, where USDA partnered with Native community development financial institutions to help Native American families realize that dream of home ownership. I look forward to hearing Ms. Erickson discuss the successes of that pilot program in South Dakota. Although the pilot program was successful, it has not yet been expanded.

The results of a 2022 National Rural Housing Coalition survey of organizations working with RHS on administering the 502 direct program demonstrates how broken the program remains. The survey found that there was a wide variation of house Section 502 loans that were administered, there was inconsistent staffing of loan applications, and loan processing was often delayed, sometimes stretching to 70 days or longer.

That is why as we look to make updates to RHS I think it is important to include the bill Chairwoman Smith and I have partnered to expand the 502 lending pilot program. We should be promoting innovative strategies like this that utilize public private partnerships to make certain funds reach the communities that really do need them.

We will also be looking at ways to streamline regulatory requirements for programs and increase flexibility for the smallest communities as cumbersome processes have deterred nonprofits from utilizing programs. In that vein, staffing and IT upgrades are imperative as we evaluate how to make RHS as effective as possible. RHS is using software that, in some cases, is nearly 25 years old. The outdated technology can delay applications from perspective renters and buyers and scare away perspective landlords that are interested in utilizing RHS programs for their properties. As a USDA lender, I am interested in hearing Mr. Battany's perspective on ways to upgrade processes.

Thank you again to all of our witnesses for being here today, and I look forward to the conversation.

Thank you, Madam Chair.

Chair SMITH. Thank you, Senator Rounds.

And now I would like to invite Senator Shaheen, who is visiting our Committee this afternoon, to make a few comments. Thank you.

**STATEMENT OF SENATOR JEANNE SHAHEEN OF NEW
HAMPSHIRE**

Senator SHAHEEN. Well, thank you very much, Chair Smith, Ranking Member Rounds, and Senator Tester, for all of the work that you have been doing to address rural housing and also for giving me the opportunity to be here this afternoon to talk about some of the challenges we are facing with respect to housing in rural areas in New Hampshire and also the legislation that Senator Smith already referenced to address some of those issues.

Right now, New Hampshire, like I am sure many parts of the country, is in the midst of an affordable housing crisis. According to the 2022 Residential Rental Cost Survey, which was conducted in New Hampshire by the New Hampshire Housing Finance Authority, the vacancy rate for all rentals in New Hampshire is just 0.5 percent. That is not 5 percent; that is 0.5 percent. That is compared to a vacancy rate in the Northeast of 4.9 percent and, nationally, of 5.8 percent.

And meanwhile, rents across our State continue to increase at an alarming rate. The cost for a 2-bedroom unit has increased almost 26 percent in the past 5 years. Now this is a statewide crisis, but in some of our rural areas the problem is even worse. In Grafton County, which is in the western part of New Hampshire, along the Connecticut River and borders Vermont, the vacancy rate is just 0.3 percent, and rents have increased an astonishing 48 percent over the past 5 years.

Now in many of our rural communities, as you all know, USDA Rural Housing Service Programs remain a critical source of affordable housing for our lowest-income and most vulnerable residents. Many of them are elderly or disabled, but some of these programs are showing signs of strain as they mature.

The Section 515 loan program, which was originally established almost 60 years ago, is one of those programs that requires attention today to ensure that it can be successful into the future. Under current market conditions, in many communities, when a Section 515 loan matures, there are very strong incentives for the property owner simply to leave the program altogether and convert the units to market rate.

In fact, we have had two properties in the Lakes Region of New Hampshire, which is more in the eastern part of our State, which were recently saved from this very fate, including one complex that sits on Lake Winnepesaukee, our State's largest lake, which could easily have been converted to luxury apartments which would command very high rents. It was only through the timely intervention of Lakes Region Community Developers, which is a mission-driven nonprofit, that this outcome was avoided and tenants' homes were preserved, but unfortunately, the residents of many other properties in New Hampshire and across rural America are not so lucky.

Legislation I introduced last week with Chair Smith, the Strategy and Investment in Rural Housing Preservation Act, is designed to address some of these incentives, tilting them back in favor of preserving vital, affordable rural housing stock and protecting low-income residents from displacement. To do so, the bill gives USDA and property owners flexibility to restructure existing Section 515 loans to ensure that these properties remain affordable for years to come.

Even where restructuring is not possible, the bill helps protect residents by allowing rental assistance to be decoupled, as Senator Smith alluded to earlier, from the underlying loan but to remain in place at the property or by allowing the resident to transfer their rental assistance to another eligible property.

Finally, the bill requires USDA to establish a plan for preserving affordable rental housing in rural areas, in consultation with an advisory committee composed of a variety of interested stakeholders that includes tenants and property owners.

The affordable housing crisis in our rural communities is an enormous challenge that no single piece of legislation or single action is going to be able to solve, but I believe this legislation, like so many of the other initiatives that this Subcommittee is working on, is an important step that will help prevent immediate harm by preserving existing affordable units as we all consider additional measures to create more affordable housing in communities where it is needed most.

Thank you again, Chair Smith, Ranking Member Rounds, and all Members of the Subcommittee, Senator Tester, for letting me join you today and for the work that you doing, and I stand ready to be helpful in any way I can as you bring forward legislation.

Chair SMITH. Thank you, Senator Shaheen.

I now want to welcome our witnesses here today, and I will turn to Senator Rounds to introduce Marcia Erickson from South Dakota.

Senator ROUNDS. Thank you, Madam Chair.

It is my pleasure to introduce Marcia Erickson, the CEO of GROW South Dakota. Marcia has been with GROW South Dakota for more than 30 years and has served as CEO for 17 years. GROW South Dakota is a statewide nonprofit organization located in Sisseton, South Dakota, that provides programs and loan products to advance housing, community, and economic development. She is also the President of the Board of Directors for the National NeighborWorks Association.

Marcia has a broad range of experience in mobilizing and administering resources from private, State, and Government funding sources. As a loan packager for the USDA Rural Housing Development 502 Direct Loan Program, Marcia is well situated to give useful feedback to the Subcommittee on ways to improve RHS programs.

Thank you again, Marcia, for joining us virtually and for being willing to represent the interests of South Dakotans in Washington.

Chair SMITH. Thank you so much, and welcome, Ms. Erickson.

I would turn now to Senator Tester to introduce Tonya Plummer.

Senator TESTER. Yeah, thank you, Chair Smith and Ranking Member Rounds, for holding this hearing.

And, Senator Rounds, you know that you are number 1 in 17 Select, and if you—

Senator ROUNDS. I was going to say that, but I did not know if you wanted me to break that news.

Senator TESTER. No. And if you guys wonder what we are talking about, you need to go to Nats Park, and I will give you a hint it has to do with good beer and good fun.

I have the distinct pleasure to introduce Tonya Plummer, who is the Director of Native American Housing Programs at the Enterprise Community Partners, where she works with folks from across the country to build capacity and to improve Native housing. She also serves on the Montana Board of Housing. Tonya is an enrolled member of the Assiniboine and Sioux and Cree heritage.

Tonya has previously led a Native CDFI based on Ft. Belknap Indian Reservation, where she has deep ties. During her time there, she helped grow the national CDFI network and foster Montana Native home ownership opportunities.

We are glad to have you here today, Tonya, and we look forward to this hearing.

Madam Chair.

Chair SMITH. Thank you, Senator Tester, and welcome, Ms. Plummer.

I would like to introduce Elizabeth Glidden, who is the Deputy Executive Director of the Minnesota Housing Partnership. As Deputy Executive Director, Elizabeth manages the Minnesota Housing Partnership policy and program initiatives with a focus on expanding housing and community development opportunities for historically underserved communities.

I have to say as a personal note it is wonderful to welcome Ms. Glidden. She and I have known each other since our days working together in city government in the city of Minneapolis, when I was Chief of Staff for the Mayor and she served and was a leader on the City Council, including on housing issues then.

I would like to welcome David Battany to the Committee, who is the Executive Vice President for Capital Markets at Guild Mortgage Company. Mr. Battany has more than 30 years of leadership experience in single-family lending and is responsible for all of Guild Mortgage's Government agency lending, including USDA's Rural Housing Service loans. Mr. Battany serves as a member of the Mortgage Bankers Association's Residential Board of Governors and cochairs the Mortgage Bankers Association's Affordable Homeownership Advisory Council, and he is cochair of the National Housing Conference 2022 Black Homeownership Collaborative and is a board member of Habitat for Humanity.

And I also learned from greeting David that he hails from far western Colorado, so issues of rural communities are near and dear to his heart.

With that, I just have a few reminders. This hearing is in hybrid format. Our Members may be both in person and remote as well as having witnesses testify, as we do today, both in person and by video. If there is any technology issues, we will move to the next witness until it is resolved.

For witnesses, you all have 5 minutes for your opening statements. Each of you will have a clock in front of you or on your screen. Your full written statement will also be part of the record.

For Ms. Erickson, who is joining virtually, you will hear a bell ring when you have 30 seconds remaining and then again when your time has expired.

And, Ms. Glidden, I recognize you for your opening statement.

STATEMENT OF ELIZABETH GLIDDEN, DEPUTY EXECUTIVE DIRECTOR, MINNESOTA HOUSING PARTNERSHIP

Ms. GLIDDEN. Thank you, Chairwoman Smith and Members of the Subcommittee. My name is Elizabeth Glidden, and I am the Deputy Executive Director of the Minnesota Housing Partnership, a nonprofit organization that advocates for equitable housing policy, produces data-informed research, and delivers community development services across the United States. We specialize in serving rural communities and Native nations, and in the past year alone we have provided direct technical assistance to 36 rural communities, including 14 Native nations.

So what does the housing affordable crisis look like for rural communities? Rural residents have fewer housing options and are more likely to live in substandard housing than their urban peers due to older housing stock and less compliance and enforcement of codes. In Minnesota, 41 percent of rural renters are cost burdened, meaning they are paying more than 30 percent of their income for housing.

To serve the housing affordability needs of rural residents, Minnesota has been an early and enthusiastic adopter of USDA's Section 515 program. In Minnesota, Section 515 homes make up almost 20 percent of all subsidized housing units in rural areas of Minnesota. That percentage is much higher in some areas of the State, where 515 units can make up more than 45 percent of available affordable homes. This means that a Section 515 property may provide the only affordable housing option within a community or for many miles around.

The average income of Minnesota's Section 515 residents utilizing rental assistance is less than \$12,000. This means that these very deeply affordable properties are critical in rural communities.

A long-time concern has been mortgage maturations of 515 properties as we still do not have a preservation or replacement strategy for these rural homes. The peak of mortgage maturations for Section 515 properties in the Midwest States is 2030, about 10 years before the peak occurs in other areas of the United States, and according to the Housing Assistance Council Minnesota actually leads the Nation in the number of properties that are exiting the 515 program. In the past 5 years, about 1,100 units, representing more than a tenth of all 515 properties in Minnesota, have exited. In addition to mortgage maturations, the reasons for these exits include owners prepaying their mortgages, owners selling outside of the USDA transfer process to avoid it, and deteriorating property conditions.

As 515 properties often are coupled with Section 521 rental assistance, this helps ensure that these homes are affordable to our lowest-income rural residents. And as was mentioned in other

opening comments, under current law, when a USDA mortgage is paid off, the 515 or the 514 or 516 property loses its 521 rental assistance, which can result in displacement, housing instability, and loss of community for those residents, but also, a property may face negative financial consequences from the loss of rental assistance.

Decoupling the mortgage from rental assistance can support continued housing stability for rural residents by allowing the rental assistance to continue at a property that no longer as a qualifying mortgage. And in States like Minnesota, with increasing mortgage maturations and other exits, this is an option that needs serious consideration.

We agree with our colleagues at the National Rural Housing Coalition and the Housing Assistance Council that decoupling should be paired with increased funding for USDA's Rural Housing Service programs, such as the Multifamily Preservation and Revitalization Program, and that implementation conditions must be included with any program change. We support the conditions that are set forth in the Shaheen-Smith bill as providing appropriate conditions for decoupling among other supports for rural housing.

In addition, I would like to mention that we have policy recommendations that included funding necessary for preservation and program operations for USDA's programs, that transfers to mission-focused nonprofits must continue to be incentivized, including with technical assistance, and that 521 rental assistance provided in the American Rescue Plan should receive serious consideration for extension.

Thank you so much to the Subcommittee for allowing me time to speak. I look forward to any comments and questions.

Chair SMITH. Thank you very much.

We will now turn to Ms. Erickson, who is joining us virtually, for your testimony.

STATEMENT OF MARCIA ERICKSON, CEO, GROW SOUTH DAKOTA

Ms. ERICKSON. Thank you, Chairwoman Smith, Ranking Member Rounds, and Members of the Subcommittee. As the CEO of GROW South Dakota, the housing programs offered by USDA have been extremely important to the work that we do and the communities that we serve. The perspectives that I share with the Committee today are both some of those benefits and some of the challenges of these programs.

The 502 Direct Loan Program is a great resource and an option for affordable housing. This program assists low-income applicants to obtain housing by providing payment assistance. However, the length of time for approval on the 502 direct home loans can be discouraging to homebuyers. A shortened application process, staffing levels sufficient to address the need, and upgraded technology for loan processing would greatly improve the 502 Direct Loan Program.

The Native American Rural Homeownership Improvement Act, introduced by Senator Smith and Senator Rounds, expands an existing USDA 502 Direct Loan Relending Program to partner with Native Community Development Financial Institutions. These Native CDFIs work daily in their communities and have the back-

ground and the experience that is needed to close those first mortgage loans for Native home borrowers. This is a prime example of a program that works. It should be replicated, and it should be permanently authorized. GROW South Dakota supports this bipartisan legislation.

In many of our rural communities, the Section 515 multifamily program does provide the only decent and affordable rental housing in the community. Over the last few years, with the transition to a more regional approach for the USDA offices, the response times have become delayed. The servicing agents are overloaded and unable to respond in a timely manner. We support increased staffing resources to enhance the efficiency and the effectiveness of the 515 multifamily program.

The USDA 504 program provides direct loans and grants to low-income applicants to repair their homes. GROW South Dakota supports increasing the total funds that can be awarded to households, expand the eligibility to grant recipients, and raise the average median income limits. With broader eligibility and higher awards per household, rural residents will have better access to funds needed to repair their substandard homes.

The Rural Community Development Initiative helps nonprofits to further their community development work. GROW South Dakota recommends an amendment to the grant scoring on the median household income for the communities where the recipients are physically located. Many times, recipients are physically located in an area where the median household income levels are higher than what is allowed for the maximum scoring, but yet, they are serving communities that are less than 70 percent of the State and national median income. This regulation change would better reach all low-income communities. We also support increased funding for the RCDI.

In another area, mortgage lending on tribal trust land is a challenge, in part, caused by the delays in processing of title and mortgage-related documents by the Department of Interior Bureau of Indian Affairs. The BIA must review and process the mortgage before it can be finalized. The consequences of these delays have resulted in financial institutions exiting this market, loss of capital flowing into tribal communities, and tribal populations not being able to access affordable mortgage products.

The Tribal Trust Land Homeownership Act is important for Native Americans to have access to home and business loans. Thank you, Senators Smith, Rounds, Tester, and Thune for introducing this very important legislation.

In closing, I applaud the efforts being made by Congress to increase the resources to USDA RHS and to ensure that programs are structured so that recipients can use them flexibly to meet our local needs. Thank you for working to create solutions in a bipartisan manner and for your time today. I look forward to answering any questions you may have.

Chair SMITH. Thank you very much.

I will now invite Ms. Plummer to provide your opening remarks.

STATEMENT OF TONYA PLUMMER, DIRECTOR, NATIVE AMERICAN HOUSING PROGRAMS, ENTERPRISE COMMUNITY PARTNERS

Ms. PLUMMER. Thank you, Chair Smith, Ranking Member Rounds, and Members of the Committee. Thank you for the opportunity to share perspectives on USDA's Rural Housing Services with you today, and thank you, Senator Tester, for the introduction.

My name is Tonya Plummer. I am the Director of Native American Housing Programs for Enterprise Community Partners, where we work to make home and community a place of pride, power, and belonging for tribes all across the country.

My career has focused on housing and home ownership because I have experienced in a deeply personal way its role in providing stability, security, and the ability to rise above circumstances. My grandmother was born in a teepee on the banks of Enemy Swim in Sisseton, South Dakota. My grandfather was born in a tent on the Missouri River just outside the Ft. Belknap Reservation of Montana. Neither ever owned a home.

From them came my father, born on the Ft. Belknap Reservation, who built his home on trust lands over several years, with cash, going years without running water until he could afford that amenity.

I was 20 years old when NAHASDA was first authorized, and 2 years later I became the first homeowner in my family. I purchased my first home in Montana with a USDA rural housing loan. I have spent my career helping others create a home and in bringing this experience to elevate opportunities for tribes. I am severely disheartened at the lack of products and resources for Indian Country.

In advance of my recommendations, I do want to acknowledge the recent positive outreach and efforts of USDA Rural Housing staff to tackle the tough issues for mortgage banking, mortgage lending in Indian Country and to be present and available thought partners.

I also want to acknowledge the complexities of applying broad changes to all rural and tribal areas, where the markets, courts, rates of growth, and ecosystems of support are unique and varied. It is critically important to be cognizant of this in drafting legislation and careful of unintended consequences.

We are very pleased to see the Committee's interest in supporting USDA's Rural Housing Service. Our submitted written testimony is much more robust, and in it we offer specific solutions and recommendations toward progress. But to summarize today's focus, we will touch on three proposed areas of reform needed to improve the accessibility and effectiveness of RHS programs, including:

Number one, increased rural housing resources and technology. RHS programs are extremely valuable but underutilized due to limited staff and technology, and that disparity negatively impacts rural and Native Americans who rely on them as some of the best and only products designed for rural and Native needs. We encourage creative solutions such as the national expansion of the Section 502 direct relending pilot, so successful in South Dakota—a few of my partners are here behind me supporting—that leans into Na-

tive CDFIs as natural partners in the deployment of USDA funds and also the renewal of appropriations to Section 525 Technical and Supervisory Assistance, or TSA, grants.

Number two, the USDA Section 502 subsidy recapture is damaging in Native communities and should never be expected on tribal trust lands. Tribal members on trust lands already come to the closing table with less equity because their land is given no value, and the application of a subsidy recapture assures that they will never build it at a rate comparable to nontribal members on fee-simple lands, where a buy-sell market exists. Recently, in one tribal community, a father with a 502 direct loan passed away, and in order to keep the family housed in the home they had to come up with \$22,000 of subsidy recapture.

However, broadly removing the recapture in communities where value appreciation is seen and a shared equity model makes sense, could harm the USDA budget formulas and potentially decrease dollars available for Section 502 lending. A nuanced approach, we feel, is needed and the subsidy recapture should be treated one way on tribal land, one way in appreciating markets, and another way in depreciating markets.

The proposed application, number three, of Federal foreclosure proceedings currently available to HUD but not to USDA on Section 515 multifamily preservation products is to be addressed. While we appreciate the need to streamline recovery and especially to ensure long-term affordability, we recognize the tribal courts and jurisdictions are sovereign and that tribal sovereignty must be recognized. There is a fear and frustration around the way these proceedings play out on tribal lands, and we encourage further, deeper consultation with NAIHC, with the policy committees of the native coalitions in Minnesota, South Dakota, and Montana, and others to determine viable solutions to expedite the process while respecting tribal sovereignty.

In conclusion, I thank you for inviting me to share my experiences and perspectives today. On behalf of Enterprise Community Partners, I would like to thank the Committee, especially Chair Smith and Ranking Member Rounds, for their leadership on rural and tribal housing issues, as well as the bipartisan cooperation on issues that affect so many Americans in every corner of our country. We look forward to continuing in partnership with you.

Chair SMITH. Thank you so much for your testimony.

I now turn to Mr. Battany.

STATEMENT OF DAVID BATTANY, EXECUTIVE VICE PRESIDENT, CAPITAL MARKETS, GUILD MORTGAGE COMPANY

Mr. BATTANY. Chair Smith, Ranking Member Rounds, Senator Tester, thank you for the privilege to testify on behalf of the Mortgage Bankers Association.

Lenders are indispensable partners to USDA's Rural Housing Service as we are both the providers and the servicers of these loans. These programs are worthy of our Nation's commitment to them.

In 2021, there were 114,000 mortgage loans backed by USDA. This represented less than half of 1 percent of all total loan volume. The average loan size was \$180,000. The total amount of Sec-

tion 502 guaranteed loans obligated for Minnesota was \$448 million and \$170 million for South Dakota. It is imperative to be mindful of this small market share and smaller loan size when discussing proposals that might further restrict lending or impose additional costs on service delivery.

The focus of my testimony is the opportunity to build on recent progress that RHS lending can better serve consumers and industry participants alike. We can advance this objective by addressing three areas: better workflow, better technology, and if these two areas are achieved, better loan products.

I would like to start my discussion on better workflow by commending RHS on its recently proposed rule to implement a provision of HOTMA enacted in 2016 to enable the Secretary to delegate approval authority to preferred lenders. Lack of any delegation authority is a major barrier and has kept RHS out of alignment with FHA and VA lending. In some cases, response times from RHS to approve a loan can take up to 10 days, and this may result in some borrowers delaying or losing their closing date. For financing multifamily properties, delays can be a deal killer. Building for rural workforce housing require a combination of debt, tax credits, and equity financing that must come together quickly or they will be applied to other deals. USDA should proceed with updates that provide full delegation to all approved lenders to be responsive to their customers' needs for both residential and multifamily lending.

The technology backbone of RHS operations is widely acknowledged as outdated. It is less advanced than those used by several other Government housing agencies, Fannie Mae and Freddie Mac, and lenders. USDA should have the budget to ensure RHS can keep pace with changes in the market, evolving data security threats, and changes in the ways which mortgage loans are originated and serviced.

The technology focus for RHS is centered on its Guaranteed Underwriting System (GUS). Further work is needed to ensure the system fully supports RHS borrowers and lenders. For example, RHS imposes limits on the number of runs a lender can make for each borrower, making it difficult for a lender to perform pre qualifications. RHS offerings need to be more attractive for loan officers working on the ground with consumers. When a problem occurs with a system, it often requires substantial manual intervention.

RHS should also update its interfaces for the remittance of annual fees. Today, servicers must manually review and submit payments, which is cumbersome and outdated.

Once capacity is improved, various RHS loan parameters should be reviewed to ensure they do not restrict access to credit or responsible use of RHS offerings. The RHS debt to income limits, for example, are far more stringent than those associated with other types of Government lending. RHS requirements related to borrower reserves, borrower deposits, existing trade lines, qualifying income, and tax transcript history would benefit from sensible updates as well. Congress and USDA could examine limits in the program's population size and geographic parameters.

Finally, RHS can expand pilot projects and finance a broader variety of housing types to match GSE standards, including manufactured housing and accessory dwelling unit. RHS financing will in-

crease affordable housing options in rural areas. The Subcommittee should review the lien payment required under the Direct Loan Program and work to ensure that Federal funds are provided in a timely manner to serve borrowers throughout the entire year.

Once again, on behalf of all MBA members, I appreciate the opportunity to testify, and I also deeply appreciate the USDA's ongoing engagement with lenders and other stakeholders. I look forward to your questions.

Chair SMITH. Thank you so much.

We are now going to turn to Members of the Committee for questions. Each Member has 5 minutes, and I am going to defer to Senator Tester.

Senator TESTER. Well, thank you, Madam Chair, and I want to thank all the folks who have testified today. I appreciate your testimony.

Several of you mentioned that the USDA RHS programs were valuable but they are underutilized because of limited staff and technology. That disparity negatively impacts rural and Native communities who rely on this program's resources as some of the best and some of the only products designed for rural and Native needs.

So I will ask you, Tonya, and anybody else can jump in after Tonya is done: Are there creative solutions to explore here, and other than more staff, more technology, which is huge, are there any other changes to the programs that you see obvious?

Ms. PLUMMER. Thank you for the question, Senator. Two creative ways that we saw to expand the staffing shortages that are at USDA—I think portions of USDA staff in South Dakota are functioning at 25 percent of what they were 5 years ago, but that was really fixed by the—

Senator TESTER. Say that again. Did you say that the staffing today is 25 percent of what it was 5 years ago?

Ms. PLUMMER. Correct.

Senator TESTER. OK. So why is that?

Ms. PLUMMER. I believe it is because of an underfunding of the USDA Rural Housing programs.

Senator TESTER. OK.

Ms. PLUMMER. And that is a much layered issue to—

Senator TESTER. No, no, no. I just wondered if that is a choice that Congress made or if it is a choice the Agency made. It would be interesting to find that out. Keep going. Thanks for pointing that out.

Ms. PLUMMER. We have experienced the same issues in Montana. I think we have partners at the table in Montana who very much want to come alongside and do better and just do not have the staff. So as an executive director of a CDFI, to run deals and scenarios, all I could get was an e-mail of the handbook. Not for lack of desire or want, it is just nobody has done those programs, nobody knows how to do them in Indian Country, and there is nobody to really figure out how to facilitate it.

So we would really encourage leaning into the national expansion of Senate Bill 2092 because the Native CDFIs on the ground are networked through the Native CDFI network. They are networked through strong and growing coalitions in South Dakota, Montana,

New Mexico, Minnesota. There is strength in those numbers there. They have peer-to-peer learning models where they can lean into each other for best practices, especially when it comes to using outdated technology like the GUS system. That is a beast to work with, and as an underwriter I struggled with that system as well.

Senator TESTER. OK. Anybody else like to respond to that question? Go ahead.

Ms. GLIDDEN. Thank you, Senator. Minnesota Housing Partnership is one of a small number of organizations that has provided technical assistance through the Multifamily Preservation Technical Assistance Program, and while I do not think that that is a full solution to the depth of issues with staffing and technology, it is a very important program not only for 515s but for others as well. So permanently authorizing the MFTA program and increasing those resources could be important.

A second issue I wanted to mention was simplifying processes. In the 515 area, I would recommend simplifying the transfer process by instituting a two-step transfer, and I can go into that more if desired.

Senator TESTER. OK. I have a question for Mr. Battany. You talked about RHS's closing response can take up to 10 days. What is the standard?

Mr. BATTANY. For most lenders, they are delegated for most products like FHA, VA, Fannie Mae, and Freddie Mac products. So the USDA's requirement that they review the loan to make the conditional commitment is somewhat unique. There are some private investors that require that, but it is not common for Fannie Mae, Freddie Mac, FHA, and VA loans.

So the process, depending on weekends and timing and staff shortages, can be 1 day, 2 days, and sometimes 10 days. So the problem is if there is ever a Government shutdown or anything that could delay a human's ability to respond, it does slow the process down.

Senator TESTER. OK. Could you—and I will say this to Tonya because you brought it up. A thing called a subsidy recapture, tell me when that is used or why that is used, either one. Or, you can do it, Mr. Battany. I do not care, just as long as I get an answer.

Ms. PLUMMER. The idea is really centered around the concept of shared equity and sort of increasing the affordability of the home and the entry point, and so by applying the subsidy early on in the loan process the rate is drawn down to somewhere around 1, 2 percent in order to increase the affordability of the home. But that is not a permanent benefit because it has to be repaid back in the event that the homeowner sells the home or passes away, you know, or ends ownership in their hands.

Senator TESTER. I got you.

Ms. PLUMMER. But I know one of the pilot CDFIs that are part of the national relending pilot, they do not even use it because it is just felt as a bitter sting and a bite. It does not work in those communities. It discourages the resale of that home.

Senator TESTER. Gotcha. OK. Thank you, Madam Chair.

Thank you. Thank you all.

Chair SMITH. Thank you, Senator Tester.

Senator Rounds.

Senator ROUNDS. Thank you, Madam Chair.

First, thank you, all of you, for the information that you are providing to us, and this has been very helpful already just in your opening testimonies. As a rural stakeholder who helps build—or, who helps administer USDA programs, I know that you have experienced a burdensome process and the lack of flexibility that comes with that; you have expressed that.

Ms. Erickson, I would like to address this question to you. How would you like to see USDA increase flexibility for our smallest communities in South Dakota to promote uptake of the USDA RHS programs?

Ms. ERICKSON. There is a variety of things that can be done to increase flexibility. There are so many intricacies in loan packaging, for instance, that you mentioned. It is difficult for the packagers to get to the end product. Small credit issues, self-employment, and everything like that takes extra time, but the technology to support that would be one step, as we have already discussed, and the staffing resources.

Another thing that we are up against a lot of times is just communication. There has been a lack of responsiveness from the USDA Loan Servicing Center, which could be improved. We have shared loans with Rural Development that have been foreclosed and may sit empty for a length of time before they are made available for resale, and part of that is due to being able to effectively communicate with them. I think if those communication lines were improved, we could be more efficient and possibly help some of those homebuyers through our HUD counselors, with financial education and budgeting, or maybe even provide assistance to help bring their loans current.

There are other flexibility areas like the 504 loan and grant program. We often refer our seniors to the grant program, and it can be coupled with a loan. Our seniors that are low income are very cautious about taking out a loan, and I can understand that.

When we were doing home improvement on a house, a lady was making lunch. And I said, oh, how nice. I am sorry to interrupt your lunch. Do you ever go out for senior meals?

And she said that the senior meals are too expensive.

So when I went back to look at her income, it just was Social Security income, and she was trying to keep up her house with Social Security income and pay for her utilities, medicine, and food. Very, very hard. And they are afraid to take out that loan portion.

So, increase the grant portion would be one recommendation that I have, and greater flexibility. Working with both focus groups and our communities would be a great start also.

Senator ROUNDS. Thank you.

Mr. Battany, as a USDA lender, you are instrumental in getting money into the hands of rural Americans, and you have seen the inefficiencies of RHS firsthand. Could you detail for the Subcommittee the single most important update you would like to see?

Mr. BATTANY. My view is the single most important update would be to increase funding which would allow RHS to make more investments in technology. And much of USDA staff perform functions that are very manual in nature in response to the inefficiencies in the current system, so the investments in the technology

would free up staff to be more available to provide better communications and service.

So I would suggest that the investment, or the increased investment, in RHS funding for the technology would also pay the dividend of improving communications and helping create better awareness of the programs and the functions and requirements of each program to reduce confusion and create more certainty with mortgage lenders and with consumers.

Senator ROUNDS. Thank you.

Ms. Plummer, the 502 relending pilot program has been extremely successful in South Dakota, and you made note of it earlier. Currently, our Native CDFIs even have waiting lists for individuals wanting to participate in the program. How would legislation like the Native American Rural Homeownership Improvement Act make an impact in States like Montana?

Ms. PLUMMER. I think between the tribal communities there I think the pipeline was—I cannot remember how—it is immense, and I believe there would be immediate access to home ownership in those tribal communities. We have been working hard to build a Montana Native Home Ownership Coalition, patterned similarly after South Dakota, to increase capacity among all those CDFIs, to have the systems in place, the training in place, to immediately deploy USDA funds as a part of that pilot if it were to be passed. So the impact would be very real and immediate.

Senator ROUNDS. It is really a matter of the CDFIs actually understanding how to work in Indian Country and on reservations and with tribal trust land, isn't it, and it is a matter of understanding the current regional situation?

Ms. PLUMMER. They already know their communities. Native CDFIs are so close to the problem. They are good at building the social and emotional infrastructure. They are good counselors. Many times, they understand the complicated land processes that USDA staff just stumble over and are intimidated by. And so I think the education is actually the other way around with USDA staff having a chance to understand how Native communities think, live, breathe, and how to work within those land systems.

Senator ROUNDS. Thank you.

Thank you, Madam Chair.

Chair SMITH. Thank you, Senator Rounds.

So in 1963, over 16,000 rural rental properties, translating to well over half a million affordable units, have been financed through the Rural Housing Service's 515 program. And in Minnesota, there are currently about 450 properties, as I understand it, with Section 515 mortgages. Residents in these properties are making somewhere in the neighborhood of \$17,000 a year, and these households are more likely to be headed by a woman and more likely to be headed by a person of color.

And we know that even more properties—we are going to see properties leaving this portfolio soon, a big impact in Minnesota because we have been a strong adopter in this program, but all over the country.

So when properties exit the 515 program, they may lose rental assistance funding, some properties are no longer required to keep

rental assistance affordable, and that means those residents are kind of, you know, up a tree.

Ms. Glidden, let me just ask you, so what happens to a tenant if they are living in a property where that mortgage expires?

Ms. GLIDDEN. So when the mortgage expires, if that property has 521 rental assistance, then that rental assistance also goes away from the property. Knowing what happens to the tenants is something that we have been trying to dig into more deeply. This is also part of our analysis that looked at what are other housing—affordable properties in the areas. And what we find is that there, frankly, are very few, if any, opportunities in many communities in Minnesota for residents to stay within community once those rents increase and once the mortgage expires, and so those residents are left without a home and without the community.

Chair SMITH. Yeah, yeah, they have to leave. Everything is up in the air. And as we know, there is such a shortage of affordable housing in rural communities. It is not surprising that some of those residents end up living in their cars or living with family. I mean, it is very, very, very disruptive.

So let me just ask all of the panel. As we think about this large number of 515 properties leaving the program as their mortgages mature, what are your best recommendations for how we should be addressing this challenge? I just open that question up to everybody.

Ms. GLIDDEN. I will maybe start off. So I had talked a little bit earlier in response to a question about technical assistance. The reason I mention this is that right now, while there is a declining interest in 515 properties from private owners and investors, it is mission-driven owners that are maintaining strong interest in 515s, community-based owners. And so we think that we need to do all we can to assist those mission-based owners, those nonprofits, and housing authorities in being able to access those properties and maintain them as affordable. So technical assistance is one way to assist those very small organizations in being able to understand the 515 transfer process, being able to apply it, being able to manage through that system.

A second item that I had mentioned was simplifying the transfer process. Right now, even if you are completely committed to trying your best, you have no profit motivation to maintain that property as affordable. The transfer process is a tremendous process.

And I know that USDA is open to a two-step transfer process. This would be one idea for streamlining the transfer process, where you would be able to have a nonprofit owner close on the property and then have a second step where they would be able to develop a rehab plan and secure the funding that is necessary to ensure that property is in the proper condition—

Chair SMITH. Because that is—I am sorry to interrupt, but that gets at the issue that many of these properties are in dire need of being refurbished and repaired and improved so that they are decent places for people to live. Is that correct?

Ms. GLIDDEN. Absolutely. So many, if not almost all, of these properties will need rehab, will need that assistance, which means a need to be able to secure the funding—

Chair SMITH. Right.

Ms. GLIDDEN. —to be able to assist those properties.

Chair SMITH. If it was easier to roll over the mortgage for that property, refinance it in some ways, you could use that as a source of funding for refurbishing the property?

Ms. GLIDDEN. Yes. But part of another issue is that some of the resources that we need to continue to assist with these restructurings, the MPR program, are not funded to a level that we are able to assist new properties. Right now, they are still running through a backlog assisting those properties. And so right in this moment, where we need to be helping and assisting mission-driven owners to be able to secure ongoing affordability of properties, we do not have the resources, and we do not have the policy in place to help that take place.

Chair SMITH. Yeah. Thank you very much.

Senator Moran.

Senator MORAN. Chairwoman, thank you. Thank you and Senator Rounds for hosting this hearing, and I thank the panelists for being here.

I am sure I am stating something that is obvious, but there is no conversation in a community that does not occur, about housing, for—maybe takes 2 or 3 minutes before that becomes the topic of conversation if you are talking to an employer, to a plant manager, to a chamber of commerce executive, to a mayor, to a city manager. The conversations in Kansas revolve around this topic plus childcare.

Let me ask just a few questions first. In today's high inflation times, do our housing programs take into account those circumstances, or does it become even more difficult to solve housing needs with the ever increasing cost of materials and rent and the cost of construction?

Mr. Battany, I see you were shaking your—nodding your head with me, so I assume there was an answer there.

Mr. BATTANY. Yes, the cost of labor and cost of materials are driving up construction prices. One of the solutions that is available in the industry, which is not currently used by USDA and would be one of my recommendations, are manufactured homes. Fannie Mae and Freddie Mac have rolled out new higher standards for homes that the trade institutions call them CrossMods. And these are homes that are 2 to 3 bedrooms, 2 bathrooms, 2,000 square feet, that are built to the same standards as stick-built, site-built homes.

I have personally toured these homes. These homes are indistinguishable. If you walk through a home with a building engineer, you will have a difficult time to know if it was site built versus factory-built.

The benefit of factory-built is you can build them very quickly. The homes are built in 10 days in a factory, in a controlled, indoor environment, and the cost of construction is anywhere from 20 to 30 percent less due to the efficiencies you have building onsite and repeating processes.

And in many rural areas, where workforce housing is a challenge or labor is a challenge, both the cost of labor is a challenge but also the availability of labor in rural markets, to have a home built in a factory that can then be transported, installed in a couple months

onsite—typically, the modules are installed. Then the pitched roofs, garages, and porches are built and attached onsite.

But these homes, for many workforce and rural residents, could be a very key part to solve both the lack of housing units and the cost of construction.

Senator MORAN. I thank you for your answer. I was not certain. Are you saying that there is an impediment toward programs' financing allowing that type of factory construction?

Mr. BATTANY. Yes. In today's USDA RHS guidelines, there are pilot programs in a few States where this can be done, but as a standard program parameter, only new construction that is being financed at the time can be built. So existing manufactured homes are not eligible for the programs, and so if USDA could align with Fannie Mae and Freddie Mac standards, for example, that would allow more of this housing to flow to this part of the market.

Senator MORAN. Is there any justification for the position that Rural Development takes on this topic?

Mr. BATTANY. I think this is more of a newer item to hit the market. I do not know there is necessarily a strong argument against it. Historically, some of the older homes did not appreciate as well because they were not built to the same standards, but if they follow Fannie Mae and Freddie Mac guidelines to the same high standards, then there should not be any issue with respect to the quality of the homes or their value as an investment.

Senator MORAN. Mr. Battany, you indicated something that caught my attention, and I heard this yesterday from my own Rural Development Director, our State director. It was not—well, I do not want to put words in her mouth, but the emphasis was on we need money, resources, appropriations for staffing, which is different than we need another program or we need to fund programs higher. I heard that from some of the witnesses today.

But the ability for USDA to meet the demands is lacking because lack of people, lack of personnel. Is that a common circumstance, I assume, across the country?

Mr. BATTANY. Yes, that is a very widespread feedback from lenders who work with USDA. The teams are wonderful, but they are just spread thin. And a lot of the things they spend time on are manual processes that could be eliminated through technology, and they could better spend their time on being more responsive on communications, responding to e-mails, being more available for phone calls and just helping lenders because every lender who does not get helped is a borrower who is waiting for an answer. So the improved customer service to lenders will flow through to borrowers.

Senator MORAN. Ms. Plummer, would you tell me something I probably should already know, but what are the Department of Interior BIA programs that are particularly valuable in housing, or does the tribal community rely upon USDA?

Ms. PLUMMER. Excuse me. I would say the latter. The BIA, I believe they have the home improvement program. That is not as broadly used as it could be, and it is largely for restoration.

But in terms of encouraging new development and new finance, there are no programs offered by the Bureau of Indian Affairs, and so tribal communities lean into either Section 184 home loans,

which historically—it is becoming more and more of a conforming product and inaccessible for tribal communities. I believe there are 7 percent of HUD 184 loans that actually are performed on trust lands, and so there needs to be some work on that front.

For that reason, more have leaned into USDA and the programs available there and have been creative about things like the re-lending pilot.

Senator MORAN. Thank you very much.

Thank you.

Chair SMITH. Thank you, Senator Moran.

Senator Daines, you are recognized for 5 minutes.

Senator DAINES. Madam Chairman, thank you, as well as to Ranking Member Rounds, and thanks to all the witnesses here today. It is great to have a Montanan with us as well, a special thank you to Ms. Plummer for your willingness to make the journey here and to testify as well.

I hear consistently from our first responders, our teachers, other critical workers in Montana that it is almost impossible to find homes to rent, let alone buy, that are safe and, of course, affordable. In the past 2 years, construction times have been protracted by material and worker shortages.

This is the business I grew up in. My mom and dad were in the homebuilding business in the Gallatin Valley since the early 1970s. I spent my summers usually working construction and building houses. So we have watched this for a long time.

In our tribal communities, it is especially true. We may have as many as 14 people crammed into a single-family home. The importance of addressing this shortage cannot be overstated. We are going to have to find solutions to help Montanans house their families as well as their loved ones.

As we both know, the cost of construction tends to increase exponentially the further a build site is from materials, from parts, and from labor sources. I have heard in some tribal communities the costs are much, much higher on a per-square-foot basis than in more urban areas. Home builders have estimated recent lumber price increases alone have added nearly \$20,000 to the price of an average home.

Ms. Plummer, could you comment on how inflation has affected housing projects in Indian country?

Ms. PLUMMER. Sure. Thank you for the question, Senator, and first of all, thank you for recognizing the dire need that we are experiencing in Indian Country. There is no doubt that inflation, I think, has a serious impact on the everyday lives of urban, rural, and Native Americans all over the country.

I believe in tribal communities, especially, it is felt more broadly on the development side. There are very few homes that exist to finance already. So concentration on the building of housing stock is as important as the concentration on housing finance. That is difficult with the limited—increase of cost in goods and materials and also with a limited task force.

So one thing that we have done to help facilitate improving that is work on building a strong Montana Native Homeownership Coalition with membership from our Native CDFIs, banks, and credit

unions, our TDHEs, from every tribal nation across the State to come together around solutions.

We have taken some cues from the South Dakota Native Homeownership Coalition and their construction internship program that builds the skills of Native workers in their own home communities, finds somebody who can sign off on their journeyman status so that they can retain employment right at home, and then also partners with the Native CDFI to provide financial education so that those new workers understand how to build their business and become self-employed. So we are really looking heavily at facilitating that across the State of Montana.

Senator DAINES. Ms. Plummer, thanks for your insights.

I want to note that if you look back at last spring, in the midst of soaring lumber prices and shortages nationwide, lumber prices rose about 100 percent. They crested in April at 300 percent. We all saw that dynamic.

And by the way, if we look back home in Montana, Ms. Plummer, during that same period, our lumber production in Montana actually decreased by 11 percent while costs were soaring by nearly 300 percent, as our national forests failed to meet basic timber harvest targets.

I will tell you, as a kid growing up, we had 30 active sawmills in Montana. Today, we are down to six. We could have offset some of these market dynamics had we simply been managing our forests, surrounded by millions of acres of national forest that get tied up in litigation, and we cannot get in there and thin them. It helps a lot of great environmental wins by doing so but, importantly, keeping lumber prices lower and loggers on the job.

A lot of attention has been given to housing pressure in urban communities, but often rural areas and Indian Country are overlooked. Smaller communities have fewer workers. They have fewer resources to address their housing needs.

As you know personally, we have some first-rate community colleges and vocational schools right there in Montana. And, Ms. Plummer, could you share with us how tribal colleges and 2-year colleges are critical to developing this pipeline of skilled workers?

Ms. PLUMMER. Sure. When we started to look at building a coalition, one thing that we did across the State was some asset mapping to determine which communities had a strong tribal college or community college that we could lean into to access their trades programs, to look at facilitating that construction internship program and providing employment for those folks that graduate right out of the gate. So they are in every single tribal community across the State of Montana. And just really we have not figured out a way to make that happen, but I think there is a lot of potential to make that happen.

Senator DAINES. Great. Well, the need is not going away, so go forth. Thank you, Ms. Plummer.

Chair SMITH. Thank you so much, Senator Daines.

I believe a Member or two is interested in doing a second round of questions, and so we will proceed with that. I have just one question, and then I believe Senator Moran has a question, maybe Senator Rounds.

I want to just dive back into this issue that we are calling decoupling, but it essentially gets at the challenge that we have when these 515 mortgages mature, they go away, and there is a tie between the rental assistance that could be provided to people in that mortgage. So when the mortgage goes away, the rental assistance goes away. It is sort of like a double whammy of badness for people that are trying to figure out how to stay in an affordable home.

Now there is work being done on this. The President's budget in fiscal '23 suggested that Congress decouple the rental assistance from the Section 515 loans. Work is happening on the Senate Ag Appropriations Committee and, of course, the bill that Senator Shaheen and I are working on as well.

I would just like to turn maybe to Ms. Glidden, and then I would love to hear anyone else's comments, if you could just talk about why this decoupling of these two programs would be beneficial to helping to address one of the challenges we face in terms of affordable housing in rural communities.

Ms. GLIDDEN. Thank you, Senator Smith. So I might just start with saying that, you know, we have talked before about the mortgage goes away and so that is the support to the property for maintaining the rents as affordable. And then when the rental assistance goes away, that is both a loss to the resident, which is the priority, but it also affects the property's ability to maintain as affordable, which also needs to be considered when we have so few affordable properties in many of these rural communities.

So with decoupling, this would allow that rental assistance product to remain with the unit, and then it would also help create an opportunity to create conditions that would ensure that that property remains affordable into the future. And I will note that that is something that colleagues at other national organizations have pointed out is very critical to decoupling, from the National Rural Housing Coalition and NAIHC, that ensuring that there are some conditions around decoupling so that property owners then have those requirements to ensure the property is maintained in safe condition, that there is a restrictive use agreement. So we want to ensure those protections stay in place, but it can be a good way to retain some affordability when otherwise it would be completely, possibly gone.

Chair SMITH. Thank you.

Would anyone else like to comment on that? Yes, Ms. Plummer.

Ms. PLUMMER. I will just add my experience is more in single-family housing development and finance, and so I cannot speak eloquently to this product. But I do have a codirector, Robin, who has worked quite often with Elizabeth Glidden on this, and I have heard her discuss these issues. I believe that she would support everything that you have said today, and we would welcome the chance to follow up with questions for the record and additional commentary after today.

Chair SMITH. Thank you very much. I appreciate that, and I will look forward to—as we continue to work on this and to fine-tune it, we will be sure to rely on all of your expertise. Thank you very much.

Senator Moran.

Senator MORAN. Chairman, thank you. I just did not want to be remiss. We have been working, Senator Shaheen and I, in our appropriations subcommittee in regard to the Department of Commerce and USTR in regard to trade issues, particularly tariffs.

And, Mr. Battany, you may be the most appropriate to ask this question. We have been working—we have been trying to get the Administration to negotiate a trade agreement with Canada in regard to lumber, and then we have the lingering issue of tariffs on steel. Could you comment on the expense or cost associated with those tariffs and what it means to homebuilding today?

Mr. BATTANY. Yes. Unquestionably, those increased costs have directly and dramatically increased the cost of home ownerships, and this indirectly also increases rental costs because with inflation in general materials across the board, but the specific increases in lumber cost in particular but also in steel and other costs. Those components, combined with the higher inflation on the labor costs, have resulted in much higher cost to construct homes.

It also gives incentives for builders to build more higher end homes and less entry-level homes. And as costs go up, homes become more unaffordable. At the same time, interest rates go up, and homes become more unaffordable. A person who was an aspiring September 26, 2022, homebuyer now has to become a renter, and that creates more demand for rental and pushes rent prices higher.

So the increased cost of lumber trickles down through the entire ecosystem and impacts both homebuyers and renters in terms of higher cost of housing.

Senator MORAN. Thank you.

Chair SMITH. Thank you so much. I believe we have no further questions from the Members, so I want to thank all of our witnesses for being here today and for providing testimony.

Before we close, I would like to ask unanimous consent to enter statements for the record from the National Rural Housing Coalition, the National Housing Law Project, and the Housing Assistance Council, without objection. Without objection, so ordered.

For Senators who wish to submit questions for the record, those questions are due 1 week from today, which will be Tuesday, September 27th.

For our witnesses, you will have 45 days to respond to any questions for the record. Thank you again for that.

Senator ROUNDS, I think we have lots of very practical, common-sense ideas for ways that this program can be improved to work better for rural communities, and I am excited to work with you on this.

Senator ROUNDS. Thank you, Madam Chair, and I would just say to our panelists today, thank you very much for a very informative question and answer.

Chair SMITH. With that, this hearing is adjourned.

[Whereupon, at 3:48 p.m., the hearing was adjourned.]

[Prepared statements, responses to written questions, and additional material supplied for the record follow:]

PREPARED STATEMENT OF CHAIR TINA SMITH

Good afternoon. Sen. Rounds, thank you for working together with me on today's hearing, focusing on what we can do to improve access to housing in rural communities.

Thank you to Sen. Shaheen for joining us today as well.

Small towns and rural places are creative, entrepreneurial, diverse, and wonderful places to live, work, and raise a family.

They produce our food and our energy. They're hubs of manufacturing and small business, education, health care, and arts and culture. And, when I travel to rural communities in Minnesota, I find hardworking, passionate people who love their communities and want to make them even better.

Yet, we know that for many rural communities, the shortage of affordable housing is an enormous impediment to attracting new businesses, new residents and new talent.

The reality is, if you don't have a safe, affordable place to live, nothing else in your life or your community works. Not your job. Not your education. Not your health.

Housing challenges can be about families trying to find a place to live for disabled individuals, or seniors living in overcrowded conditions. It could be workers who want to take a job at a grain elevator, meat processor or a manufacturing facility but the closest home they can afford is 40 miles away.

One hiring manager, in Minnesota, told me that they spend almost half their time helping new employees find housing.

I know Sen. Rounds has heard similar stories in South Dakota. I'm grateful to Senator Rounds that we have been able to work in a bipartisan way on this Subcommittee to look for solutions to some of these challenges.

The U.S. Department of Agriculture's Rural Housing Service (RHS), which Congress created in 1949, plays an important role in supporting the development of single- and multi-family housing in small towns and rural places across the United States. RHS is a trusted and well-known partner for rural America, which faces unique challenges when it comes to developing and financing housing.

This is our Subcommittee's second hearing focused on rural housing. In May, we heard from Xochitl Torres Small, the Under Secretary for Rural Development. She runs the Rural Housing Service, and she shared several ideas to improve the Rural Housing Service's administrative systems and to keep housing affordable for residents of Section 515 properties as those properties' USDA mortgages mature.

Following the hearing, Sen. Rounds and I made a public call for input on RHS programs, and we received nearly two dozen responses. I appreciate all of the thoughtful comments, and we learned a lot from them.

Nearly all of the letters pointed to the importance of fully funding the Rural Housing Service, and I certainly agree. Commenters also noted the importance of making administrative improvements, similar to what we heard from Under Secretary Torres Small.

We also heard about the need to decouple rental assistance from Section 515 mortgages. As properties with these mortgages age and their mortgages mature, many low-income families are at risk of unaffordable rent increases. Sen. Shaheen and I introduced a bill yesterday to fix this problem, and I appreciate her partnership on this issue.

In addition, we heard about the unique challenges that Native communities face in obtaining mortgages, particularly on trust land. Sen. Rounds and I have worked together on a bill to expand an innovative USDA pilot program to address this issue, and I look forward to hearing more from our witnesses about that today.

Finally, we received interesting suggestions for addressing other issues, including:

- ways to update the home repair programs,
- options to prevent foreclosures, which can both help keep residents in their homes and may save the USDA money, and
- opportunities to reduce burdens and bureaucratic red tape on homeowners and renters—especially very low-income families.

I look forward to hearing from all of today's witnesses about these issues and more, and I hope we can continue the productive discussions we've had so far about addressing the housing challenges facing small towns and rural places.

PREPARED STATEMENT OF SENATOR MIKE ROUNDS

Thank you, Madam Chair and thank you to our witnesses, specifically Ms. Erickson for joining us virtually from Sisseton, South Dakota, for offering your stakeholder feedback on how to improve the Rural Housing Service.

In South Dakota, RHS has played a large role in supporting affordable home ownership and rental housing for lower income families. I believe there are a number of ways we can streamline and modernize RHS to more effectively serve rural Americans. Over the last several months, our offices have been collecting recommendations from stakeholders like those testifying today on ways to achieve this. Their proposals have included commonsense 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, improving staffing, updating old IT systems and more.

Over the last several decades, the number 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. The direct loan program, a more expensive program that exposes taxpayers to greater risk, was failing to reach communities, more specifically members of tribal communities, in a meaningful way. In order to better serve Native American communities, USDA launched a 502-lending pilot program in 2018 where USDA partnered with Native Community Development Financial Institutions to help Native American families realize that dream of home ownership. I look forward to hearing Ms. Erickson discuss the successes of that pilot program in South Dakota.

Although the pilot program was successful, it has not yet been expanded. The results of a 2022 National Rural Housing Coalition survey of organizations working with RHS on administering the 502 Direct Program demonstrates how broken the program remains. The survey found that there was a wide variation of how section 502 loans were administered, there was inconsistent staffing of loan applications and loan processing was often delayed—sometimes stretching to 70 days or longer. That's why, as we look to make updates to RHS, I think it important to include the bill Chairwoman Smith and I have partnered on to expand the 502-lending pilot program. We should be promoting innovative strategies like this that utilize public-private partnerships to make certain funds reach the communities that really need them. We will also be looking at ways to streamline regulatory requirements for programs and increase flexibility for the smallest communities, as cumbersome processes have deterred nonprofits from utilizing programs.

In that vein, staffing and IT upgrades are imperative as we evaluate how to make RHS as effective as possible. RHS is using software that, in some cases, is nearly 25 years old. The outdated technology can delay applications from prospective renters and buyers and scare away prospective landlords that are interested in utilizing RHS programs for their properties. As a USDA lender, I'm interested in hearing Mr. Battany's perspective on ways to upgrade processes.

Thank you again to all of our witnesses for being here today and I look forward to the conversation.

PREPARED STATEMENT OF ELIZABETH GLIDDEN

DEPUTY EXECUTIVE DIRECTOR, MINNESOTA HOUSING PARTNERSHIP

SEPTEMBER 20, 2022

Introduction

Chairwoman Smith and Members of the Subcommittee. Thank you for the opportunity to testify regarding rural housing issues. My name is Elizabeth Glidden, and I am the Deputy Executive Director of Minnesota Housing Partnership or MHP. MHP is a nonprofit organization that advocates for equitable housing policy, produces data informed research to inform solutions, and delivers community development services across the United States.

We specialize in serving rural communities and Native Nations with programs such as our Housing Institute, Native Community Development Institute, Emerging Developer Initiative, and Strengthening Rural Communities. In the past year alone, we have provided direct technical assistance to 36 rural communities including 14 Native Nations. In addition, we prioritize rural issues with original research and public policy solutions, including as a board member of the National Rural Housing Coalition, an active member of the Rural Preservation Working Group convened by the Housing Assistance Council, and by convening community-based rural devel-

opers to develop administrative and public policy recommendations for rural housing programs.

Rural Housing Issues in Minnesota

Rural communities are experiencing a housing affordability crisis. In Greater Minnesota (the geography outside of the seven-county Twin Cities metropolitan area), 24 percent of households are cost burdened, or paying more than 30 percent of their monthly income on housing costs, a number that increases to 41 percent for rural renter households. Two-thirds of renter households in Greater Minnesota earn less than \$50,000 a year, which is under 50 percent of the State's area median income.

In Minnesota, rural residents have fewer housing options and are more likely to live in substandard housing than their urban peers, due to older housing stock, and less compliance and enforcement of codes. More than 40 percent of homes in Greater Minnesota are over 50 years old, built prior to 1970. New construction permits remain low in many rural areas, with some communities going years without a new multifamily housing project.

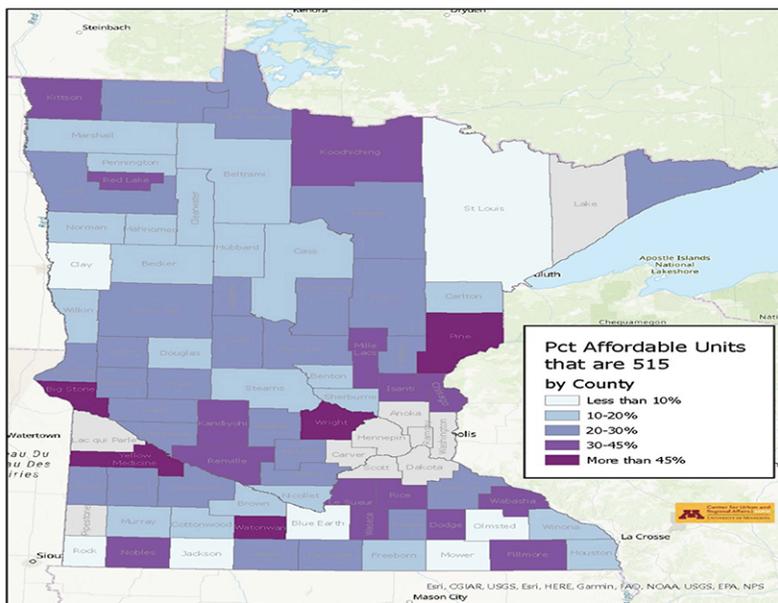
Importance of 515 properties

Minnesota was an early and enthusiastic adopter of the USDA's Section 515 program, which provides low interest loans for rental homes for very low- and low-income households. In return for low-cost financing, borrowers of Section 515 loans are restricted in the amount of rent they can charge tenants, with 30-year loans amortized over 50 years. When loans mature, or properties otherwise exit the 515 program, the owner is no longer required to keep rents affordable to any particular income, which can result in displacement and housing insecurity for current residents and a loss of available housing to future residents.

Section 515 properties make up a substantial portion of the affordable rental options for Minnesota's rural households, with such properties located in 82 of Minnesota's 87 counties. Of the total subsidized housing units in Greater Minnesota, Section 515 homes made up almost 19 percent of that total in 2020. That percentage is higher in some areas of Minnesota, as 515 units make up more than 45 percent of the available affordable homes in multiple counties. A Section 515 property may provide the only affordable housing options within a community or for miles around.

Minnesota's 515 properties are smaller in size than the U.S. average, at 21 units compared to 31, indicating that policy solutions must be flexible to address variations across the country in the 515 portfolio. The Section 515 program is unique in rural communities in that it provides very deep subsidies, especially when combined with rental assistance, which is the case for a super majority of units. The average annual income of Minnesota's Section 515 residents utilizing rental assistance is less than \$12,000. Forty percent of Midwestern 515 properties are designated for seniors, higher than in other areas of the U.S., although the number of units designated for families continues to increase. Nationally and in Minnesota, we are not meeting the market need for homes affordable to extremely low-income residents, especially in rural communities, so preserving the Section 515 homes we have is even more critical to the housing stability of lowest income rural residents.

Percentage of Affordable Units in 515 Program



Section 515 Maturing Mortgages and Property Exits at a Crisis for Rural Households

The Midwest, and Minnesota, will see much of its Section 515 properties mature out of the program earlier than the U.S. overall. The peak of mortgage maturation for Section 515 properties in Midwest States is 2030, about 10 years before the peak of mortgage maturations for the United States. According to the Housing Assistance Council (HAC), Minnesota currently leads the Nation in the number of properties exiting the program. Between 2016 and 2021, over 80 properties, with 1,153 units, exited the 515 program, representing more than one-tenth of all Section 515 properties in Minnesota. Our loss of affordable rural homes will continue to accelerate in the coming years.

In addition to mortgage maturation, the decrease in Section 515 housing is impacted by factors such as owners prepaying their mortgages, owners selling outside of the USDA transfer process to avoid it, and deteriorating property condition such that rehab may cost more than property value.

Decouple Rental Assistance From Mortgages, With Conditions

Section 515 rental housing and 514/516 farmworker housing properties are frequently coupled with Section 521 Rental Assistance, ensuring these homes are affordable to our lowest income rural residents. In Minnesota 96 percent of Section 515 properties have at least one unit with rental assistance; and 68 percent of all units have rental assistance. Under current law, when a mortgage is paid off a Section 515 or 514/516 property loses its Section 521 Rental Assistance. When rental assistance is removed from a property, residents may face displacement, housing instability, and loss of community. Also, a property may also face negative financial consequences from the loss of rental assistance.

Decoupling the mortgage from rental assistance is a policy solution that can support continued housing stability for rural residents, as USDA preservation resources are limited, by allowing rental assistance to continue at a property that no longer has a qualifying mortgage. As properties in States like Minnesota are currently facing a high number of mortgage maturations and other exits, this is an option that needs serious consideration.

We agree with our colleagues at the National Rural Housing Coalition, Housing Assistance Council, and others that decoupling should be paired with increased funding for USDA's Rural Housing Service programs, such as the Multifamily Pres-

ervation and Revitalization Program (MPR) and 515 program, and that implementation conditions should be included with any program change. We support provisions in S. 4762 (A bill to establish a permanent rural housing preservation and revitalization program, and for other purposes) and H.R. 1728 (Strategy and Investment in Rural Housing Preservation Act), which would require properties seeking to decouple to:

- Sign a restrictive use agreement and multiyear rental assistance contract, preferably for 20 years
- Demonstrate that they have tried to access other preservation funding before pursuing decoupling as a last resort
- Agree to maintain the housing as decent, safe, and sanitary and in conformity with provisions established in Title V of the Housing Act

Funding Necessary for Preservation and Program Operations

Past underinvestment in USDA's Rural Housing programs has increased the housing challenges faced by rural residents. Due to lack of resources, USDA has not offered loans for new construction of multifamily rental housing in over a decade, and there is a backlog of approximately 200 applications for rental preservation resources, so that projects in need of these scarce resources must continue to delay preservation activities if they can't identify alternative sources. Recent estimates shared by the USDA identify that \$30 billion is needed over the next 30 years to preserve 80 percent of the existing section 515 portfolio.

We are pleased that the fiscal year 2023 budget includes increases to many rural housing programs, including increases for 515's and to the Multifamily Preservation and Revitalization Program (MPR). We appreciated the Presidents' recommended increase to USDA rural housing programs, and hope this is the track we take, but more investments will be needed to preserve rental housing and ensure rental assistance remains accessible. We need these investments sufficiently to support healthy rural communities, and preserve valuable USDA financed assets.

We were also pleased that the Inflation Reduction Act included \$100 million for USDA Rural Development administrative costs. We urge the Committee to encourage USDA to allocate a significant share of those funds for the Rural Housing Service to support its field structure and upgrade its information technology.

Incentivize Transfers to Mission-Focused Nonprofits

MHP is one of a small number of organizations that have provided technical assistance pursuant to the Multifamily Preservation Technical Assistance (MFTA) program. This program provides competitive grants to eligible organizations to provide technical assistance and other services to support preservation of affordable homes through the transfer of Section 515 properties from current owners to nonprofits or public housing authorities.

Through a 2018 grant, MHP assisted four rural housing and community development authorities with the RD transfer process, preserving 82 units as affordable properties in Minnesota and Illinois, and helped 515 transfer property owners secure 18½ million dollars in loans, low-income housing tax credits, and loan funds from bonds. Through the term of the grant, MHP worked on preservation strategies for a total 330 Section 515 units. MHP, in partnership with Enterprise Community Partners, will continue supporting nonprofit transfers with a recent award of USDA technical assistance grant funds, with MHP serving 12 central region States.

Many of the organizations MHP has supported are very small rural nonprofits or housing authorities that are new to owning 515 properties, new to working with USDA, new to USDA's complex transfer process, and some are even new to multifamily development and ownership generally. While there is declining interest in 515 ownership from private owners and investors, mission driven owners maintain a strong interest in the 515 program as one of the few affordable housing resources available to rural residents. To continue to incentivize nonprofit transfers we recommend:

- Permanently authorize the MFTA program. Today, MFTA is funded through appropriations, but not authorized. Authorization will ensure the program remains stably funded and is permanent part of the preservation tools of Rural Housing Service.
- Simplify the transfer process by instituting a two-step transfer. This would allow a transfer to a nonprofit owner to close, with time then allowed to develop a rehab plan and funding. Today, a buyer must have prior to closing funding for all capital needs as determined by a Capital Needs Assessment and any adjusted reserve requirement. This process change would eliminate a critical ad-

ministrative barrier to preservation, one that creates sometimes insurmountable burden to small community-based nonprofits.

- Set aside funding for smaller organizations in the Section 515 and MPR programs.

Extend Section 521 Rental Assistance

The American Rescue Plan Act included \$100 million for Section 521 rental assistance for previously unassisted units and households, allowing the USDA's Rural Housing Service to extend rental assistance coverage to 27,000 units in 3,700 properties. This funding, which is set to run out at the end of fiscal year 2022, ensures housing stability for tens of thousands of rural residents and has helped to stabilize the longterm preservation needs of the fragile USDA multifamily portfolio. Removing rental assistance from these units will create tremendous hardship for the households they support today, as well as hastening the deterioration of USDA properties—both circumstances we cannot afford.

Thank you for the opportunity to address the Committee. I look forward to any comments or questions the Committee may have.

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An Update on Maturing Mortgages in USDA's Section 515 Rural Rental Housing Program (HAC 2022), <https://ruralhome.org/update-maturing-mortgages-usda-section-515-rural-rental-housing-program/>.

PREPARED STATEMENT OF MARCIA ERICKSON

CEO, GROW SOUTH DAKOTA

SEPTEMBER 20, 2022

Introduction

Thank you, Chairwoman Smith, Ranking Member Rounds, and Members of the Subcommittee. I am Marcia Erickson, Chief Executive Officer for GROW South Dakota. Thank you for the opportunity to provide testimony on Examining the U.S. Department of Agriculture's Rural Housing Service: Stakeholder Perspectives.

I started my career over 30 years ago working at GROW South Dakota and have been the Chief Executive Officer for more than half of that time. I carry a Master of Science Degree in Community Economic Development from Southern New Hampshire University. I am also a graduate of Achieving Excellence in Community Development from Harvard's Kennedy School of Government. Some of my current affiliations are National NeighborWorks Association (NNA) Board President, Rural Local Initiative Support Corporation (Rural LISC) Rural Advisory Committee, Small Business Development Center Advisory Board (South Dakota), South Dakota Community Action Partnership President, and NeighborWorks America Rural Advisory Committee. Past affiliations include the Chair of the Federal Home Loan Bank of Des Moines Advisory Council, Langford Community Foundation Advisory Board Member and Founder, and Marshall County Healthcare Board Chair.

My testimony draws on these experiences and a diverse set of programs delivered by GROW South Dakota. GROW South Dakota is a statewide organization that administers several Federal, State, and local programs through three separate private nonprofit organizations under our GROW South Dakota branding umbrella. Our organization assists South Dakota residents and communities in community, housing, and economic development. GROW South Dakota has two certified Community Development Financial Institutions (CDFIs) within our purview. We also are a designated Community Action Agency, a partner of Rural LISC, and an exemplary rated member of NeighborWorks America. Together with our fellow South Dakota NeighborWorks organizations, in 2021 we leveraged an additional \$66 in public and private investment for every \$1 of NeighborWorks America grant funding awarded to organizations in our State. I share the Subcommittee's perspective that the current state of the housing programs offered by USDA Rural Housing Services (RHS) is crucial to rural communities across the country, yet challenges to the successful implementation of these programs remain.

I have worked with both the National NeighborWorks Association, the trade association representing NeighborWorks affiliate organizations, and Rural LISC to sur-

vey organizations across the Nation to gather recommendations on improving USDA RHS programs and operations. These surveys found that community-based organizations consider RHS resources vital for their affordable housing and community development work. Respondents also reported that USDA RHS needs additional staffing and resources to oversee and administer their programs.

Section 502 Direct Loan Program

The 502 Direct Loan Program is a great option and asset for rural families to secure an affordable mortgage. This program allows USDA to provide single-family direct housing loans in rural areas to eligible low- and very-low-income applicants who are unable to obtain credit elsewhere. The 502 Direct Loan Program provides decent, safe and sanitary single-family housing in eligible rural areas by providing payment assistance to increase an applicant's repayment ability. Payment assistance is a type of subsidy that reduces mortgage payments, easing the financial burden on the household. The amount of assistance is determined by the adjusted family income. Borrowers are required to repay all or a portion of the payment subsidy received over the life of the loan when the title to the property transfers or the borrower is no longer living in the dwelling.¹

GROW South Dakota recommends relaxing or eliminating the repayment of subsidies under the 502 Direct Loan Program. The subsidy payback at the end of the amortization can negatively impact the ability of low-income families to gain generational wealth. According to CNBC, in 2019, homeowners in the U.S. had a median net worth of \$255,000, while renters had a net worth of just \$6,300.²

The interest rate of the 502 Direct Loan Program can also increase each year based on household income increases. This can be problematic. If a low-income homeowner receives a pay increase, their loan payment becomes higher, making it less advantageous to seek career development or other job advancement opportunities. We recommend examining both the subsidy payback and considering adjusting the increments on increases of income to a higher level.

In addition, the length of time for the direct home loan approval process can be discouraging to potential low-income homebuyers. A shortened application process, staffing levels sufficient to address the need, and improved technology would greatly improve the Section 502 Direct Loan Program and ultimately serve more rural families.

Native American Rural Homeownership Improvement Act

GROW South Dakota appreciates and applauds the leadership of Senator Rounds and Senator Smith in introducing the Native American Rural Homeownership Improvement Act (S. 2092). This legislation will expand an existing USDA 502 Direct Native Relending Program which allows the USDA to partner with Native CDFIs, informed by a successful demonstration implemented by two Native CDFIs in South Dakota—Four Bands Community Fund on the Cheyenne River Indian Reservation and Mazaska Owecaso Otipi Financial on the Pine Ridge Reservation.

This pilot made Native CDFIs eligible borrowers under the Section 502 Direct Loan Program, allowing these entities to relend to families for the rehabilitation, construction, and acquisition of affordable housing on trust land. Native CDFIs throughout the country work daily in their communities and have the background and experience needed to close first mortgage loans with Native borrowers. Their administration of these funds will improve the deployment of the 502 loan funds to assist a greater number of Native families and households. This is a prime example of a Federal program that works, should be expanded, and be permanently authorized. GROW South Dakota supports the passage of this bipartisan legislation, as well as the inclusion of annual funding for these purposes beginning in the Fiscal Year 2023 appropriations bill.

Providing this authority for Native CDFIs to lend Section 502 loan funds is a similar model to USDA Rural Development's Intermediary Relending Program (IRP), which has been a successful business lending program for many years. The IRP program provides loans to local intermediaries to re-lend to businesses. This is an efficient and effective method to deliver essential USDA resources to local economies to create and retain jobs. We believe that delegating more responsibilities to mission-based lenders such as CDFIs is an important way for USDA to meet its mission of serving low-income families in often hard-to-serve small communities.

¹U.S. Department of Agriculture Rural Development. Single Family Housing Direct Home Loans. n.d. 11 September 2022. <https://www.rd.usda.gov/programs-services/single-family-housing-programs/single-family-housing-direct-home-loans>

²CNBC. Here's the average net worth of homeowners and renters. 24 August 2021. 11 September 2022. <https://www.cnbc.com/select/average-net-worth-homeowners-renters>

Finally, the responsiveness of USDA’s loan servicing center could be improved and enhanced. Foreclosed homes by USDA Rural Development may sit empty for significant lengths of time before they are made available for resale due to the inability of partners to effectively communicate with the loan servicing center. If communication lines were improved, GROW South Dakota could also be more efficient and successful in helping homeowners with financial education and possibly providing assistance to bring their loans current.

Section 515 Rural Rental Housing Program

For many rural communities, the Section 515 Rural Rental Housing Program provides the only decent and affordable rental housing in the community. This program provides necessary rental housing options for low-income households. Tenants in Section 515 properties have an annual average income of only \$14,6653, with many units occupied by seniors and people with disabilities.³

According to Mills Property Management—a property management contractor with GROW South Dakota—reduced USDA staffing and a reorganization to more regional offices have lengthened response times and led to processing delays over the last few years. USDA servicing agents have become overloaded and unable to respond to questions, reserve for replacement requests, conduct budget approvals, and complete other programmatic tasks in a timely manner.⁴ These communication delays have also contributed to the transfer of unused Section 521 rental assistance out of the State, hurting small-town rural properties in our communities as these resources are vital for preserving property affordability and ensuring tenants are not cost-burdened. We support increased staffing resources for USDA, additional Section 521 Rental Assistance funding, and the full renewal of existing resources, including those provided in the American Rescue Plan.

Many Section 515 multifamily projects are in need of additional repairs and major renovations due to deferred maintenance. We support increased resources for the Multifamily Preservation and Revitalization Program (MPR) since it provides USDA the ability to defer existing loans and provide “soft second” loans and grants.

Projects in rural communities are not only in need of structural capital needs. Projects that are over 30–40 years old are in competition with newly constructed units that have amenities such as dishwashers, in-unit washers/dryers, garages, and updated security systems. Some of these quality-of-life items require a full renovation of the USDA Rural Development 515 projects in order to be considered.

When an owner considers additional financing for 515 properties for substantial renovation in the form of a loan, it is difficult to finance as the amount of rent allowed is limited. If a loan is approved with an increase in rent, the USDA Rural Development subsidy typically will be increased to offset the difference between the tenant’s ability to pay only 30 percent of their income and the higher rent. In essence, the subsidy may be assisting with making the loan payment. If USDA provides a loan to the project and also provides an increase in subsidy due to increased rent, it may be more effective and efficient to provide the project grant funding.

Appraisals that are necessary when considering USDA Rural Development or third-party loans are an added expense to the project. While USDA Rural Development may consider the tax-assessed value of a property, it can be difficult to approve if the valuation is low. In rural areas, it is challenging for the property to meet the appraised value after renovation when taking into consideration the additional and existing debt of the property. GROW South Dakota would support creating a capital pool for experienced nonprofits in the lending field to finance Section 515 projects requiring renovations and to support the preservation of these properties. Nonprofits have greater regulatory flexibility with lending requirements and can serve as a conduit to fill this void. Congress should consider providing appropriations for the USDA Multifamily Housing Preservation Loan Fund program, which previously provided support through a delegated lending structure.

Finally, for 515 projects, USDA Rural Development properties are difficult to transfer to new ownership due to prepayment debt covenants on the project. Potential buyers interested in affordable multifamily housing solutions may be forced to assume USDA Rural Development debt in order to maintain access to subsidies. GROW South Dakota welcomes any legislative intervention available to ease the burden from nonprofits during these difficult transfers. Access to subsidies continues to be critical for nonprofits like GROW South Dakota to serve our commu-

³United States Department of Agriculture Rural Development. Results of the 2021 Multifamily Housing Annual Fair Housing Occupancy Report. 12 May 2022. 18 September 2022. <https://www.rd.usda.gov/sites/default/files/RDUL-MFHreport-0.pdf>

⁴Lamfers, Jessica. Mills Property Management Finance Director Maureen Nelson. 13 September 2022. Email.

nities by providing and preserving affordable multifamily units. Nonprofits that own 515 projects also have limited funding and revenue to complete the necessary updates for deferred maintenance. Because of this, these organizations are being forced to sell projects to private parties who remove the units from the USDA Rural Development program and increase rents.

504 Single Family Repair Loans and Grants

The staff of GROW South Dakota work daily in our rural communities and see firsthand the need for home repairs. When driving through a rural community, it is easy to see the need for shingles and siding from property to property, but there is also a need for health and safety issues that may be causing risks inside the home. Further, when GROW South Dakota has peer-to-peer meetings with groups and organizations deteriorating housing is always at the forefront of the discussions. This is clearly displayed in our organization, as GROW South Dakota has 151 families on our waitlist pending home improvements, and unfortunately, our funding is limited to address these needs.

The USDA 504 program provides direct loans and/or grant funds to very low-income applicants to repair their homes. GROW South Dakota often refers homeowners to the USDA 504 program. However, many of our low-income clients looking for home improvement assistance are not comfortable taking out a loan, even with the very favorable interest rate. This program would benefit from greater regulatory flexibility and an increase in the grant funds per household. This grant currently allows a maximum grant award of \$10,000⁵ for those over 62 and with very-low income. GROW South Dakota's home improvement project costs have increased beyond this award ceiling, even for one major improvement, such as shingling, while many homes need more than one home repair item completed. GROW South Dakota supports increasing the total grant funds awarded to households, expanding the eligibility of grant recipients and the use of funds, and raising Average Median Income eligibility limits. With rising repair costs, broader eligibility flexibilities, and higher awards per household, rural residents will have better access to funds for needed home repairs.

Housing Preservation Grant (HPG)

The HPG program helps to repair or provide rehabilitation of housing owned by low-income rural households. The USDA Housing Preservation Grant (HPG) is both complex and difficult to administer. Reducing regulatory barriers from the grant application stage to the assistance provided to low-income families will increase the program's impact.

During the application stage, GROW South Dakota asks for the public comment process to be removed from the HPG process. The 15-day comment period window is often shortened by the notice of available funding listings being close to the submission date. Although we have not administered this program for some time, we never received a public comment as a result of this requirement, and it has only added to our administrative burden in issuing this program.

The HPG program also requires the State Housing Preservation Offices (SHPOs) to review and approve preservation activities, such as replacing windows, while other Federal programs such as the Department of Energy's Weatherization Assistance Program have negotiated streamlined processes with little or no consultation with the SHPO to comply with the National Historic Preservation Act.⁶ USDA Rural Development would further its impact under HPG by modeling the Department of Energy's streamlined process for review and approval. Therefore, we recommend Congress expand resources for HPG since these activities are needed in our communities while also incorporating administrative reforms to increase the program's impact.

Rural Community Development Initiative

The Rural Community Development Initiative (RCDI) is the only specific capacity-building program offered through USDA's RD Programs. This program helps scale the ability of nonprofits to further their affordable housing and community development work in rural areas. GROW South Dakota recommends changing the RCDI grant scoring on the median household income for the communities where the re-

⁵ USDA Rural Development. "Together, America Prospers". n.d. Single Family Housing Repair Loans and Grants. 19 September 2022. <https://www.rd.usda.gov/sites/default/files/508-rd-fs-rhs-sfh504homerepair.pdf>

⁶ Office of Energy Efficiency & Renewable Energy. Historic Preservation—Executed Programmatic Agreements. n.d. 18 September 2022. <https://www.energy.gov/eere/wipo/historic-preservation-executed-programmatic-agreements>

ipients are physically located.⁷ Many times, local partnering development groups or recipients are physically located in an area where the median household income levels are higher than allowed for scoring the maximum points in the grant application, but they are serving communities that are less than or equal to 70 percent of the State or national median household income. This change would allow RCDI resources to better reach all low-income communities. We also support increased funding for RCDI.

Tribal Trust Land Homeownership Act

The South Dakota Native Homeownership Coalition is a collaborative group of key agencies dedicated to increasing home ownership opportunities for Native Americans in the State of South Dakota. GROW South Dakota has worked closely with the South Dakota Native Homeownership Coalition since its inception, initially securing and administering a USDA RCDI grant to help set roots for this successful coalition. However, home ownership continues to be a major challenge on trust land.

Mortgage lending on Tribal Trust and Restricted Land is a challenge to home ownership in part caused by delays in the processing of title and mortgage-related documents by the Department of Interior Bureau of Indian Affairs (BIA). The loans involving property on trust land must be reviewed and processed by the BIA before the mortgage can be finalized and guaranteed by the relevant Federal agency.

The unintended consequences of these delays have resulted in large financial institutions exiting this market, loss of capital flowing into Tribal Communities, Tribal members with homesite leases opting for higher-cost chattel loans, frustration by lenders needing to refresh documents due to time delays, and tribal populations not able to access affordable mortgage products.

To the BIA's credit over the past three years, they have made mortgages a priority in their title work and have created an Indian Affairs Mortgage Handbook to standardize mortgage package processing across their 12 Regions. The Handbook is a step in the right direction as it provides guidance related to timelines, but more work must be done to ensure the BIA adheres to its timelines. Given the disparities in obtaining access to home loans on trust land compared to fee simple, we support the Tribal Trust Land Homeownership Act (S. 3381). This bill would codify the mortgage document processing times included in the Mortgage Handbook, promote better communication between the BIA and the lending industry, and require the GAO to report on the BIA's efforts at digitizing documents for the purpose of streamlining and expediting the completion of mortgage packages for residential mortgages on trust land.

This legislation is of critical importance as we collectively strive to provide Native Americans wishing to live on their land the same access to home loans available to any American citizen purchasing or renovating their home on fee simple lands. GROW South Dakota appreciates Senators Thune, Smith, Rounds, and Tester for their leadership in introducing this legislation to address this need.

Other

As a nonprofit CDFI partnering with USDA Rural Development through several programs, flexible program design and capital to address a variety of rural affordable housing and community development remain a core need. When local leaders have the resources, along with effective regulations informed by community practitioners, we can make substantial progress in serving rural households. GROW South Dakota recognizes that Federal funding needs parameters and grantees require accountability, yet burdensome regulations often hinder our progress in delivering critical assistance. I have seen that type of funding, I have worked with that type of funding, and the cost to administer such programs sometimes exceeds the value. I applaud the efforts being made in Congress to increase resources for USDA RHS and to ensure that programs are structured so that CDFIs and other recipients can use them flexibly to meet local needs.

Summary

GROW South Dakota's aim is to help find solutions together with our community members to address the housing problems we face and put forward comprehensive, implementable solutions using a unified voice. However, we recognize each community has different needs and strengths—effective policy does not always mean one-size-fits-all, but we do know that housing impacts every single community. This is where we start.

⁷Department of Agriculture. FR Vol. 87. 8 February 2022. 18 September 2022. <https://www.govinfo.gov/content/pkg/FR-2022-02-08/pdf/2022-02624.pdf>

Thank you for working on creating solutions in a bipartisan manner and for looking to stakeholders like myself and my fellow witnesses to inform those solutions. I look forward to working with each of you to promote legislation that will change the future of housing and our families across the State and the Nation. Thank you for your time and I look forward to answering any questions you may have.

PREPARED STATEMENT OF TONYA PLUMMER

DIRECTOR, NATIVE AMERICAN HOUSING PROGRAMS, ENTERPRISE COMMUNITY PARTNERS

SEPTEMBER 20, 2022

Chair Smith, Ranking Member Rounds, and Members of the Committee, thank you for the opportunity to share perspectives on the USDA's Rural Housing Service (RHS) with you today.

My name is Tonya Plummer. I am an enrolled tribal member of Assiniboine, Sioux and Cree heritage with roots in the Sisseton Wahpeton Sioux Tribe of South Dakota and the Fort Belknap Indian Community in Montana. Early in my career I gained several years of experience in mortgage banking, working all sides of the lending process, ending as an underwriter, and working deals with USDA loans in 17 Western States with over 70 branch offices. It has been a challenge and a joy to apply that experience to help create home ownership opportunities for tribal members living within the bounds of the reservation on trust lands. I stepped away from mortgage banking to start and direct a Native CDFI focused on home ownership before coming to Enterprise Community Partners, where I'm focused on expanding their work on affordable housing and community development in tribal communities across the country.

Enterprise is a national nonprofit working to make home and community places of pride, power and belonging for all. In order to create that change, we draw on our strength as an end-to-end housing platform, providing programmatic and advisory services, capital and community development under one roof. We advocate on a nonpartisan basis for sound public policy at every level of Government. We develop and deploy programs and support community organizations on the ground nationwide, in urban, suburban and rural areas. We invest capital to build and preserve rental homes, and we own and operate 13,000 apartments and provide resident services for 22,000 people. In short, our work contributes to thriving, supportive and equitable communities that prioritize safe, stable, and affordable housing options.

Over the past 40 years, Enterprise has collaborated with thousands of local partners to build and preserve 873,000 affordable homes, invested \$54 billion across all 50 States and improved millions of lives. Our strategic priorities are advancing racial equity, building climate resilience and upward mobility and creating and preserving housing people can afford.

Enterprise's Tribal Nations and Rural Communities Team has sought to support safe, decent, and culturally appropriate housing on tribal lands and rural communities since 1997. Enterprise's commitment to rural and tribal communities is deep: over the last 20 years Enterprise has invested more than \$990 million in grants, loans and equity, and developed more than 16,000 affordable homes in rural communities nationwide. Our team offers technical assistance, trainings, peer learning sessions, and other capacity building services to expand access to home ownership opportunities and develop or preserve affordable rural rental homes.

Much of this work is supported by Federal contracts through HUD's Rural Housing and Economic Development program, USDA's Rural Community Development Program and the USDA 515 TA Program, for which we have just been awarded \$1.4 million in contracts.

In advance of my recommendations, I want to acknowledge the recent positive outreach and efforts of USDA Rural Housing Staff to tackle the tough issues for mortgage lending in Indian Country and be present and available thought partners, collaborating with a broader array of stakeholders towards the goals of removing barriers, making USDA housing products more attainable, and realizing a greater impact of these programs on the lives of rural Americans and Native Americans.

I also want to acknowledge the complexities of applying broad changes to all areas including rural markets as well as the vastly underdeveloped and underserved tribal trust land areas. Though they fall under the rural umbrella, the markets, courts and ecosystems of support are varied, making it difficult to analyze and assess intended outcomes across the board. It is of critical importance to be cognizant of this in drafting legislation and careful of unintended consequences.

Enterprise applauds the Committee's interest in and support of the USDA's RHS. The needs of rural residents are profound across the country, and these programs are too often overlooked. Seventy percent of the United States' 473 persistent poverty counties are in rural areas, predominantly in Indian Country, the Mississippi Delta, the Colonias, and Appalachia. A 2021 study by Redfin found that single family homes for sale in rural areas were down 44 percent year over year—the largest drop in rural inventory since Redfin began tracking. Because of the unequal distribution of traditional financing for homes, USDA RHS funding represents one of the only opportunities for home ownership for many rural Americans. There is also a serious shortage of affordable rental housing in rural communities, where incomes are often lower, making it difficult to finance the construction and development of rental housing, often even more so than in urban and suburban communities. The Low-Income Housing Tax Credit (Housing Credit), which is our Nation's most effective tool for the development of affordable rental housing, is greatly over-subscribed, with developers requested nearly 2.5 times as many Housing Credits as there was available authority in 2020. As a result, the vast majority of subsidized rental housing in rural America relies on USDA RHS Section 515 funding to bring those small-scale rural rental housing projects to fruition. Because of the unique and vital role that USDA's Rural Housing Service 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.

Technology and Staffing

For RHS to function at the highest possible level, appropriate staff coverage and cross training is important. One person cannot be the only expert in an issue, or the only person able to complete a process. When staff leave for other jobs, retirement, or temporary leave, it can create gaps that are open until a new person is hired, or the person returns from work. For work in tribal communities specifically, it can be difficult to find a staff person who understands the specific requirements of working on tribal lands, for example. It's been said there have been only five Section 502 loans closed on trust lands in the last year and even fewer USDA Guaranty loans. Despite a clear desire to do more, the existing State and program directors simply do not have the experience with the product nor the staff to provide meaningful assistance beyond a reference to a chapter of the handbook. The existing barrier to accessing meaningful help deepens the divide, leaving some of the best products designed for rural America on the shelf and Native lands and homes red-lined because they are complicated and yet, the staffing weakness did not have to impact the deployment of loans. In 2018, due to the smart partnerships in the initial Section 502 Direct relending Pilot, which turned USDA's two loans to Mazaska and Four Bands into an additional 19 solid performing mortgage loans that otherwise would not have been achieved. More broadly, to facilitate meaningful progression toward loan closings, it would be helpful if multiple staff members were cross trained and able to help 502 program partners walk through loan scenarios and interpret the regulations. Overall, staff capacity for USDA RHS has been a serious challenge. In some areas of South Dakota, USDA offices are currently functioning with 25 percent of the staff they had 5 years ago.

This USDA 502 Direct relending pilot is an example of a smart approach to overcoming staffing shortages, demonstrating that expanding partnerships with Native CDFIs can alleviate the pressure on highly limited USDA staff by tapping into the wealth of local expertise and community knowledge. Enterprise supports efforts to scale up this pilot program nationally.

Enterprise also recommends reviving appropriations funding for the Technical Supervisory Assistance Program (TSA grant) as an additional means of extending USDA RHS outreach and resources to create bridges to rural and tribal communities and organizations with limited capacity. We encourage this TSA Program remain broadly and easily accessible in order to expand outreach and limit bureaucracy for programs that are already hard to understand and apply for.

In combination, expanding partnerships like the 502 pilot, reviving the TSA Program, and increasing funding for USDA staff and technology will go a long way towards adequately meeting the demand of the rural and tribal markets and achieving the objectives of the Rural Housing Service.

Subsidy Recapture

The USDA's Section 502 Direct Rural Housing Loan (Section 502), despite being a very cost-effective way for low-income earners to achieve home ownership, has its shortcomings. It can be difficult for loans to be made due to lack of USDA staffing, technology and consistent funding. Utilizing these loans on tribal land can also be difficult, a problem that would be remedied by S. 2092, the Native American Rural

Homeownership Improvement Act. Enterprise Community Partners is grateful to the Members of this Committee who have supported that bill.

Section 502 can be further complicated by the recapture or balloon payment that comes at the end of the mortgage term or at time of sale, and this needs to be addressed. In certain cases, eliminating subsidy recapture is good and will allow people to better build wealth from home ownership. However, this is a nuanced issue and not all markets with 502 housing stock are the same. In addition, eliminating subsidy recapture altogether will have an impact on the USDA Scorecard and subsequent budget authority, potentially resulting in the unintended consequence of significantly decreasing the allocation of Section 502 dollars available.

As a result, Enterprise proposes that subsidy recapture from the USDA's Section 502 be treated differently in different situations to allow the program to more appropriately ensure that increasing equity in homes enables future home ownership. Subsidy recapture should be treated one way on tribal land, one way in appreciating markets, and one way in depreciating markets.

Section 502 loans on tribal trust land should never require repayment, because the land is not given any value in the assessments and there remains an unproven rate of appreciation but a recognition that equity built over time is the simply the result of paying down the loan and not of a paired appreciation in land or market value. Tribal members in tribal communities, especially those with a large, rural trust land base, already come to the closing table with less equity and the application of a subsidy recapture assures they will not build it at a rate comparable to nontribal members on fee simple lands where a buy/sell market exists. Recently, in one tribal community, a father with a 502 Direct loan passed away, and in order to keep the family housed in the home, they had to come up with \$22,000 of subsidy recapture. The subsidy is not seen as a benefit, and there are South Dakota Native CDFI re-lenders who do not utilize Section 502 because the recapture is seen as a burden to carry rather than a means of affordability and security.

Outside of tribal land, subsidy recapture should more closely replicate a shared equity model. In some rural places, homes with Section 502 loans may substantially increase in value between when the home is purchased and when the owner wishes to sell. In these cases, the full subsidy recapture represents only a relatively small percentage of gained equity. The recapture is thus justified and fulfills the goal of providing money to further subsidize new homeowners.

However, in no circumstances should repaying a Section 502 subsidy leave a borrower underwater, or discourage or prevent them from selling a house that they would otherwise wish to sell. In rural areas with stagnant or even depreciating housing values, this is too often the case. Capping subsidy recapture at a certain percentage of gained equity will prevent this problem. Government support for home ownership, at its heart, is a question of wealth building. If the home has not appreciated enough to pay back the subsidy, it would be waived under this proposal.

Foreclosures of Properties With USDA Loans

Enterprise understands the desire and need to streamline foreclosure but have concerns as previously expressed about the foreclosure issue on tribal lands. This is particularly an area where a nuanced approach is critical. We look forward to continuing to work with Congress to develop legislation that ensures tribal sovereignty is respected.

The Multifamily Foreclosure Act of 1981 allows the Secretary of Housing and Urban Development to conduct nonjudicial foreclosures of multifamily mortgages held by HUD by designating a foreclosure commissioner in a State. The foreclosure commissioner may bypass the court process generally required for a foreclosure, allowing the property to be sold quickly. Importantly, the Act also requires that any subsidized rental properties subject to foreclosure retain their income restrictions, even after they are sold again.

Outside of tribal lands, a similar foreclosure process for RHS mortgages would be appropriate. Foreclosures on properties with mortgages held by the USDA currently can take years to complete, and there is no requirement that affordable properties stay affordable after foreclosure or subsequent sale. The result is that properties with delinquent mortgages become vacant, which presents both a public safety hazard and a lost opportunity for affordable housing in rural communities. A non-judicial foreclosure process that is faster to navigate and requires the preservation of affordability requirements would allow affordable housing groups to buy these properties, make necessary renovations and bring them back into use as affordable housing.

It's extremely difficult to buy a USDA property out of receivership. There is no inventory of foreclosed buildings with USDA mortgages, the way there is for HUD. Enterprise is currently receiving USDA funding through four separate Section 515

Technical Assistance contracts to work with communities across the country to provide assistance on transfers, and this work would be greatly benefitted by a list of properties that are available for purchase and can be retained as affordable housing in rural communities.

On tribal land, any foreclosure process must respect tribal sovereignty. When a tribe has foreclosure laws, tribal courts, rather than State courts, have jurisdiction over foreclosures. These tribal laws must not be disregarded in changes to foreclosure laws. While we recognize the need for a streamlined process and affordability measures on fee simple lands, we move with caution around the unintended consequence of damaging tribal relationships, setting a wrong precedent on tribal lands and hindering the furtherance of any USDA financing at all on tribal lands. We recommend further consultation with National American Indian Housing Council (NAIHC), NCN and the policy committees of several State coalitions on this issue.

Ensuring respect for tribal sovereignty and bringing affordable multifamily housing with delinquent USDA mortgages back into service as affordable housing quickly do not need to be opposing goals. Enterprise Community Partners would welcome the opportunity to work with our partners at NAIHC and the Native Homeownership Coalitions in South Dakota and Montana to engage further on discussions of foreclosures on tribal land and reach a solution.

Conclusion

Thank you for inviting me to share my experiences and perspectives today. On behalf of Enterprise Community Partners, I would like to thank the Subcommittee, and especially Chair Smith and Ranking Member Rounds for their leadership on rural and tribal housing issues, as well as their bipartisan cooperation on issues that affect so many Americans in every corner of the country. The issues addressed in this testimony are just the beginning, as rural and tribal affordable housing faces profound and urgent challenges in alleviating inequality, preserving scarce units, and ensuring that more can be built. Enterprise looks forward to continuing our partnership with Congress to provide safe, stable housing for Native Americans and in rural communities.

PREPARED STATEMENT OF DAVID BATTANY

EXECUTIVE VICE PRESIDENT, CAPITAL MARKETS, GUILD MORTGAGE COMPANY

SEPTEMBER 20, 2022

Chair Smith, Ranking Member Rounds, and Members of the Subcommittee, thank you for the opportunity to testify on behalf of the Mortgage Bankers Association (MBA).¹ My name is David Battany, and I am the Executive Vice President for Capital Markets at Guild Mortgage. Incorporated in 1960, Guild Mortgage was one of the first lenders to participate in the Rural Housing Service's (RHS) programs and is now the fourth-largest rural mortgage lender nationwide. At Guild, I lead the company's efforts in the capital markets and am responsible for overseeing our work in pricing, hedging, credit policy, and investor relationships. Guild is a top five rural lender in Nevada, Montana, North Dakota, and South Carolina and we perform both lending and servicing throughout the country.

I currently serve as a member of MBA's Residential Board of Governors and co-chair of MBA's Affordable Homeownership Advisory Council. MBA's policy and advocacy efforts on rural housing matters have focused on providing education to members and other stakeholders regarding RHS offerings, promoting system upgrades at RHS, and ensuring RHS programs operate efficiently for the benefit of borrowers as well as industry participants. MBA supports ensuring RHS programs are appropriately targeted, accessible to borrowers, and deliverable for lenders.

I am also cochair of the Credit and Lending Committee of the National Housing Conference 2022 Black Homeownership Collaborative and a board member of Habi-

¹The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 390,000 people in virtually every community in the country. Headquartered in Washington, DC, the association works to ensure the continued strength of the Nation's residential and commercial real estate markets, to expand home ownership, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of more than 2,200 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.

tat for Humanity. On a personal note, I grew up in rural Colorado and the values instilled in me there have stayed with me throughout my career in the mortgage industry.

The Lender's Perspective

I applaud the Subcommittee's oversight of the U.S. Department of Agriculture's (USDA) Rural Housing Service and your consideration of the lender perspective of rural home ownership programs. Lenders are indispensable partners to RHS, as they are both the providers and servicers of RHS loans. These programs are worthy of our Nation's commitment to them. RHS loan programs play a vital role in increasing the availability of mortgage credit for rural Americans.

This hearing comes at a time when there are new challenges to serving rural homeowners—from helping our employees and customers recover from the economic impact of COVID-19 to originating a home loan when the average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances just rose to 6.01 percent. The focus of my testimony, however, is the opportunity to build on recent progress to make RHS lending better serve consumers and industry participants alike. The Subcommittee can advance this objective by addressing three areas: better workflow, better technology, and, if these two areas are achieved, better loan products.

The Rural Mortgage Market

The rural market is constrained by its very nature with limited housing supply, much of which is aging single-family housing. Rural residents do, however, have available to them to varying degrees the same housing finance options available to other borrowers in addition to RHS programs. These include options offered by Fannie Mae, Freddie Mac, the Federal Housing Administration (FHA), and the Department of Veterans Affairs (VA), as well as loans offered without Government backing. RHS home loans are offered by a wide variety of mortgage lenders—from independent mortgage banks (who issued 73 percent of such loans in 2021), to depository institutions, including community banks and credit unions—throughout the country. Although small relative to the scale of the multitrillion-dollar mortgage market, RHS loans are meaningful lifelines to economic security for the individuals they help and the communities they bolster.

In 2021, the mortgage industry originated \$1.8 trillion in new loans and refinanced \$2.5 trillion. In that same year, the total volume of USDA/Farm Service Agency loans was 114,524 loans. This represented just 0.49 percent of all loan volume. The total amount of Section 502 Guaranteed Single-Family Housing Loans obligated, for example, was \$448 million in Minnesota and \$170 million in South Dakota. The average loan size was approximately \$180,000, less than half the national average for a conventional loan. It is imperative to be mindful of this small market share and smaller loan size when discussing any potential reforms and proposals that might further restrict lending or impose additional costs on service delivery.

Better Workflow

I would like to start by commending RHS on its new proposed rule to implement a provision of the Housing Opportunity Through Modernization Act (HOTMA), enacted in 2016, to enable the Secretary of Agriculture to delegate approval authority to "Preferred Lenders." USDA currently does not delegate approval authority to lenders in this manner. This is a major barrier to more robust lender participation and puts RHS out of alignment with the processes available in FHA and VA lending. The existing processes require a conditional commitment from USDA staff, and while such commitments are rarely denied, there are instances in which delays in receiving such commitments can cause problems for borrowers and lenders. Market participants have noted that, in some cases, these delays can extend as long as ten days. In such cases, borrowers often have missed their closing dates, causing significant problems with their transactions. USDA should move forward with a more comprehensive set of process updates that provide full delegation to approved lenders. This overdue change would accelerate approval processing timeframes to the benefit of applicants and bring USDA into closer alignment with FHA and VA practices.

Delays in closing can be a "deal-killer" for financing multifamily properties, as well. Apartments and buildings for workforce housing require a combination of debt, tax credits, and equity financing that must come together quickly or they will be applied to other deals. One MBA member, for example, relayed to me that he was unable to close apartment projects in Tennessee and Texas because of months' long delays waiting for a response from RHS.

The RHS staff has shown a commitment to fostering strong relationships with lenders and servicers throughout the industry. Improvements could be made, how-

ever, in the ability of lenders and servicers to get timely clarification on program guidelines when contacting RHS representatives, as well as making policy changes and guideline updates more readily accessible.

Better Technology

The aging technological infrastructure supporting the backbone of RHS operations is widely acknowledged as outdated and in need of substantial upgrades. The systems in place at RHS are less advanced than those used by several other Government housing agencies, Fannie Mae and Freddie Mac, or most lenders. Dedicated resources are needed to ensure RHS can keep pace with changes in the market, evolving data security threats, and changes in the ways in which mortgage loans are originated and serviced.

Much of the technology focus for RHS is centered on its Guaranteed Underwriting System (GUS). The use of an automated underwriting system decreases time-consuming and expensive manual file reviews, improves performance monitoring, and reduces program risk, but further work is needed to ensure this system fully supports RHS borrowers and lenders. Additional investments in the GUS interfacing with industry loan origination systems, for example, would make RHS offerings more attractive for loan officers working “on the ground” with consumers. When problems occur, they often require substantial manual intervention and data re-entry to support the program’s mission. Under the current design, RHS imposes limits on the number of “runs” a lender can make for each borrower, making it difficult for a lender to perform prequalifications without exceeding the maximum limit. More broadly, updated technological infrastructure is needed to ensure the secure operations of RHS programs.

RHS has begun to assess and collect a \$25 per-loan technology fee from lenders in the Section 502 program. While this funding has already delivered results, it has increased the cost of each loan and created a nonappropriated fund that should be reviewed closely. MBA believes that USDA and Congress should provide sufficient funding for RHS technology upgrades through the annual appropriations process and ensure adequate oversight of information technology modernization efforts. RHS should also update its interfaces for the remittance of annual fees from lenders for RHS products to create an efficient, automated, and secure integration between the USDA and servicers’ systems. Today, servicers must manually review and submit payments of annual fees—a process which is cumbersome and outdated.

I would also encourage USDA to engage in and leverage the Mortgage Industry Standards Maintenance Organization’s (MISMO) industry standards setting process in support of its modernization initiatives. Using MISMO standards helps eliminate friction and bifurcation across the industry by creating consistency in loan data and loan processes.

Better Loan Products

Once the capacity to serve rural borrowers is improved, various RHS loan parameters could be reviewed to ensure they are not unduly restricting access to credit or responsible use of RHS offerings. The RHS debt-to-income limits, for example, are far more stringent than those associated with other types of Government-backed lending. RHS requirements related to borrower reserves, borrower deposits, existing tradelines, qualifying income, and tax transcript history would benefit from sensible updates, as well. Congress and USDA also should collaborate to examine existing population limits on RHS loan eligibility to ensure the program’s geographic parameters remain appropriate.

RHS also could explore options for increasing the availability of financing for a variety of different types of housing types to match GSE standards. These options include loans secured by both new and existing manufactured housing throughout the country, as well as for accessory dwelling units (ADUs). These housing types have benefited from advances in technology and design that make them promising approaches to increase the supply of high-quality, affordable housing in rural communities.

Although most lending is completed through the guaranteed loan program, I also would like to bring to your attention concerns regarding Single-Family Housing Section 502 Direct Loans. Congress should ensure funds are provided in a timely manner to enable the program to serve borrowers throughout the entire year. In some instances, lenders have needed to hold a loan until additional funds are made available. Further, rural housing loan volume may be impacted by the “subsidy recapture” imposed through the Direct Loan program. The Government subsidy provided for these loans is subject to repayment when the property is sold. This creates a disincentive for those homeowners who are aware of it to sell a home, and for many others, a very unwelcome surprise if they do sell. An unresolved lien on a property

can delay the loan closing and even stop a sale when a homeowner cannot repay the subsidy. I would encourage the Subcommittee to evaluate the utility of this lien repayment requirement, which if properly addressed could (in a small way) bolster the supply of affordable rural housing.

Other Rural Lending Issues

MBA commends Chair Smith and Ranking Member Rounds for taking action to improve and encourage access to quality affordable housing on trust land through your sponsorship of S. 3381, the Tribal Trust Land Homeownership Act of 2021. For Department of Housing and Urban Development (HUD)/Section 184 Native American Loan Guarantees, the Bureau of Indian Affairs must locate and produce a Title Status Report that is used in lieu of title insurance in those transactions. These are all paper files and often are subject to lengthy processing delays. Your legislation will reduce processing delays, thereby encouraging more lenders to participate in trust land mortgage lending.

Rural communities face a well-documented shortage of suitable housing stock and underproduction of homes that meet the needs of the rural workforce. I would encourage the Subcommittee to advance a combination of legislation that together opens the aperture for new housing, such as the bipartisan S. 902, the Housing Supply and Affordability Act (HSAA), which creates a new Local Housing Policy Grant (LHPG) program administered by HUD to support local efforts to expand housing supply. Zoning reforms, combined with diversification of Federal and State financing for rural housing, such as robust Low- and Middle-Income Housing Tax Credits and the financing made available in S. 4445, the Affordable Housing Bond Enhancement Act, will strengthen the rural housing supply.

Finally, borrowers in rural areas would be well served by greater access to remote online notarization (RON). As the Federal investment in broadband access reaches rural communities, they will be able to use a remote online notary in the loan closing process. Authority to perform RON, however, currently is limited to 41 States. I would encourage the Subcommittee Members to support S. 1625, the SECURE Notarization Act, introduced by Senators Warner (D-VA) and Cramer (R-ND), to help rural borrowers access a more reliable and timely mortgage closing process.

Conclusion

Once again, on behalf of all MBA members, I appreciate the opportunity to comment on the Rural Housing Service's loan programs. I also deeply appreciate USDA's ongoing engagement with lenders and other stakeholders to address the three specific topics that I have outlined today. I look forward to your questions and to working with the Subcommittee to develop practical solutions to the issues addressed at this hearing.

**RESPONSES TO WRITTEN QUESTIONS OF
SENATOR CORTEZ MASTO FROM ELIZABETH GLIDDEN**

Q.1. Please describe any community land trusts your organization has participated in, if any. Are there any lessons you have learned from community land trusts?

A.1. Through MHP's role as a provider of technical assistance, we have helped communities explore and implement community land trusts in rural areas. Currently, MHP is helping West Central Minnesota Community Action (WCMCA), located in Elbow Lake, Minnesota, to create a community land trust. WCMCA, which serves five rural counties next to Minnesota's border with North and South Dakota, explored a land trust as a solution to the affordability crisis residents in the region have been experiencing. With a community land trust, they will be able to develop homes at a significant cost reduction, thanks to funding available through the Minnesota Housing Finance Authority and FHLB. To date, they have closed on two community land trust homes, confirming that the land trust model works in very rural areas.

The community land trust model has been popular throughout Minnesota in helping provide affordable home ownership opportunities, particularly for underserved and Black, Indigenous, and households of color. In some cases, such as Northeast Minnesota which has a strong community land trust producer (the nonprofit One Roof), there has been significant interest in community land trusts regionally because of their ability to increase affordable housing ownership stock and production. Community land trust have leveraged community development block grant funds (CDBG) well and have provided tremendous community benefit with long term affordability, a benefit that balances the challenge of needing a high upfront investment.

Q.2. Please describe interactions your organization may have had with your regional Federal Home Loan Bank. What investments have FHLBanks made in your organization?

A.2. MHP does not build, own or manage housing. Rather, we provide technical assistance to rural communities and Native nations to achieve their community development and housing objectives; thus, we have not received investments from FHLB in our organization but have helped other organizations secure FHLB resources for their housing goals and projects.

MHP has extensive experience assisting many local governments, housing organizations, and Tribal Nations to secure and utilize grant funds through the competitive FHLB Affordable Housing and Community Investment program. These funds have been instrumental in providing gap funding to projects that otherwise would not have been able to move forward due to a lack of non-debt-related upfront construction and rehab funding.

Projects MHP has helped secure funds for have included everything from rehabbing a Section 515 project in rural South Dakota, to leveraging a competitive Indian Housing Block Grant in the creation of eight units of elder housing on a Minnesota reservation, to supporting several local governments in providing additional owner-occupied rehab and downpayment assistance dollars to low-income households. FHLB funds are frequently utilized to leverage

existing programs or funding streams, often extending the number of households being served in a community.

Another valuable program we want to highlight that we have utilized from FHLB is the Native American Homeownership Initiative, where eligible enrolled Tribal households may receive up to \$15,000 for downpayment, closing cost, counseling, and/or rehabilitation assistance through an FHLB member bank.

Q.3. Will your organization participate with the Federal Housing Finance Agency review of the Federal Home Loan Banks if you have suggestions?

A.3. We have not yet participated in this review but will seek future opportunities to participate in roundtable discussions and submit comments.

Thank you for this opportunity to provide responses.

RESPONSES TO WRITTEN QUESTIONS OF SENATOR CORTEZ MASTO FROM MARCIA ERICKSON

Q.1. Please describe any community land trusts your organization has participated in, if any. Are there any lessons you have learned from community land trusts?

A.1. While GROW South Dakota does not personally participate in community land trusts (CLTs), 21 NeighborWorks America Organizations have experience operating as a CLT. There are an estimated 225 CLTs in the United States, overseeing approximately 12,000 owner-occupied units.¹ The successes of these organizations inform the entire NeighborWorks network of the opportunities that exist to implement and expand cooperative housing models, in turn creating lasting affordable housing, promoting neighborhood stabilization, and generating wealth-building opportunities for low- and moderate-income families. CLTs provide a unique method of serving the market, oftentimes operating as an effective and generative community development anchor. Particularly as inflationary pressures constrain affordable housing and community development activities, more municipal, State, and Federal leaders are recognizing the reliability of CLTs to retain that affordability and support communities.

CLTs are effective community development entities that increase housing affordability to a portion of the housing market. Traditional CLT models require the buyer to be below 80 percent average median income while having sufficient income to qualify for a first mortgage and maintain the home. CLTs are a good alternative to renting for many low- and middle-income households, especially as this population is feeling the pressures of rising housing costs. Shared equity housing is the model implemented by CLTs, empowering residents to own and build equity on otherwise unaffordable homes while ensuring that the unit can be sold at an affordable price to the next owner through resale restrictions tailored to their markets. This way should the unit appreciate before the time of resale, the homeowner and the CLT share any increase in the value of the property. This resale process is managed by the CLT. As the value of the home grows, so does the built-in subsidy to the next

¹ Thaden, "The State of Shared-Equity Homeownership".

buyer to keep the unit affordable and keep the CLT operational. CLTs expand access to home ownership through this permanent affordability, which can be beneficial particularly when resources funding a downpayment assistance program may be limited and competitive. CLTs create permanently affordable units that build wealth for a legacy of homeowners, which a mission-driven non-profit might want to consider in lieu of or in addition to providing downpayment assistance for only a single household.

There are numerous shining examples of CLTs in the NeighborWorks network, including the country's largest CLT—Champlain Housing Trust in Burlington, VT, with over 3,100 homes (rental, co-op and home ownership) in its portfolio—which is known as one of the initial leaders in developing and perfecting the shared equity home model. Another NeighborWorks CLT, NeighborWorks Dakota Home Resources, is a fellow South Dakota NeighborWorks organization and National NeighborWorks Association member located in Deadwood, SD. NeighborWorks Dakota Home Resources has 30 properties in Western South Dakota plus shared ownership on an affordable apartment.

DLT charges a \$25 monthly lease payment for use of the lot. The homeowner receives a 99-year lease with a 99-year extension option. The homeowner also pays property taxes on both the land and the home. The CLT pays for the cost of the land and the homebuyer owns the home and pays the \$25 monthly lease payment. If the lot cost is \$55,000, then the homeowner could save \$340 per month by using the land trust (\$55,000 loan, 30-year term, 7 percent rate = \$365.92 - \$25 lease = \$340.91). These savings can be the difference between an opportunity to own a home and build wealth versus renting indefinitely. Particularly when the Nation is seeing a widening home ownership gap between White households and non-White households, expanding affordable options for families to transition away from renting presents an innovative intervention to address these racial disparities.

Unsurprisingly, a \$25 lease payment does not cover total operating expenses for a CLT, therefore additional financing is required to handle servicing the land trust. CLTs must layer other affordable housing and community development subsidies for successful operations, including Federal programs. Such resources must be flexibly implementable, allowing CLTs to pull from various sources to secure sufficient servicing and operating resources, and close financing gaps to continue to serve low- and moderate-income households and retain the affordability of these units. As Congress considers housing and community development legislation, be that new authorizations or reforms to key programs such as HOME or CDBG, CLTs must be included as eligible recipients to continue the success of these innovative home ownership models. Policymakers must understand how beneficial CLTs can be to bring a household into home ownership.

Many lessons can be learned from CLTs and applied to different markets, geographies, populations, and to address a variety of community needs. As housing costs rise and the gap between affordable and market-rate housing widens, a CLT can preserve a stock of accessible and affordable homes. CLTs can also be used to issue homeowner education, legal assistance, and financial literacy. Some

are also known to help homeowners with renovations and repairs, as well as intervene to prevent foreclosure.

CLTs also revitalize neighborhoods that experience disinvestment—remote rural areas and urban areas alike. The service lines of CLTs continue to diversify, meeting the different needs of different markets. Many CLTs have begun to acquire land for non-housing purposes to incentivize commercial investment or ensure community control within a development. One example of this innovative approach is Beyond Housing in St. Louis, MO, where their CLT strengthens their local community not only by providing permanently affordable homes, but also by issuing economic development and employment opportunities through constructing and operating a local movie theater, grocery store, and bank for the St. Louis community. CLTs can revitalize commercial areas by offering affordable leases to community services and businesses, all conducted by a Board of Directors that is made up of members of the community. These successes fortify the importance of community participation in neighborhood development, and such engagement allows for the successful implementation and operation of these initiatives.

Q.2. Please describe interactions your organization may have had with your regional Federal Home Loan Bank? What investments have FHLBanks made in your organization?

A.2. GROW South Dakota has successfully partnered with the Federal Home Loan Bank Des Moines, IA, for 25 years using the competitive Affordable Housing Program (AHP). This funding has helped our organization successfully provide home improvement measures totaling over \$7.37 million and assisting over 1,100 homeowners. We have partnered with two separate financial institutions that sponsored our projects.

The home improvement grants are directed to low-income households at 50 percent or below the Area Medium Income and to special needs households such as seniors and persons with disabilities. Home improvement grants are provided to homeowners needing repairs to their homes. Eligible activities include roofing, siding, plumbing, electrical, weatherization, HVAC, energy efficiency measures, or health and safety measures. More than two-thirds of the homes in our service area—totaling 51 counties of eastern South Dakota—are over 35 years old, and nearly one-third are more than 70 years old.

Home improvements were the highest-rated needs in a recent community needs assessment conducted by GROW South Dakota. In the survey, 74 percent of respondents rated home improvement as a high or moderate need. AHP funds from the Federal Home Loan Bank allow GROW South Dakota to assist low-income households in making necessary improvements to their homes to make them safer, healthier, and more energy efficient.

Our average home improvement costs have increased over our 25-year history with our current average cost per home at \$16,500 for one major home improvement. The demand for housing improvements is robust based on our current pipeline of requests for these types of projects. GROW South Dakota currently has more than 160 requests for home rehabilitation opportunities.

One example of the increasing need for home repairs is an individual in northeast South Dakota that recently retired. Shortly after retiring, she divorced and was living only on social security. The house she owned needed serious repairs that were not affordable on her fixed income. Drafty windows and floors made the home hard to heat, and her bathroom was in dire need of significant repairs. Her neighbor referred her to GROW South Dakota for assistance.

Through the FHLB program, her home improved in a short time. Her bathroom now has a new tub and toilet along with an exhaust fan. Carbon monoxide detectors were also installed. On the outside, her house has new siding and eaves. "My house looks like a new home. It is so nice and easy to clean, and there is not cold air leaking anymore," she stated. She has received many compliments about the work that was done, and can now enjoy retirement without having to worry about repairs.

The AHP is a critical source of funding for low-income individuals to address unique housing needs. FHLB is a crucial partner and conduit to positively improve housing conditions for low-income families in our community.

Q.3. Will your organization participate with the Federal Housing Finance Agency review of the Federal Home Loan Banks if you have suggestions?

A.3. GROW South Dakota participated in the Federal Housing Finance Agency (FHFA) comment period regarding the Federal Home Loan Bank's (FHLB) role in promoting affordable housing and community investment through the Affordable Housing Program (AHP). Our comments were focused on the importance of the AHP program.

The FHLB AHP has been key to addressing the unique home improvement needs of rural and financially vulnerable homeowners through GROW South Dakota's work in eastern South Dakota. As a result of our partnership with the FHLB Des Moines, IA, over \$7.37 million has been invested in local South Dakota communities assisting over 1,100 homeowners. Currently, GROW South Dakota has more than 160 requests on a waiting list pending home rehabilitation.

By law, each FHLB must establish an AHP and contribute 10 percent of its earnings to its AHP. However, with the dire need for home preservation due to aging housing stock, more funding should be allocated to this program beyond the 10 percent threshold. Continued access to AHP is critical as it is an invaluable resource to the homeowners that need it most. Home is the foundation for vulnerable households. The AHP helps low-income individuals stay in their homes as is demonstrated in the following life-changing event from a homeowner who did not have an adequate heating system or plumbing.

GROW South Dakota received a call from a senior resident in need of assistance with heating her house. When the weatherization team went to her home, they discovered energy inefficiencies as well as safety concerns. The heating unit was not adequately ventilated, which could cause carbon monoxide poisoning. The windows were leaking, creating drafting in the house, and there was

no insulation in the attic, walls, or under the floor making the house very cold. Most significantly, there was no indoor bathroom. The homeowner had been using an outhouse as a restroom and would go to friends and neighbors when she needed to shower.

GROW South Dakota insulated the house and provided new storm windows. Our organization also replaced the old unvented space heater with a vented space heater and installed an exhaust fan above the stove. Besides the lifesaving installment of a new heating unit, the most significant improvement, with assistance from the FHLB AHP funding, was an addition to the house. This senior citizen now has an indoor bathroom with a shower, sink, toilet, and water hookups for a washing machine.

She stated, “Because of this program, I no longer have to worry about CO2 poisoning. I have adequate heat and no wind blowing through the windows and doors. For the first time, I don’t have to walk to the outhouse and worry about falling. I’m able to take a shower without going to someone else’s house. To say what I have received from the program has been life-changing would be a complete understatement.”

The FHLB has made a significant difference in GROW South Dakota’s work with home repairs, but there are many more needs in our communities. We recommend the 10 percent AHP contribution earnings be increased. This funding helps secure needed affordable and safe housing while creating and supporting healthy communities.

GROW South Dakota also participated in a robust listening session on November 7, 2022, in Pierre, South Dakota, with Joshua Stallings, Deputy Director, FHFA Division of Bank Regulation, and Michela Barba, Principal Advisor, FHFA, present. Our session primarily focused on the unique challenges of serving Native American and rural communities in South Dakota.

Key points addressed included the importance of regional banks with smaller geographies working directly with community advocates to promote affordable, sustainable, equitable, and resilient housing and community investment. Smaller geographic areas for regional banks encourage partner communication and help address the local housing and community needs that have the most significant impact in rural and financially vulnerable areas. This holds true with access to capital for low-cost mortgages with FHLB being a supplier of funds.

The FHLB is a supplier of lendable funds to financial institutions of all sizes and many types, including community banks, credit unions, commercial and savings banks, insurance companies and community development financial institutions (CDFI). The steady supply of lendable funds from the FHLB helps U.S. lenders invest in local needs including housing, jobs and economic growth.² CDFIs should be reviewed for FHLB membership and provided with unique collateral opportunities to inclusively meet the local investment needs. CDFIs with lengthy histories and solid backgrounds do not increase risk for the FHLB or weaken the system. GROW South Dakota has two certified CDFIs under our organizational umbrella with a historic repayment rate of 98–99 percent be-

² FHLBanks. (2022). Retrieved 2022, from <https://fhlbanks.com/>.

tween housing and business loans with a 50-year history in the revolving loan fund industry.

Further, CDFIs should be permitted to submit AHP projects without a bank sponsor. While sponsoring banks can support and bolster partnerships, this requirement has also halted AHP projects with Native organizations. Native groups stressed that it is difficult if not impossible to find a sponsor.

Finally, the AHP application is onerous and cumbersome, and organizations have had to hire consultants to write the grant application. It was noted that one group would not apply for AHP funds due to regulations and difficulty in administering. This prevents Native communities from benefitting from the Banks' affordable housing and community development programs. Our recommendation was to engage an active group of CDFI organizations and housing advocates to review and analyze the regulations in a thorough process to determine which items specifically hinder progress.

**RESPONSES TO WRITTEN QUESTIONS OF
SENATOR CORTEZ MASTO FROM TONYA PLUMMER**

Q.1. Is Enterprise tracking American Rescue Plan and CARES funds supported tribal housing investments? Can you share your research?

A.1. HUD's Office of Native American Programs (ONAP) has matched Indian Community Development Block Grant (ICDBG) recipients with technical assistance providers, who will work with tribes to complete needs assessment workplans to identify strategies to spend down their American Rescue Plan Act funds. Enterprise's Advisors team, which provides technical assistance and capacity building, is currently working with 27 tribes across the country. However, Enterprise has not conducted any comprehensive research on tribal housing investments supported by funds from the American Rescue Plan Act or the CARES Act, nor are we aware of any groups conducting such research.

Q.2. Please describe any community land trusts your organization has participated in, if any. Are there any lessons you have learned from community land trusts?

A.2. While Enterprise Community Partners has not directly purchased land from a community land trust for housing construction, our CDFI, Enterprise Community Loan Fund (ECLF) has provided loans to land trusts, and Enterprise Community Partners is actively engaged in policy conversations about making HOME funds easily usable for community land trusts.

In early 2022, ECLF provided a \$3.2 million loan to the Bay Area Community Land Trust for their purchase of a 13-unit apartment building on Solano Avenue in North Berkeley. The funding, combined with \$3.9 million from the City of Berkeley, allowed the purchase of a privately owned building of rental units that had attempted to evict all its residents in 2019 and sell the building. The Bay Area Community Land Trust's purchase will allow the organization to acquire and complete renovations at the building. The building will have restricted rents and a portion of units restricted

for tenants with incomes under 50 percent and 80 percent area median income.

In New York, since 2017, Enterprise has invested more than \$12 million in grant funds to support 11 Community Land Trusts across New York State to strengthen their capacity and help expand their development pipeline. In the last round of grant support, which ended early this year, the participating Community Land Trusts acquired nearly 132 properties, rehabilitated 88, completed 57 new instructions, and demolished 8 structures that will pave the way for new construction. In Denver, Enterprise Community Partners helped launch the Denver Regional Transit-Oriented Development (TOD) Fund in 2010. The TOD Fund supports land banking by providing capital needed to purchase key properties along current and future transit corridors for current or future development or preservation of housing. In 2022, ECLF invested \$8.8 million in loans for the TOD Fund to acquire three properties and finance 462 new units of housing.

Experience lending to and partnering with community land trusts has given Enterprise Community Partners a useful perspective on changes needed to Federal funding to ensure their usefulness to community land trusts. In coordination with national and State groups including the Council of State Community Development Agencies, Grounded Solutions Network, the National Council of State Housing Agencies and National NeighborWorks Association, Enterprise Community Partners has developed a series of recommendations in advance of proposed HOME rulemaking. The recommendations include several suggested changes to enable easier use by community land trusts.

First, HUD should treat CLTs like all other entities that have nonprofit tax status under IRS rules. All CLTs should be able to access general HOME funding the same way other nonprofit entities are able to do so. Should the CLT also meet CHDO requirements, it should be able to access CHDO set-aside funds. Should the CLT meet the definition of CLT under Part B-Community Housing Partnership, it should be able to access CHDO set-aside funds, technical assistance, and capacity building funds.

Second, HUD should clarify that CLT board composition requirements meet the CHDO requirements for low-income representation even if individual members who were low-income when they joined the board experience economic mobility during their tenure on the board. In addition, HUD should clarify that demonstrated capacity and a history of serving the local community are not required for CLTs per the statute.

Q.3. Please describe interactions your organization may have had with your regional Federal Home Loan Bank? What investments have FHLBanks made in your organization?

A.3. Enterprise Community Partners' CDFI, Enterprise Community Loan Fund (ECLF) has been a member of the Federal Home Loan Bank of Atlanta since 2015 and has found their membership to be positive and useful. The FHLBank of Atlanta is willing to lend expertise, answer questions about their product offerings, and brainstorm about how they might be of use to ECLF, as well as provide support on paperwork and applications. This high level of

service is notable because ECLF is one of the smaller members. ECLF often utilizes advances from the FHLBank Atlanta because the advances are one of the only sources of 20-year debt capital available to CDFIs. Prior to ECLF's membership, the longest-term debt capital they could access was 10 years, until last year, when 15-year capital became available. These advances from the CIP also have guaranteed lower interest rates.

ECLF started applying for funding from FHLBank Atlanta a few years after becoming a member and has participated in both the Affordable Housing Program (AHP) and the Community Investment Program (CIP). On behalf of development partners, ECLF has applied for AHP grants for 13 projects, for which a total of \$6,167,520 has been awarded. This funding has supported the development of 13 projects with a total of 924 units with a total development cost of \$203,633,549. When ECLF partners to help a developer access AHP money, they will also often make a loan to the developer themselves, and the FHLB Atlanta will frequently subsidize the interest rate on that loan as well.

The Federal Home Loan Bank of New York has also been a philanthropic partner for Enterprise, giving a total of \$1 million in grants to Enterprise Community Partners over the past 2 years. In June 2021, FHLBank New York awarded \$500,000 to Enterprise's Equitable Path Forward project to allow Enterprise to provide consulting and advisory services to up to eight affordable housing developers led by Black, Indigenous, and People of Color (BIPOC) housing providers. In September 2022, FHLBank New York granted another \$150,000 to that project, along with \$350,000 to support Enterprise's Asset Management University, a statewide initiative that offers training and learning resources for affordable housing operators in New York, with the aim of better equipping them to oversee the financial, physical, and operational health of their housing portfolios.

Enterprise Community Partners' Mountain, Tribal Nations and Rural (MTNR) team has recently entered into an agreement with the Federal Home Loan Bank of Dallas to conduct a basic needs assessment for tribal communities in New Mexico. This needs assessment will fulfill FHLBank Dallas' FHFA requirements to identify opportunities to invest in Native and tribal communities through the Affordable Housing Program. The team will draw on existing relationships with tribal housing providers and advocates in New Mexico to help inform this work. The MTNR team also frequently encourages technical assistance recipients to work with their FHLBank and views the FHLBanks as an important source of gap funding. The MTNR team provides technical assistance in a variety of forums, including through the Rural Rental Preservation Academy, Multi-Family Housing Non-Profit Transfer Technical Assistance Grants through the USDA Rural Housing Service, and the ElevateNV Affordable Housing Development Training Series. In each case, the MTNR team refers recipients to work with their FHLBank to access gap funding. The Federal Home Loan Bank of San Francisco is also a sponsor of the ElevateNV series through a grant to the Nevada Housing Coalition.

Q.4. Will your organization participate with the Federal Housing Finance Agency review of the Federal Home Loan Banks if you have suggestions?

A.4. Enterprise Community Partners is monitoring the Federal Housing Finance Agency's "FHLBank System at 100" process but has not yet participated. Given the success of the programs for ECLF's loans to affordable housing development, we support the FHLBanks putting a larger percentage of profits towards their Affordable Housing Programs, as outlined in your Federal Home Loan Banks' Mission Implementation Act. If future listening sessions are announced regarding topics on which Enterprise can offer unique expertise, we may seek to participate.

LETTER SUBMITTED BY NATIONAL HOUSING LAW PROJECT



September 19, 2022

The Honorable Sherrod Brown
Chair
Committee on Banking, Housing and
Community Affairs
United States Senate

The Honorable Patrick Toomey
Ranking Member
Committee on Banking, Housing and
Community Affairs
United States Senate

The Honorable Tina Smith
Chair
Subcommittee on Housing, Transportation, and
Community Development
United States Senate

The Honorable Mike Rounds
Ranking Member
Subcommittee on Housing, Transportation, and
Community Development
United States Senate

**Examining the U.S. Department of Agriculture's Rural Housing Service: Stakeholder Perspectives
September 20, 2022**

Chair Brown, Ranking Member Toomey, Chair Smith, and Ranking Member Rounds,

Thank you for this opportunity to submit testimony for the record regarding the hearing titled Examining the U.S. Department of Agriculture's Rural Housing Service: Stakeholder Perspectives on September 20, 2022.

The National Housing Law Project's mission is to advance housing justice for people living in poverty and their communities. NHLP achieves this by strengthening and enforcing the rights of tenants and increasing housing opportunities for underserved communities. Our organization also provides technical assistance and policy support on a range of housing issues to legal services and other advocates nationwide. NHLP hosts the national Housing Justice Network (HJN), a vast field network of over 1,900 community-level housing advocates and resident leaders. HJN member organizations are committed to protecting affordable housing and residents' rights for low-income families across the country, including in rural communities.

The quickly rising cost of housing has been particularly devastating to low-income individuals and families who are completely priced out of many housing markets. While the rental housing provided by USDA's Rural Housing Service has historically been a critical source of safe, decent, affordable housing, it faces its own unique challenges. According to a 2018 GAO report, between 2028 and 2050, "over 90% of RHS's assisted multifamily properties and units could exit the program via loan maturation or prepayment."¹ Similarly, a March 2022 study published by the Housing Assistance Council (HAC) found that "921 Section 515 properties left the portfolio between 2016 and July 2021 – nearly three

¹ U.S. Gov't Accountability Off., GAO-18-285, Rural Housing Service: Better Data Controls, Planning, and Additional Options Could Help Preserve Affordable Rental Units (May 17, 2018), <https://www.gao.gov/products/gao-18-285>.

times the original USDA projection for maturing mortgages alone during the five-year period.” In the last year, 108 Section 515 properties left the portfolio. In addition, HAC also found that close to 40 percent of the properties in the 515 portfolio have prepayment rights that would allow them to exit the program early. The number of Section 515 properties that are at risk of exiting the RHS portfolio due to prepayments and mortgage maturities threatens to upend the lives of the more than 628,000 renters who call Section 515 units home.

USDA’s housing programs also play a critical role in creating and sustaining affordable homeownership in rural areas. The Agency serves as a lender under its Section 502 direct loan program and also acts as a guarantor of loans made by private lenders under its Section 502 guaranteed loan program. Almost one million households have USDA guaranteed loans and over 200,000 households currently have direct loans. However, when homeowners in the direct loan program face financial hardships, they are excluded from securing a moratorium based on arbitrary rules incorporated into the current regulations. This is particularly troubling given that the direct loan program serves a much higher percentage of people of color than the guaranteed loan program. For example, in 2016, of the borrowers served by the direct loan program, 21% were African American and 16% were Hispanic whereas of the borrowers served by the guaranteed loan program, only 5% were African American and 9% Hispanic.²

At such a critical time in the program’s history, it is essential that the Agency act to protect the rights and interests of borrowers and tenants, who are the primary beneficiaries of Rural Development’s housing programs. To protect renters in its Multifamily Housing (MFH) program, we recommend that the Agency take action to: (1) improve tenant protections; (2) extend rental assistance to all eligible tenants, even after the Section 515 mortgage has matured, and (3) improve administration of the RD Voucher program so that it provides the long-term housing stability for which it was intended. To ensure homeowners avoid unnecessary foreclosures, we recommend that the Agency take action to: (1) make alternatives to foreclosure available for direct borrowers throughout the foreclosure process, and (2) provide meaningful access to moratorium (forbearance) relief that addresses the individual borrower’s post-moratorium income and financial situation. These recommendations are discussed in more detail below.

Improve Tenant Protections

To improve protection for tenants, the Agency should adopt a standard lease or lease addendum. Having a standard lease or lease addendum in RHS rental housing not only protects the public investment in affordable, rental housing, but also allows the families, seniors and people with disabilities who live there to enforce their rights when the landlord fails to comply with their obligations. For example, a Section 515 resident in Ohio faced eviction for nonpayment of rent, in part, because the

² Corianne Payton Scally and David Lipsetz, *New Public Data Available on USDA Rural Housing Service’s Single-Family and Multifamily Programs*, Vol. 19, *Cityscape: A Journal of Policy Development and Research*, 295, 301-302 (2017).

landlord failed to timely conduct a rent recertification due to the tenant's reported loss of income and charged late fees during the grace period. Because the landlord used the model lease created by the RD Ohio office that reflected the landlord's obligations with regard to recertifications and providing a grace period, the tenant was able to successfully assert these defenses in court. The case ultimately settled and the tenant retained their housing.

Even though the current RD regulations enumerate the minimum rights for tenants participating in the Section 515, 514/516 and 521 programs, we have reviewed leases from across the country and repeatedly observed examples that fail to comply with the minimum program requirements. For example, a Maine lease allowed the tenancy to be non-renewed or converted to a month-to-month lease if the tenant did not complete recertification within 75 days, which is contrary to the regulations and Agency guidance on processing recertifications. The lease also contained provisions in violation of the Violence Against Women Act which prohibits evicting tenants or terminating their housing assistance because they are the victims of gender-based violence. Specifically, the lease permitted termination of the entire household where criminal activity occurs without providing exceptions for survivors of dating violence, sexual assault, or stalking. As such, there is a need for the Agency to adopt a standard lease or lease addendum for MFH programs that enumerates minimum tenants' rights in the program as provided by 7 C.F.R. § 3560.156.

In addition, the Agency should extend the same tenant protections to the 538 program that exist for the 514 and 515 programs as required by 42 U.S.C. § 1490p-2(n). When Congress approved the Section 538 program, it directed the Agency to extend the same tenant protections to residents of the program as are extended to residents of the Section 514 and 515 programs. 42 U.S.C. § 1490p-2(n). RD regulations, however, only extend the tenant grievance and appeals process to residents in Section 538 housing. 7 C.F.R. § 3565.351(c). Critically, it omits the good cause for eviction standard that is extended to RD Section 514 and 515 residents, 7 C.F.R. § 3560.159(a)(2). RD should take immediate steps to advise Section 538 owners that good cause to evict is a federal requirement that is also applicable to the program. Moreover, RD should also extend the following Section 515 protections to Section 538 residents: automatic lease renewals, late payment protections, the right to receive notice of lease violations and the right to cure those violations prior to the commencement of an eviction action.

Extend Rental Assistance to all Eligible Tenants

Currently, 76% of Section 515 households (290,991 households) receive RA. While the average household income for Section 515 households is \$14,665, the average income of RA households is \$12,501.³ RA caps a household's rental payments at 30% of income, and, where tenants pay their own utilities, includes a utility allowance to address rising energy costs. In addition, 3,041 households are eligible for but not currently receiving RA. As a result, they pay more than 30% of their income toward

³ USDA Rural Development, Results of the 2021 Multi-Family Housing Annual Fair Housing Occupancy Report (May 12, 2022), https://www.rd.usda.gov/sites/default/files/RDUL-MFHreport_0.pdf.

their housing costs. In fact, more than 1/3 of rent-overburdened households (1,069) are paying 51% of their income toward housing costs.

Rental Assistance is critical to keeping rural housing affordable for low-income residents, but is currently only available to residents at properties with Section 515 loans. To ensure that these households can afford to remain in their homes after the mortgage has matured, we recommend that Congress give the Agency the authority to decouple the Section 521 Rental Assistance from the maturing Section 515 mortgages. To provide housing stability and security for tenants, a decoupling proposal must (1) maintain existing tenant protections provided to renters in Section 515 properties and (2) offer owners long-term rental assistance contracts subject to annual appropriations. We recommend 20 year contracts subject to annual appropriations as this is the model utilized by HUD (42 U.S.C. §1437f(o)(13)(F); 82 Fed. Reg. 5458 (2017)), to maintain the long term affordability of projects while allowing owners to secure additional funding for maintenance and rehabilitation costs necessary to keep the properties in operation. Importantly, RA would need to be offered not only to those residents currently receiving RA, but also to any tenants residing in the property to ensure that all low-income and very low-income households who are eligible for the assistance receive it.

Improve Administration of the RD Voucher Program

Congress authorized the Section 542 Rural Development Voucher program to provide rental assistance vouchers to eligible tenants living at Section 515 properties that have exited the program due to prepayment or foreclosure of the property. The Senate and House drafts of the 2022 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations bill would also make RD Vouchers available to eligible tenants at properties with maturing mortgages. Currently, the RD Voucher program operates as a demonstration program. USDA should amend Section 542 to make the operation of the voucher demonstration program permanent. In doing so, the Agency should also ensure that the subsidy extended to voucher holders is adjusted in the same manner that the HUD housing choice vouchers are adjusted as rents increase or household income increases or decreases. Also, it is imperative that the voucher covers the cost of utilities by including a utility allowance in cases where the tenants are paying part of all of their utilities. Currently, the utility costs are not covered by the subsidy.

Another issue with the current administration of the RD Voucher program results from the Agency's practice of issuing vouchers to residents remaining in prepaid properties. Congress enacted the Emergency Low Income Housing Preservation Act (ELIHPA) to stop the displacement of rural residents living in USDA-financed developments that were exiting the program through prepayments. As amended, ELIHPA imposes prepayment restrictions on properties financed prior to December 14, 1989. Under ELIHPA's prepayment restrictions, owners are still permitted to prepay their loans. If RD determines that the prepayment does not have an adverse impact on minority housing opportunities, but there is no alternative affordable housing in the community, the owners may prepay the loan

subject to use restrictions. These use restrictions are intended to protect the residents of the property as of the date of prepayment.

The intent of imposing the use restrictions was to discourage prepayments. By allowing the owner to exit the portfolio early subject to use restrictions, the owner is expected to subsidize the rent of the remaining tenants as a condition of being allowed to exit the program early. By providing vouchers, the Agency is ensuring that there's no financial risk to the owner, and therefore no incentive to stay in the program. This creates an incentive for owners to prepay, and has resulted in three times as many properties as USDA projected exiting the portfolio through prepayments over the past 5 years.⁴ Therefore, RD should stop issuing vouchers to residents remaining in prepaid properties.

Make alternatives to foreclosure available for direct borrowers

RD offers a number of foreclosure avoidance options, generally referred to as “loss mitigation options,” for borrowers in both the direct and guaranteed loan programs who run into trouble making their mortgage payments. For borrowers in the guaranteed loan program, these options are available throughout the foreclosure process. However, RD has adopted a policy barring borrowers in the direct loan program from accessing foreclosure avoidance options, which the Agency labels as “special servicing,” once it accelerates a loan. 7 C.F.R. 3550.211(h). This policy shortens the time for resolving delinquencies and leads to unnecessary losses – to the Agency, the homeowner, and the homeowner’s community.

Loan acceleration is an early step in the foreclosure process, which can take months or even years. After a loan is accelerated but before the foreclosure sale, a borrower may experience a positive change in financial circumstances or qualify for a plan to bring the loan current. However, current RD policy bars homeowners in the direct loan program from accessing these options even when significant time remains before a foreclosure judgment or sale.

RD’s policy barring homeowners in foreclosure from accessing options to prevent foreclosure is out of step with the rest of the mortgage market. FHA-insured borrowers, for example, may access loss mitigation until shortly before a foreclosure sale. The same is true for borrowers whose loans are held by Fannie Mae and Freddie Mac. RD guaranteed loan borrowers also have access to loss mitigation after acceleration.

Provide direct loan borrowers meaningful access to moratorium relief consistent with the moratorium

⁴ Housing Assistance Council, Rural America is Losing Affordable Rental Housing At An Alarming Rate, Rural Research Brief (March 2, 2022), https://ruralhome.org/wp-content/uploads/2022/03/rural_research_brief_usda_rural_rental_housing.pdf.

RD is statutorily authorized to grant moratoriums of up to two years on mortgage payments to borrowers who suffer financial hardships for reasons outside of their control. 42 U.S.C. § 1475. By postponing the borrower's monthly mortgage payments, a moratorium provides significant relief to a borrower who is working through hardship. A moratorium does not, however, relieve a borrower of the obligation to repay the amounts that are deferred during the moratorium period.

Once a moratorium ends, it is almost always impossible for a borrower who is recovering from a financial hardship to pay all the deferred payments in a lump sum. This is particularly true for the low- and very low-income borrowers that the direct loan program serves. RD deals with this issue by offering only two options for non-emergency defaults, both of which are inadequate. The first is forgiveness of the interest that has accrued during the moratorium, and the second is re-amortization of the loan balance over the remaining term of the loan. The primary inadequacy of both of these options is that if either or even both are applied, the borrower's monthly post- moratorium mortgage payments will still always be greater than the pre-moratorium mortgage payments, creating a payment shock that financially vulnerable borrowers coming off a hardship can hardly afford.

To prevent borrowers from failing after a moratorium, RD must finally permit loan term extensions and interest rate reductions after a moratorium. 7 C.F.R. § 3550.208. Fannie Mae, Freddie Mac, FHA, and even the RD-guaranteed programs use loan term extensions and interest rate reductions as part of the loan modification process. As a result, the borrower's payment often decreases rather than increases. Because homeowners who have faced a hardship generally continue to experience pronounced decreases in income, extending the loan term so that the homeowner's monthly payment can be reduced after a moratorium improves loan performance and home retention (and for homeowners who can resume previous payments the extension allows the payments to revert to pre-bearance levels). RD should adopt a loan term extension and interest rate reduction policy for direct loan borrowers. Such a change will help borrowers retain their homes and will improve the financial stability of the RD direct loan program.

In addition, changes need to be made to the moratorium program regulations because they include arbitrary rules that exclude many direct loan borrowers who face financial hardships and qualify for this relief under the statute. The moratorium statute requires the Agency to make moratorium decisions based on an individual borrowers' showing that he or she is unable to continue to make mortgage payments for reasons outside the borrower's control without unduly impairing the borrower's standard of living. 42 U.S.C. § 1475(a). Under the current moratorium regulation, however, RD denies moratorium relief to direct loan borrowers unless they can demonstrate either a reduction of at least 20% in the borrower's own income in the past 12 months or that the borrower has incurred certain specified unexpected and unreimbursed expenses. 7 C.F.R. § 3550.207(a). These regulatory rules bar relief if a borrower's income loss is less than 20%, occurred more than 12 months ago or when a household member other than the borrower, such as a non-borrowing spouse, experiences a reduction in income.

These limits on eligibility for a moratorium are arbitrary and inconsistent with the moratorium statute. RD should update the moratorium regulation to ensure that direct loan borrowers who qualify for moratorium relief under the statute are not denied assistance.

We appreciate your commitment to serving rural renters and homeowners through USDA's housing programs and this opportunity to offer recommendations to improve these critical programs.

Sincerely,

Natalie N. Maxwell
Managing Attorney
National Housing Law Project

STATEMENT SUBMITTED BY NATIONAL RURAL HOUSING COALITION

NATIONAL RURAL HOUSING COALITION

1155 15th Street, NW • Suite 400 • Washington, DC 20005 • (202)393-5229 • www.ruralhousingcoalition.org

Statement of Bryan Ketcham, Vice President and Director of Housing Services for Catholic Charities Housing Services – Diocese of Yakima (CCHS) and Board Member of the National Rural Housing Coalition, before U.S. Senate Committee on Banking, Housing, and Urban Affairs, Subcommittee on Housing, Transportation and Community Development

Hearing on U.S. Department of Agriculture's Rural Housing Service: Stakeholder Perspectives

September 20, 2022

Chairwoman Smith, Members of the Subcommittee. My name is Bryan Ketcham, and I am Vice President and Director of Housing Services for Catholic Charities Housing Services – Diocese of Yakima, Washington (CCHS). Catholic Charities Housing Services (CCHS) is a faith-based, non-profit organization established in December 1998, offering locally based affordable housing solutions to communities in the 7-County jurisdiction of the Catholic Diocese of Yakima. Working with local Catholic parishes, community groups, and other sponsors, CCHS develops, owns, and manages a variety of service-enriched affordable housing developments for low-income farmworkers and vulnerable and underserved populations where education, self-empowerment, and self-sufficiency are promoted.

CCHS's mission is: Motivated by Christ's love, we bring hope to life, especially for those in need.

We envision communities where: people are treated with dignity and respect, their basic needs are met, and families are empowered to enhance the quality of their lives and learn to contribute in diverse and positive ways to the communities in which they live.

CCHS promotes partnerships with local communities, collaboration and networking with other housing and community development entities, and advocates at the policy level for affordable housing and the clients we serve. Our primary programs include:

- Affordable Multi-Family Rental Housing
- Resident Services
- Housing Counseling
- Self-Help Homeownership Programs

The Resident Services Program's vision and focus are to coordinate services that residents use to empower individuals, strengthen families, and transform communities in and around CCHS' multi-family communities. The Resident Services program provides

the opportunity to learn and acquire knowledge and new skills, create future prospects, and expand their horizons. The program goal is to act as a liaison connecting residents to opportunities provided by local resources in five areas of focus: Education, Community Safety, Health/Nutrition, Community Engagement, and Economic Opportunities.

Eighty (80) percent of our rental housing portfolio and forty (40) percent of participants in our self-help homeownership programs are farmworker households. We currently have 27 rental housing communities serving over 950 households and have sold over 200 homes to first-time homebuyers through our self-help housing models. Nearly twenty (20) percent of homebuyers have “graduated” from our affordable rental housing to homeowners.

I am also a Board Member of the National Rural Housing Coalition (NRHC). NRHC is a national membership organization that advocates for better policies, programs, and resources aimed at improving housing conditions in rural America. NRHC has testified before the Committee previously, and we appreciate this opportunity to submit this statement today.

Housing in Rural America

The problems of housing supply and affordability in rural America are well documented:

- From 2009-2017, annual rural home construction dropped by two-thirds. There is little evidence that it has picked up substantially;
- A 2021 study by the Harvard Joint Center for Housing Studies found that 38 percent of rural renters pay more than 30 percent of their income for housing costs, and 19 percent of rural renter households pay more than 50 percent of their income for housing;
- According to the most recent National Agricultural Workers Survey, 33% of all farmworkers and 45% of migrant farmworkers live in crowded dwellings¹;
- A rising tide of maturing U.S. Department of Agriculture’s (USDA) rural rental housing loans threatens the availability of affordable housing; and
- Over 1.5 million occupied substandard housing units in rural areas, and over 750,000 units lack piped water. This lack of basic plumbing is even higher on some Native American lands.

¹ “National Agricultural Workers Survey.” January 2018.
https://www.dol.gov/sites/dolgov/files/ETA/news/pdfs/NAWS_Research_Report_13.pdf

Support for Federal Rural Housing Programs

Against this backdrop, there has been a long-term trend of budget cuts for rural housing programs and the administrative capacity of USDA Rural Development mission area and the Rural Housing Service. Resources to improve rural housing conditions are sorely lacking and have been for some time. Between Fiscal Years (FY) 2000 and 2022, loan subsidies for low-income home ownership, rental and farmworker housing, and related assistance have fallen by an inflation-adjusted 61 percent. As a result, USDA provides little assistance for low and very low-income homeowners; has not offered direct loans for new construction of affordable rental housing in over ten years; provides minimal support for farmworker housing and financing for rental housing preservation.

The FY 23 USDA budget is a marked improvement. The rural housing budget expands homeownership opportunities for low-income households, increases housing opportunities in tribal communities, provides needed funding to repair substandard housing, revitalizes rental and farmworker housing production, which tackles the pressing need to preserve rental housing, and extends rental assistance to rent overburden families residing in USDA rural rental housing, including some 27,000 families who received rental assistance authorized by the American Rescue Plan Act. We appreciate the leadership of Chairwoman Smith and the support of other Senators for the budget request.

Investing in USDA's Rural Housing Infrastructure

We also were pleased to see that the Inflation Reduction Act included \$100 million for USDA Rural Development administrative costs. We urge the Committee to encourage USDA to allocate a significant share of those funds for the Rural Housing Service to support its field structure and upgrade its information technology.

The need to address these issues is reflected in a recent NRHC survey of organizations using the Section 502 direct loan program. Seventy-three organizations participated. A copy of the entire survey report is attached to my testimony. Our survey found wide variations in how Section 502 loans are administered. There is not always consistent staffing to process loan applications, no one set of application forms, loan processing is often delayed, requiring potential borrowers to resubmit employment and wage verification, and loan closing can take five days or stretch to 70 days longer. Only about half of mortgage applications are submitted electronically. In many cases, applicants still use paper forms. Only about 30 percent of respondents indicated they worked with the same USDA loan specialist on a regular basis.

The strength of USDA's rural development effort has always been its field office structure. There is no substitute for local staff in rural communities assisting homeowners, housing developers, and communities. Historically, 50 percent of Rural Development employees work in field offices and report to state directors. However, that structure has been diminished, and only 30% of Rural Development employees report to

Rural Development State Directors. Even though they may work in state offices, the remaining 70 percent report to the National Office.

Single Family Direct Homeownership Loans

The direct Section 502 program is a success story. In FY 2022, for \$23 million in budget authority, USDA provided close to 7,000 loans to low and very-low-income homeowners, costing less than \$4,000 per loan. When direct loans are combined with the Mutual Self-Help Housing program, there is an even more significant benefit to the family, as sweat equity savings average \$25,000 per unit and, in many cases, it's more significant.

The Section 523 Mutual Self-Help program has an appropriation of roughly \$30 million for several years. As a result, many grantees report that their grants have not increased to keep pace with inflation, let alone expand their activity. The budget request of \$40 million would be extremely helpful in allowing some grantees to expand their efforts for low and very low-income families building their own homes.

As noted, the direct program has received very little political or administrative support. Direct borrowers cannot apply for loans online; the IT system for direct loans is so old that the contractor cannot provide technical and servicing support. With low staffing levels, the packaging program is an important resource. Yet, USDA policy does not permit the fee to be included in the loan amount, requiring that it be contingent on the appraisal. In contrast, the Section 502 guarantee, with its up-to-date system, has the features of modern loan-making operations, including online applications and permit packaging fees to be rolled into the loan.

Rental Housing Issues

USDA's Rural Housing programs provide much-needed access to affordable rental housing. As of October 2021, some 417,000 USDA finance rental housing units provide housing for rural seniors, people with disabilities, migrant and seasonal farmworkers, and low-income families. Most (91.6 percent) of Section 515 tenants have very low incomes. The average tenant earns just \$14,665 annually. In addition, 64 percent of all households are elderly or disabled tenants, persons of color head 35.7 percent, and women head 71 percent.²

Almost 290,000 families residing in USDA-financed rental housing receive rental assistance authorized under Section 521(a) of the Housing Act of 1949. In 2018, the average income of Section 515 tenants receiving Section 521 Rental Assistance was only \$12,501.³

USDA faces two significant problems it must address in its rural rental housing portfolio. The first is the deteriorating conditions of its developments. In 2016, USDA published a

² United States Department of Agriculture Rural Development, "Results of the 2021 Multi-Family Housing Annual Fair Housing Occupancy Report." https://www.rd.usda.gov/sites/default/files/RDUL-MFHreport_0.pdf

³ *Ibid*

second Comprehensive Property Assessment and Portfolio Analysis.⁴ This report looked at USDA's Section 515 properties, farm labor housing properties, Section 538 financed developments, and projects refinanced under the Multifamily Preservation and Revitalization (MPR) program. The report analyzed the Per Unit Per Annum (PUPA) net reserves, or the annual amount of reserves that must be set aside for properties to maintain functionality. The report found that the average PUPA reserves deficit for the Section 515 portfolio had increased. A study released by USDA in 2004 indicated that the PUPA reserves deficit was \$647 (average per property), but by 2015, the PUPA deficit had increased to \$964 (average per property).⁵

As the cost of maintaining the portfolio increased, the average age of developments in USDA's rental housing portfolio is 34 years. The 2016 report found that the need had more than doubled in the past 12 years and raised the estimate to \$5.596 billion to preserve USDA's rental housing stock (including farm labor, Multi-family Preservation, and guaranteed developments) over the next 20 years. Of that amount, \$4.7 billion relates to Section 515 developments.⁶

The second problem facing USDA is maturing mortgages. Although Section 515 was established in 1968, the high point of Section 515 production was 1977-1985. As a result, today and in the near future, there is a rising tide of maturing mortgages that could reduce the availability of affordable rural rental housing. In 2018, the Government Accountability Office estimated that over 90% of USDA rental housing properties could exit the portfolio by 2050. And USDA has indicated that current preservation resources are insufficient and will become "catastrophically so by 2027".

In March, USDA released a PowerPoint presentation at an NRHC board meeting. One of the slides indicated that the combined cost of preservation demands and maturing units totaled \$30.9 billion through 2050. This amount would preserve 333,780 units, or about 80 percent of the portfolio.

Policy Response

There is a pressing need to recapitalize existing rental housing and preserve that housing for eligible households. USDA had limited resources to address this problem. The Multifamily Preservation and Revitalization Program (MPR) is USDA's principal source of capital for preserving its multi-family developments. MPR has never been authorized and was established in the FY 2006 Agriculture Appropriations Act.

MPR is a flexible subsidy tool that can defer existing loans and provide "soft second" loans and grants. In recent years appropriations have hovered around \$28 million in

⁴ "USDA 2016 Rural Development Multi-Family Housing Comprehensive Property Assessment," U.S. Department of Agriculture Rural Development (March 1, 2016). <https://www.rd.usda.gov/sites/default/files/USDA-RD-CPAMFH.pdf>

⁵ *Ibid*

⁶ *Ibid*

budget authority. In FY 21, USDA provided approximately \$90 million in assistance under MPR. MPR is typically used to leverage other federal or state financing, including the Low Income Housing Tax Credit (LIHTC), Bond, Section 515 loans, and HUD's HOME program. USDA's FY 23 budget request for MRP totaled \$70 million, a substantial increase over previous years. However, even if that amount is approved, it will primarily address the backlog of some 200 applications for assistance.

NRHC has long supported substantial increases in Section 515 and MRP to recapitalize properties. An added benefit of this approach would be the extension of rental assistance and mitigating the crisis of maturing mortgages. Under current law, rural rental assistance is limited to multi-family projects with loans under Sections 514 and 515.

However, there is a limited appetite for ramping up federal spending for rural multi-family housing preservation. The USDA budget has opened the door to "decoupling" rental assistance from active 514 or 515 loans. Given the capitalization needs of the portfolio, the proposal implicitly assumes that resources from sources other than USDA will finance most or all of the repair, renovation, and upkeep of rural rental housing projects. Key among these resources will be the LIHTC. It is important to note that many of Section 514 and 515 projects are small – 25-30 units and house tenants with limited incomes are often located in small, poor rural communities. It remains to be seen how attractive these projects will be to tax credit investors.

NRHC is reluctant to support the decoupling provision contained in the budget request, which, in effect, overrides authorizing statute and permits rental assistance to continue in a project that no longer has Section 514 or 515 loans. The language in the budget recommendation is, by itself, inadequate. It does not include any guidelines or conditions under which USDA determines that the project cannot be restructured and rental assistance is continued. However, the overwhelming number of mortgages that will mature in the near future and very limited resources available make decoupling an alternative worth considering.

Implementation of the decoupling program should only go forward in a framework that delineates the role and responsibilities of both project owners and USDA. Our recommendations are listed below.⁷

The framework for approval of decoupling requests should include:

1. A requirement that USDA sets rents in accordance with the lower of budget-based regulatory process or the operating cost adjustment factor as a payment standard as provided under Section 524 of the Multifamily Assisted Housing Reform and Affordability Act of 1997 (42 U.S.C. 1437 note);
2. Agreement by the owner to a 20-year extension of rental assistance contracts, subject to annual appropriations;

⁷U.S. Government Accountability Office (GAO), Rural Housing Service: Better Data Controls, Planning, and Additional Options Could Help Preserve Affordable Rental Units

3. Agreement by the owner to maintain the housing as decent, safe, and sanitary and in conformity with provisions established in Title V of the Housing Act;
4. Approval by USDA of a plan by the owner identifying financing sources and timetable for renovations and improvements deemed necessary by the Secretary to maintain and preserve the property. If such a plan is not acted upon by the Secretary within 30 days of submission, the rental assistance contract is automatically approved for no more than one year;
5. Transfer of Rental Assistance – In cases in which a loan or loans have matured or are prepaid, and the owner has opted not to restructure the loan(s), a tenant residing in a project shall have 18 months prior to loan maturation or prepayment to transfer the rental assistance assigned to the tenant's unit to another rental project financed under Section 515 or Section 514 and will have priority for admission over other applicants. In cases in which a property is not available, the Secretary is authorized to offer a voucher to tenants. The owner of the initial project may rent the tenant's previous unit to a new tenant without income restrictions; and
6. Before implementing the above provisions, the Secretary shall publish a Notice of Advance Rulemaking, consult with appropriate stakeholders, and publish an interim final rule no later than 12 months after enactment.
7. Other necessary actions:
Congress should reserve a significant amount of Section 515 funding for use by non-profit organizations to acquire and preserve USDA-financed rental housing. Making these funds available to broad-based private or public non-profit or its affiliates, which is dedicated to the preservation, will further the long-term use of USDA rental housing for eligible households.

Many of our recommendations to improve the decoupling process, along with authorization of MRP, revision to the voucher program, and increased support for technical assistance, are included in S. 4872, Strategy and Investment in Rural Housing Preservation Act, sponsored by Sens. Shaheen and Smith. We are pleased to offer our support for this legislation.

Thank you for this opportunity to submit this statement. I look forward to any comments or questions that the Committee may have.

STATEMENT SUBMITTED BY HOUSING ASSISTANCE COUNCIL



We help build homes and communities across rural America.

September 20, 2022

The Honorable Tina Smith & The Honorable Mike Rounds
Chair & Ranking Member
Housing, Transportation, and Community Development Subcommittee
Senate Committee on Banking, Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

RE: Statement for the hearing record, "Examining the U.S. Department of Agriculture's Rural Housing Service: Stakeholder Perspectives"

Dear Chair Smith and Ranking Member Rounds,

The Housing Assistance Council (HAC) appreciates the opportunity to offer a written statement for the record for the Housing, Transportation, and Community Development Subcommittee hearing entitled "Examining the U.S. Department of Agriculture's Rural Housing Service: Stakeholder Perspectives."

HAC helps build homes and communities across rural America. Founded in 1971, headquartered in Washington, D.C., and working in all 50 states, HAC is a national nonprofit and a certified community development financial institution (CDFI). We are dedicated to helping local rural organizations build affordable homes and vibrant communities. We provide below-market financing, technical assistance, training, and information services. HAC also serves as rural America's "Information Backbone" with leading public and private sector institutions relying on HAC's independent, non-partisan research and analysis to shape policy.

Affordable, quality housing options are foundational for communities to thrive. Yet, a historic lack of access to adequate housing continues to plague rural America. Small towns and rural regions are diverse demographically and economically and face a wide array of local challenges and opportunities associated with the development of their communities and housing. While each place is unique, HAC has documented several themes that are present across many rural communities: In recent decades, many rural places have seen a loss of basic infrastructure and high-capacity local services. Persistent poverty is a predominantly rural condition — 81 percent of persistent poverty counties are rural in nature. Habitable rural housing is

1025 Vermont Ave., N.W., Suite 606, Washington, DC 20005

202-842-8600 hac@ruralhome.org ruralhome.org 202-347-3441

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in severely short supply, and the adequate housing that does exist is often unaffordable because rural incomes average well below the national median. Rural housing lacks adequate plumbing and kitchen facilities at a rate well above the national average, and overcrowding is not uncommon in some rural regions. Decades of stagnant rural house prices, especially in high-poverty areas, have denied owners the wealth and mobility so often associated with buying a home. And racial inequity is endemic as the result of housing policies and banking practices that excluded rural people of color.

The USDA's Rural Housing Service (RHS) programs are critical to the future of rural communities. These programs have suffered from decades of funding cuts and lack of modernization. The following are some RHS policy proposals that would help address some of the challenges and inequities we see in rural America.

MULTIFAMILY PROGRAMS

Although homeownership is more common in rural areas than in urban and suburban communities, rental options remain a crucial part of the affordable housing landscape. Rural Development's Section 515 program provides an especially important housing opportunity for many rural communities. Since the program's inception in 1963, Section 515 Rural Rental Housing Loans have financed nearly 28,000 properties containing over 533,000 affordable apartment homes across rural America. The average annual income of people living in Section 515 properties is only \$14,665¹. For many low-income rural residents, purchasing a home is not an option, and the Section 515 program provides them with affordable rental units.

Despite the importance of the Section 515 program for creating and maintaining multifamily rural housing, many of these properties are aging out of the program through mortgage maturations, resulting in the loss of thousands of rural affordable rental units each year. Between 2016 and 2021, 921 properties, which contained 21,693 units, left the Section 515 program². And due to lack of appropriated funding, no new Section 515 units have been added to the program in over a decade. When properties leave the program, the owners are no longer required to maintain the affordability of the units or otherwise comply with the standards of the program.

¹ 2021 Rural Development Multi-Family Housing (MFH) Annual Fair Housing Occupancy Report, https://www.rd.usda.gov/sites/default/files/RDUI-MFHreport_0.pdf

² [An Update on Maturing Mortgages in USDA's Section 515 Rural Rental Housing Program - Housing Assistance Council \(ruralhome.org\)](https://www.housingassistance.org/ruralhome.org)



The preservation of affordable housing options is critical to ensuring the well-being of rural communities across the country. For this reason, HAC is recommending several policy changes that would support the preservation of multifamily housing options.

Include Funding for Section 521 Rental Assistance to Cover ARPA Units

The most immediate, high-impact need we see in the RHS multifamily portfolio right now is the need to renew Section 521 rental assistance for the 27,000 families covered under the American Rescue Plan Act (ARPA), who are set to lose their assistance at the end of the month. ARPA included \$100 million in funding for Section 521 rental assistance for previously unassisted units. This funding allowed RHS to extend rental assistance coverage to an estimated 27,000 units in 3,700 properties. Absent Congressional action, this funding expires at the end of Fiscal Year 2022. ARPA included no language suggesting that this 521 rental assistance was not to be included in the broader 521 appropriations account which Congress annually renews at its full level of need. This is in marked contrast to the Emergency Housing Vouchers (EHVs) provision of ARPA³, which included a clear expiration date for the issuance/reissuance of EHVs, explicitly segregated EHVs from the broader Housing Choice Voucher renewal account, and included dedicated funding for the full anticipated renewal amount.

The Administration clearly expected that ARPA 521 rental assistance would be renewed, as its FY 2023 proposed Budget specifically included additional Section 521 rental assistance to continue coverage for these units. Unfortunately, neither the House nor Senate USDA appropriations bills included this critical funding. Allowing these units to fall out of the system would be disastrous for the families who are currently receiving that rental assistance, and would have deeply troubling implications for the prospects of preserving the quality and affordability of the essential USDA multifamily portfolio for the long term.

Below is a state-by-state chart showing how many units will lose their Section 521 rental assistance at the end of FY22 without Congressional action to renew this funding through the appropriations process.

³ American Rescue Plan Act, [Section 3202](#)



ARPA Section 521 Rental Assistance Number of Projects and Units		
State	Number of Projects	Number of Families Losing Rental Assistance
ALABAMA	184	1710
ALASKA	0	0
ARIZONA	7	45
ARKANSAS	77	353
CALIFORNIA	175	1369
COLORADO	22	136
CONNECTICUT	33	166
DELAWARE	13	51
FLORIDA	144	1178
GEORGIA	253	3206
HAWAII	0	0
IDAHO	6	6
ILLINOIS	90	222
INDIANA	170	442
IOWA	15	18
KANSAS	38	76
KENTUCKY	195	1654
LOUISIANA	138	1826
MAINE	60	153
MARYLAND	76	711
MASSACHUSETTS	16	28
MICHIGAN	232	1041
MINNESOTA	109	204
MISSISSIPPI	118	1447
MISSOURI	197	641
MONTANA	11	17
NEBRASKA	7	8
NEVADA	10	77
NEW HAMPSHIRE	22	72
NEW JERSEY	29	187
NEW MEXICO	18	55
NEW YORK	30	118
NORTH CAROLINA	102	664
OHIO	140	634



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OKLAHOMA	57	496
OREGON	44	142
PENNSYLVANIA	73	640
PUERTO RICO	0	0
RHODE ISLAND	3	7
SOUTH CAROLINA	138	1659
SOUTH DAKOTA	15	18
TENNESSEE	125	1291
TEXAS	266	1704
UTAH	15	67
VERMONT	10	31
VIRGIN ISLANDS	0	0
VIRGINIA	104	1290
WASHINGTON	90	512
WEST VIRGINIA	66	369
WISCONSIN	44	70
WYOMING	6	15
Grand Total	3793	26826

Authorize Important Multifamily Preservation Programs

Several of the current USDA preservation programs are funded through appropriations but are not authorized. The Multifamily Preservation and Revitalization (MPR) program, the Preservation Revolving Loan Fund (PRLF), and the Multifamily Preservation Technical Assistance (MFTA) program all play key roles in addressing the preservation crisis, but because they are not authorized, their status is instable. Authorizing these three programs is a critical step in ensuring they are stably funded into the future.

The MPR program allows existing properties in the Section 515 rental housing and Section 514/516 farmworker housing programs to refinance their loans and receive more funding to help revitalize their properties and maintain affordability. This program not only preserves the affordability of rental housing through continued government oversight but also provides owners with the capital they need to maintain and repair their aging properties. Recent estimates indicate that \$30 billion in funding for the MPR program is needed over the next 30 years to preserve 80 percent of the existing Section 515 portfolio.

The PRLF program was funded through appropriations for several years between 2005 and 2011. It allowed RHS to make long term (30 years), very low interest (1%) loans to private nonprofit organizations, and state and local



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housing finance agencies, to provide revolving loans for the preservation and revitalization of Section 515 and 514/516 properties. HAC alone has used PRLF funding to preserve over 1,300 units in 18 states, but the program has been unfunded since FY2011. (However, USDA continued issuing NOFAs through 2014 using unobligated funds.)

To help address the growing crisis of multifamily maturing mortgages, the MFTA program was first funded through Congressional appropriations in FY2017. The program provides competitive grants to eligible nonprofit organizations and public housing authorities (PHAs) to provide technical assistance and other services to enable affordable housing preservation through the transfer of Section 515 properties from current owners to nonprofits or PHAs. The original intent of the program was two pronged: to subsidize preservation transactions by providing individual property owners with technical assistance in the sale, restructuring, or acquisition of properties; and to focus on transforming the program through research and policy development. To date, only the first intent has been funded in the first two program rounds.

Authorizing these three programs will help ensure they are stably funded into the future, that the intent of the programs is better reflected in use of funds, and that they remain part of the suite of preservation tools available at RHS.

Improve Opportunities for Mission-Focused Nonprofits to Preserve Maturing Properties

Preserving the Section 515 portfolio requires collaboration with RHS, current owners, and public and private sector purchasers. However, the current process for transferring properties is overly burdensome and prohibitively difficult for small, mission-focused nonprofits. Many of these properties are aging and in need of repair. When new buyers want to purchase Section 515 properties, all immediate and long-term repair and rehabilitation needs must be identified by a Capital Needs Assessment (CNA). The nonprofit purchaser must demonstrate the availability of reserves to adequately cover the cost of addressing the property's capital needs – an often insurmountably high bar.

Instituting a “two-step” transfer process for nonprofits trying to maintain the affordability of multifamily housing could streamline the process and increase preservation of properties. If properties could be transferred to a new nonprofit owner prior to the identification of funding sources for all repairs identified in the CNA and the reserve requirements adjustment, a significant administrative barrier to preservation could be removed.



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RHS has been working on a nonprofit “transfer tool,” which may prove helpful for this process, but the release of the tool has been repeatedly delayed.

Nonprofit preservation efforts could also be enhanced by setting aside funding in both the Section 515 and MPR programs for smaller and lower capacity organizations. These nonprofits often struggle to be competitive with the larger and more powerful organizations, especially with current funding so limited. MPR applications have been closed for four years as RHS works through its waiting list, which is projected to last another four years. These smaller organizations often work in areas that have the deepest need, specifically persistently poor communities. Preservation funding needs to be equitably distributed to ensure that geographies are not being left out due to lack of capacity.

Increase Data Transparency

Despite the importance of USDA properties, there is limited data on them accessible to the public. This makes it challenging for organizations to aid in the preservation of this affordable housing. Releasing more data on the current housing stock, including information on why properties leave the programs (maturation, prepayment, foreclosure, or other servicing issues) and risk rankings for properties, would improve preservation outcomes and stakeholder understanding of the issues.

Increasing data transparency would also make rural housing research more robust and could help USDA identify which properties are working best and which programs are most helpful. Non-governmental research offers a different perspective and would help USDA and other agencies work more efficiently.

Establishing a preservation advisory committee to work with USDA to develop a plan to ensure the long-term preservation of rural housing options, as laid out in the Strategy and Investment in Rural Housing Preservation Act (H.R. 1728), would also improve communication and allow for better stakeholder involvement.

Extend Section 521 Rental Assistance for All Units

Approximately 20 percent of the families living in USDA rental housing do not receive rental assistance from USDA, HUD or state sources. Most of these 67,000 unassisted households are paying more than 30 percent of their income in rent and include the elderly, disabled and children. (In 2021, ARPA



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brought the number of unassisted households down to 41,589, but this number is likely to rise again as pandemic related assistance runs out.⁴)

To address this, Section 521 Rental Assistance should be extended to all Section 515 units to help families in need. This will also stabilize the finances of many developments, encouraging preservation.

Parameters for Decoupling Rental Assistance and RHS Mortgages

Under current law, the availability of Section 521 Rental Assistance to residents of a Section 515 or 514/516 property is tied to the term of the mortgage. When the mortgage is paid off, the property loses its Rental Assistance. Decoupling the mortgage and the rental assistance has been considered as a solution to this situation. HAC would prefer to see RHS's multifamily programs funded at a level that would adequately meet the portfolio's preservation needs. However, thousands of units are leaving the program each year and that funding has not materialized to meet the need.

As a result, RHS needs a suite of preservation strategies to be available in the absence of adequate funding. If decoupling is considered, it should be paired with increased funding for preservation programs and a few parameters should be met in order to ensure long-term affordability for the properties:

- Properties looking to decouple should have to sign a restrictive use agreement and a 20-year Rental Assistance contract (subject to annual appropriations), to maintain long-term affordability.
- Properties looking to decouple should have to demonstrate that they have tried to access other preservation funding before pursuing decoupling as a last resort.
- Nonprofit transfers should be incentivized, as covered earlier in these comments.

Strengthen the Rural Voucher Program

Under the current appropriations, the RHS Section 542 rural housing voucher subsidy is set at the time of prepayment and never changes as rents increase or household income decreases. As a result, voucher holders face displacement from their housing if they have a loss of income or their rents are increased. This issue could be resolved by making the RHS voucher subsidy identical to the HUD housing choice voucher subsidy.

⁴ 2021 Rural Development Multi-Family Housing (MFH) Annual Fair Housing Occupancy Report, https://www.rd.usda.gov/sites/default/files/RDUI-MFHreport_0.pdf



SINGLE-FAMILY PROGRAMS

In recent years, homeownership nationwide, including in rural areas, has become more expensive and harder to maintain. Inadequate access to mortgage credit, an aging rural housing stock, high construction and rehabilitation costs, small balance mortgages, complex appraisal issues, and barriers to the secondary mortgage market, all contribute to the difficulties rural homebuyers and the small financial institutions who serve them often face. USDA programs play an important role in making homeownership a viable option for rural communities.

Improve the Section 504 Program

Aging housing stock is a significant challenge for many rural areas, and homeowners are often older and on a fixed income, making home repair a challenge. The RHS's Section 504 Single Family Repair Loans and Grants program provides direct loan and/or grant funds for home repair to very low-income applicants who do not qualify for conventional bank financing. However, inefficiencies in the program have deterred potential applicants and have even resulted in funds left on the table in some years, despite huge need on the ground. Some potential Section 504 improvements include:

- Encourage RHS to streamline the 504 process. USDA has begun some of this already, but it is often as onerous to complete a \$20,000 Section 504 loan/grant as a \$150,000 Section 502 mortgage.
- Increase the threshold for the mortgage requirement on a 504 loan above \$7,500. The current threshold was set 22 years ago, in 2000, and has never been adjusted for inflation. A promissory note would be appropriate security for loans under \$15,000.
- Reinstate "packaging grants" through the Section 525 Technical and Supervisory Assistance Grant Program so that nonprofits can help USDA offices process Section 504 applications. Using nonprofits to assist with packaging has been a helpful tool in the Section 502 direct program.
- Allow loans under \$25,000 to be closed without a title company so that title insurance, escrow, and similar processes would not be needed.



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CAPACITY BUILDING PROGRAMS

Geographic equity for rural places is a stated priority for the Administration. but no amount of federal investment will succeed in creating lasting rural equity if not paired with robust capacity building to ensure the most underserved and persistently poor rural places are in a position to access available federal resources. There are several programs that would provide communities with much needed capacity building support, including the proposed Rural Partnership Program and the well-established Rural Community Development Initiative.

Authorize the Rural Partnership Program

The proposed Rural Partnership Program (RPP) would empower rural regions by supporting locally led planning and capacity building efforts and providing flexible funding to meet critical needs. The proposed program would have two types of funding: grants for direct activities and projects and grants for organizations providing technical assistance. Having funds dedicated to capacity building and technical assistance would allow organizations to better support their communities. Authorizing RPP and ensuring that it is structured in a way that will proactively and equitably serve historically underserved and persistently poor communities would help transform the capacity of rural places to improve housing conditions.

Authorize the Powerful Rural Community Development Initiative

The Rural Community Development Initiative (RCDI) provides funding to nonprofits, public bodies and qualified for-profit groups to support housing, community facilities and community and economic development projects in rural areas. The funds can go towards homeownership education, technical assistance to sub-grantees, and other programming to build local organizations' capacity and technical knowledge.

Currently, the program is funded through appropriations but not authorized. Authorizing RCDI would provide the program with the long-term stability it needs. Non-statutory improvements to the program could also help it be even more effective. There is currently a \$250,000 per-awardee cap, which is not statutory. This cap limits how much organizations can do with their funds, specifically larger groups that may have the capacity to do more. Additionally, RCDI's 1:1 match requirement can be challenging for



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organizations to meet, especially those serving the most persistently poor rural regions. These regions are the most in need of capacity building, but requirement for matching funds can make it difficult to deploy these investments in exactly the type of place that needs it the most. And finally, recent additions to the RCDI NOSA – specifically the requirement that applicants proposing to serve one or more Federally recognized tribes must include a resolution of support with its application from the Tribes it proposes to serve – can also make it unduly burdensome to serve the communities who need it most. Encouraging RHS to increase the per-awardee cap, waive or rebalance the matching requirement, and eliminate burdensome application requirements would help the program serve persistently poor communities more robustly.

RHS STAFFING AND OPERATIONS

RHS plays a unique role in rural communities as a service provider and a connector to funding and program opportunities. Well-trained and community-focused staff is critical to RHS best supporting rural communities. Current staffing shortages and uncertainty about processes and the chain of command, particularly as transactions move across branches within the multifamily housing division, have real implications for organizations and individuals trying to work with RHS programs. Bureaucracy and lack of clear guidance from RHS slow down the application process for many organizations and individuals. Additionally, because after decades of consolidating and closing offices there are fewer staff in rural communities, people are less likely to be connected to USDA programs that could address their needs. Better training for field staff and a clearer chain of command/order of operations could help lessen these slowdowns and help better serve rural communities. To this end, assigning an application “relationship manager” who is accountable for an application or transaction through the process and across branches from start to finish could help resolve uncertainty and improve processing times.

Technological updates are also a critical element of improving the RHS services. Current technology at RHS is vastly out of date, slowing down processing times. Using newer technology could also improve data collection, which could better inform which programs should be funded and where funds should go.



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SERVING PERSISTENTLY POOR AREAS

Federal resources often flow to the path of least resistance – typically higher capacity communities with the ability to easily absorb such investments. Ensuring that infrastructure funding makes it to our nation's most persistently poor place takes deliberate, proactive effort. Using Congressman James Clyburn's 10-20-30 formula as an overlay for current and new programs would help target resources to areas of persistent poverty.

RHS should also be encouraged to proactively explore ways to better serve historically underserved areas. Proposals like the Native CDFI Section 502 direct intermediary re-lender concept from your Native American Rural Homeownership Improvement Act, which was also included in the Administration's FY2023 budget and the House FY2023 Agriculture Appropriations bill, should be used as models for improving RHS program impact in Indian Country and other underserved regions.

CONCLUSION

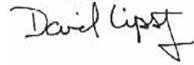
High quality rural housing is critical to maintain the health and well-being of communities across the U.S. USDA programs make renting and owning feasible options for people through rental assistance, financing options, and capacity building opportunities. RHS has had a major impact on rural communities despite its ever-shrinking budget. The age of the housing stock in many rural areas is beginning to show, and with shifts in Section 515 availability and other USDA programs, the future health of rural communities is at risk. Improving multifamily options and rental assistance would help people who cannot afford to buy a home stay in their communities. Reinvesting in single-family housing support would help current and future homeowners improve their homes. Strengthening capacity building programs would help communities develop in sustainable and impactful ways. Finally, improving staff training and upgrading technology at RHS would help USDA better serve rural communities. The shifts outlined above would improve the quality of housing options and the quality of life for many rural Americans.



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Thank you both for your focus on USDA's RHS programs and your support for our rural communities. We appreciate the opportunity to share our comments on this critically important topic.

Sincerely,



David Lipsetz
President & CEO

