

Y4
. B 22/3
R 88/6

RURAL HOUSING AUTHORIZATIONS

R 88/6 B 22/3 Y4

GOVERNMENT

Storage

DOCUMENTS

JUL 24 1979

HEARING

FARRELL LIBRARY
KANSAS STATE UNIVERSITY

BEFORE THE

SUBCOMMITTEE ON RURAL HOUSING AND
DEVELOPMENT
COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

NINETY-SIXTH CONGRESS

FIRST SESSION

ON

S. 1000

TO AMEND TITLE V OF THE HOUSING ACT OF 1949

S. 1064

TO AMEND AND EXTEND TITLE V OF THE HOUSING ACT
OF 1949

MAY 4, 1979

Printed for the use of the
Committee on Banking, Housing, and Urban Affairs



U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1979

46-167 O

AUTHENTICATED
U.S. GOVERNMENT
INFORMATION



COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WILLIAM PROXMIRE, Wisconsin, *Chairman*

HARRISON A. WILLIAMS, Jr., New Jersey	JAKE GARN, Utah
ALAN CRANSTON, California	JOHN TOWER, Texas
ADLAI E. STEVENSON, Illinois	JOHN HEINZ, Pennsylvania
ROBERT MORGAN, North Carolina	WILLIAM L. ARMSTRONG, Colorado
DONALD W. RIEGLE, Jr., Michigan	NANCY LANDON KASSEBAUM, Kansas
PAUL S. SARBANES, Maryland	RICHARD G. LUGAR, Indiana
DONALD W. STEWART, Alabama	
PAUL E. TSONGAS, Massachusetts	

KENNETH A. MCLEAN, *Staff Director*
M. DANNY WALL, *Minority Staff Director*

SUBCOMMITTEE ON RURAL HOUSING AND DEVELOPMENT

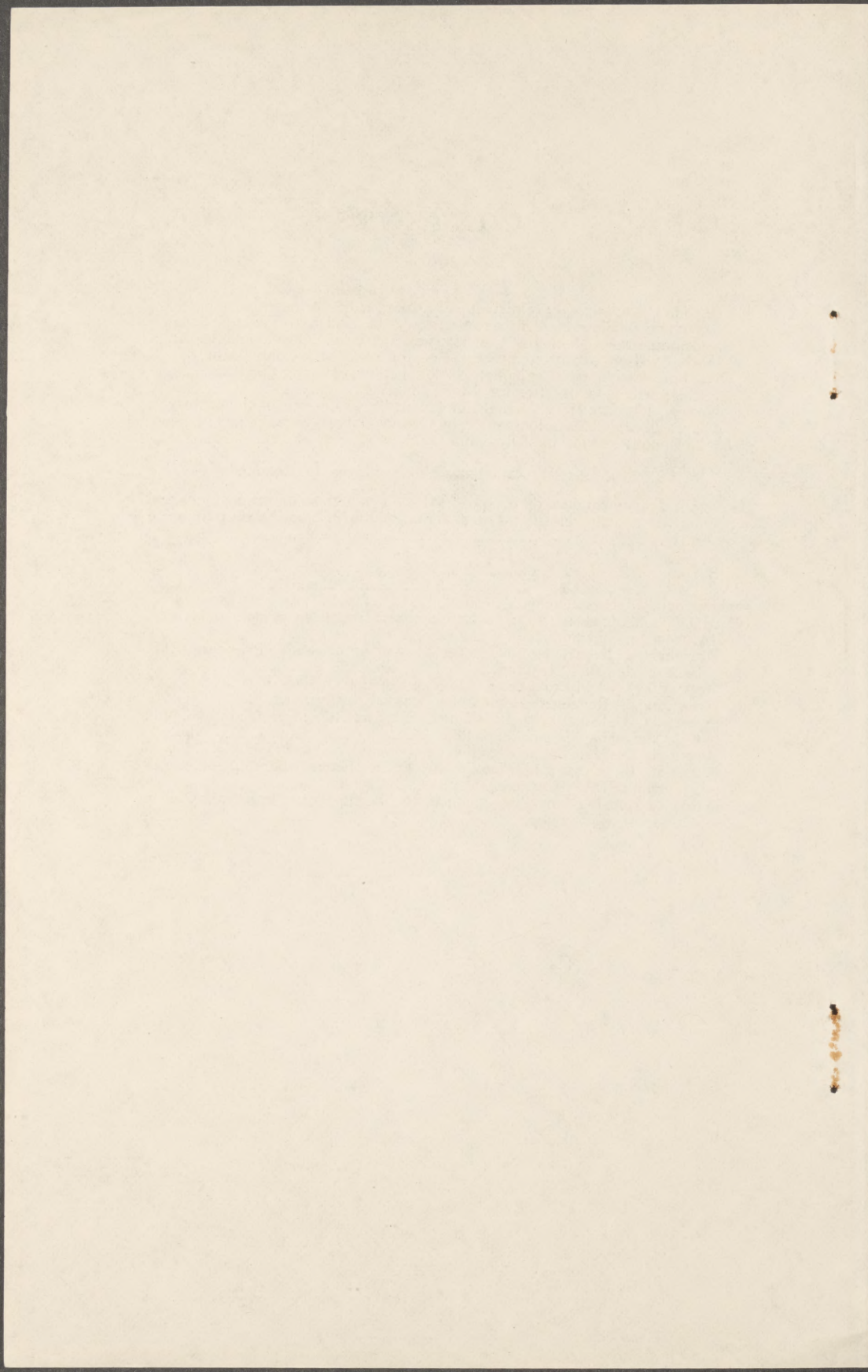
ROBERT MORGAN, North Carolina, <i>Chairman</i>	
DONALD W. STEWART, Alabama	NANCY LANDON KASSEBAUM, Kansas
ROBERT E. MALAKOFF, <i>Professional Staff Member</i>	
JESSELIE E. BARLOW, <i>Minority Professional Staff Member</i>	

CONTENTS

Statements of:	Page
Gordon Cavanaugh, Administrator, Farmers Home Administration	13
Lawrence B. Simons, Assistant Secretary for Housing—Federal Housing Commissioner, Department of Housing and Urban Development.....	31
Harold Wilson, executive director, Housing Assistance Council, Inc	48
William Powers, vice chairman, National Rural Housing Coalition	75
Phil Brown, associate director, Rural America	96
Neal N. Fleming III, chairman, Piedmont Triad Council of Governments, Greensboro, N.C., accompanied by George Gaberlavage, Federal liaison, National Association of Regional Councils.....	105

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

Background memorandum on need to legislate restrictions on prepayment and refinancing policies relating to rural rental and farm labor housing financed by FmHA	87
Bills:	
S. 1000	3
S. 1064	6
Budget requests, fiscal years 1979-80	28
FHA-HUD housing activities in rural and nonmetropolitan areas	36
FmHA: Appendixes submitted for the record:	
Agriculture, Department of, letter to Walter Mondale, President, U.S. Senate from Bob Bergland.....	18
Appendix A—A bill to amend title V of the Housing Act of 1949	19
Appendix B—Budgetary impact of proposed draft bill	21
Appendix C—Fiscal year 1979 Rural Housing Allocation (Exhibit C and C-1) to FmHA AN No. 282 (440).....	23
Appendix D—Housing program levels for fiscal years 1977-80	27
Appendix E—A capsulized look at the FmHA Homeownership Assistance Program (HOAP)	28
National Housing Law Project, letter to Gordon Cavanaugh from Gideon Auders, staff attorney.....	92



RURAL HOUSING AUTHORIZATIONS

FRIDAY, MAY 4, 1979

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON RURAL HOUSING AND DEVELOPMENT,
Washington, D.C.

The subcommittee met at 10 a.m. in room 5302, Dirksen Senate Office Building, Senator Robert Morgan, chairman of the subcommittee, presiding.

Present: Senators Morgan and Kassebaum.

OPENING STATEMENT OF SENATOR MORGAN

Senator MORGAN. We'll call our meeting to order this morning. Senator Kassebaum is on the way.

First, I want to apologize to all of you for having to leave the meeting this morning. We try as hard as we can to set up meetings, and mark off times and save times, and always something will come up. So for weeks we have saved the whole day today on my schedule and then yesterday afternoon we didn't finish with a witness in the Ethics Committee hearing so I have to leave to go back there at 11 o'clock. That hearing is a little different from this one. This is a factfinding hearing. That hearing is one where we have to judge the credibility of the witnesses, and you can't judge the credibility of the witnesses if you aren't there. You have to hear what they have to say, and observe the manner in which they testify. So I will have to leave. Senator Kassebaum is coming and she will take over shortly before I do leave.

I have just a very short statement which I think is necessary to put the record straight this morning.

This morning's hearing is focused on housing and community development in rural and nonmetropolitan America. Our purposes are twofold: First, to gather and analyze information concerning the programs conducted by the Farmers Home Administration and the Department of Housing and Urban Development in rural and nonmetropolitan areas; and second, and most urgent at the present time, to consider new legislation that is necessary to extend the program to authorize additional funds and to amend the existing authority.

The bills pending before the subcommittee are S. 1000, the Rural Housing Act of 1979 which was proposed by the administration, and S. 1064, the Rural Housing Amendments of 1979 introduced by me.

There's no question that the housing and development problems of rural America remain acute. There are quite literally millions of

rural families still living in houses that are substandard. There are millions more, and their numbers are growing daily in these inflationary times, who cannot afford the cost of shelter in our smaller communities. There are countless small communities that still lack the basic facilities.

The question is: How can the Federal Government, in conjunction with the States and localities and the private sector, improve rural housing and the social and economic life of our nonmetropolitan communities. Can we, by revising the law, by altering institutional arrangements, by changing program policies, improve housing and living conditions in rural America?

I believe that we can and I think our witnesses this morning also think we can. I have in S. 1064 set forth my suggestions. It's time I think to hear the opinions of the experts and particularly, I might add, on the proposal contained in S. 1064.

Senator Kassebaum, as I mentioned, will be here later. Gordon and Larry, I don't understand all the protocol, but since Gordon heads Farmers Home, we will start with Mr. Gordon Cavanaugh, the Administrator of the Farmers Home Administration and, Gordon, we are delighted to have you with us. I might add, before you start, with the exception of two or three questions that I'm particularly interested in, one of which is a legal question and is more in my field, most of our questioning, with the approval of Senator Kassebaum, will be done by Bob Malakoff. Bob knows the housing programs. He's been with it for years. All of you know Bob. And what we are trying to do, as you well know, is to build a record so that our staff can sit down and pull together our program. Let us insert the two bills being considered in the record at this point.

[Reprints of the bills follow:]

96TH CONGRESS
1ST SESSION

S. 1000

To amend title V of the Housing Act of 1949.

IN THE SENATE OF THE UNITED STATES

APRIL 24 (legislative day, APRIL 9), 1979

Mr. MORGAN (by request) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

A BILL

To amend title V of the Housing Act of 1949.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That section 513 of the Housing Act of 1949 is amended
4 by—

5 (a) striking out in subsection (b) “for the fiscal
6 year ending September 30, 1979” and inserting in lieu
7 thereof “for each fiscal year ending prior to October 1,
8 1980”; and

1 (b) inserting in subsection (c) after "September
2 30, 1979" the following: ", and not to exceed
3 \$25,000,000 for the fiscal year ending September 30,
4 1980".

5 SEC. 2. Section 515(b)(5) of such Act is amended by
6 striking out "1979" and inserting in lieu thereof "1981".

7 SEC. 3. Section 517(a)(1) of such Act is amended by
8 striking out "1979" and inserting in lieu thereof "1981".

9 SEC. 4. Section 521 of such Act is amended by—

10 (a) striking out in subsection (a)(1)(H) "of loans
11 made" and inserting in lieu thereof "of new loans
12 made in any fiscal year"; and

13 (b) striking out in the second sentence of subsec-
14 tion (a)(2)(A) the number "20" wherever it appears
15 and inserting in lieu thereof "40".

16 SEC. 5. Section 523(f) of such Act is amended by—

17 (a) inserting in the first sentence after "any such
18 fiscal year," the following: "and there is authorized to
19 be appropriated not in excess of \$5,000,000 for the
20 fiscal year ending September 30, 1980,"; and

21 (b) striking out in the second sentence "1979"
22 and inserting in lieu thereof "1981".

23 SEC. 6. Section 523(g) of such Act is amended by strik-
24 ing out "for the fiscal year ending September 30, 1979" and

1 inserting in lieu thereof "for each fiscal year ending prior to
2 October 1, 1980".

3 SEC. 7. Section 525(c) of such Act is amended by strik-
4 ing out in the second sentence "for the fiscal year ending
5 September 30, 1979," and inserting in lieu thereof "for each
6 fiscal year ending prior to October 1, 1980,".

7 SEC. 8. There are authorized to be appropriated for
8 fiscal year 1981 such sums as may be necessary to carry out
9 programs and activities for which appropriations for the fiscal
10 year 1980 are authorized by this Act.

○

96TH CONGRESS
1ST SESSION

S. 1064

To amend and extend title V of the Housing Act of 1949.

IN THE SENATE OF THE UNITED STATES

MAY 2 (legislative day, APRIL 9), 1979

Mr. MORGAN introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

A BILL

To amend and extend title V of the Housing Act of 1949.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 SHORT TITLE

4 SECTION 1. This Act may be cited as the "Rural Hous-
5 ing Amendments of 1979".

6 EXTENSIONS AND AUTHORIZATIONS

7 SEC. 2. (a) Section 513(b) of the Housing Act of 1949 is
8 amended by striking out "for the fiscal year ending Septem-
9 ber 30, 1979" and inserting in lieu thereof "for each fiscal
10 year ending prior to October 1, 1980".

1 (b) Section 513(c) of such Act is amended by inserting
2 after "September 30, 1979" the following: ", and not to
3 exceed \$30,000,000 for the fiscal year ending September 30,
4 1980".

5 (c) Section 515(b)(5) of such Act is amended by striking
6 out "1979" and inserting in lieu thereof "1981".

7 (d) Section 517(a)(1) of such Act is amended by striking
8 out "1979" and inserting in lieu thereof "1981".

9 (e) Section 523(f) of such Act is amended—

10 (1) by inserting in the first sentence after "any
11 such fiscal year," the following: "and there are author-
12 ized to be appropriated not in excess of \$7,500,000 for
13 the fiscal year ending September 30, 1980,"; and

14 (2) by striking out "1979" in the second sentence
15 and inserting in lieu thereof "1981".

16 (f) Section 523(g) of such Act is amended by striking out
17 "for the fiscal year ending September 30, 1979" and insert-
18 ing in lieu thereof "for each fiscal year ending prior to Octo-
19 ber 1, 1980".

20 (g) The second sentence of section 525(c) of such Act is
21 amended by striking out "for the fiscal year ending Septem-
22 ber 30, 1979," and inserting in lieu thereof "for each fiscal
23 year ending prior to October 1, 1980".

REFINANCING

1

2 SEC. 3. Section 501(a)(4) of the Housing Act of 1949 is
3 amended—

- 4 (1) by striking out “, and” at the end of clause
5 (B) and inserting in lieu thereof a period; and
6 (2) by striking out clause (C).

7

ASSISTANCE ALLOCATION

8 SEC. 4. Title V of the Housing Act of 1949 is amended
9 by adding at the end thereof the following:

10

“ALLOCATION

11 “SEC. 529. Notwithstanding any other provision of law,
12 the Secretary shall assure when providing assistance for
13 housing under this title that, in each fiscal year, at least 30
14 per centum of the eligible households assisted have incomes
15 below 50 per centum of the national median income, and no
16 more than 15 per centum of the eligible households assisted
17 shall have incomes above 80 per centum of the national
18 median income.”.

19

COMPENSATION FOR DEFECTS PROGRAM

20 SEC. 5. Section 509(c) of the Housing Act of 1949 is
21 amended by striking out the word “eighteen” the second and
22 fourth places it appears and inserting in lieu thereof the word
23 “thirty-six”.

PROPERTY DISPOSITION

1
2 SEC. 6. Section 510(e) of the Housing Act of 1949 is
3 amended—

4 (1) by inserting, “, to repair and rehabilitate such
5 property,” after “United States therein”; and

6 (2) by inserting before the semicolon at the end
7 thereof the following: “; except that the Secretary may
8 not sell or otherwise dispose of such property unless
9 (1) the property meets the plans and specifications es-
10 tablished for that type of housing by the Secretary
11 under section 506(a) of this title, (2) the recipient of
12 the property is obligated, as a condition of the sale or
13 other disposition of the property, to meet such stand-
14 ards with respect to the property before such property
15 is occupied, or (3) such recipient is precluded, as a con-
16 dition of the sale or other disposition of the property,
17 from using the property for purposes of habitation”.

FARM LABOR HOUSING

18
19 SEC. 7. (a) Section 516 of the Housing Act of 1949 is
20 amended by adding at the end thereof the following:

21 “(h) Notwithstanding the provisions of subsection (a)(3),
22 the Secretary may, upon a finding of persistent need for mi-
23 grant farmworker housing in any area, provide assistance to
24 eligible applicants for 90 per centum of the development
25 costs of such housing in such area to be used solely by mi-

1 grant farmworkers while they are away from their residence.
 2 Such housing shall be constructed in such a manner as to be
 3 safe and weatherproof for the time it is to be occupied, be
 4 equipped with potable water and modern sanitation facilities
 5 (including a kitchen sink, toilet, and bathing facilities), and
 6 meet such other requirements as the Secretary may pre-
 7 scribe. Such housing shall be located in a safe and sanitary
 8 environment with adequate recreation area.”.

9 (b) Section 516(c)(1) of such Act is amended by inserting
 10 before the semicolon at the end thereof the following: “;
 11 except that in no case may the monthly rental exceed 25 per
 12 centum of one-twelfth of the tenant’s annual income unless
 13 the applicant is receiving assistance under section
 14 521(a)(2)(A) of this title (or has been denied such assistance
 15 after making a good faith effort to obtain it) or the tenant is
 16 receiving assistance under section 8 of the United States
 17 Housing Act of 1937”.

18 PREPAYMENT—LOW-INCOME CHARACTER

19 SEC. 8. (a) The Congress declares that it has been its
 20 intent since the enactment of sections 514 and 515 of the
 21 Housing Act of 1949 that prepayments or refinancing under
 22 section 502(b) of such Act should not operate in a manner
 23 which will deprive low- and moderate-income occupants, or
 24 potential low- and moderate-income occupants, of rural
 25 rental or farm labor housing financed under such sections, of

1 their right to continue residency in that housing upon reason-
2 able terms and conditions.

3 (b) Section 502 of the Housing Act of 1949 is amended
4 by adding at the end thereof the following:

5 “(c) When enforcing the provisions of subsection (b)(3)
6 of this section with respect to any loan under section 514 or
7 515, including any loan made or insured before the date of
8 enactment of this subsection, or when approving the repay-
9 ment of any such loan before the time when it was originally
10 scheduled to be repaid, the Secretary shall take appropriate
11 action to require the borrower and any successors in interest
12 (1) to continue to use the housing for its original purposes
13 during the remainder of the original repayment schedule, and
14 (2) to give assurance that no person occupying the housing
15 shall be required to vacate because of early repayment. The
16 preceding sentence does not apply where the Secretary de-
17 termines that there is no longer a need for such housing.”.

18 TECHNICAL ASSISTANCE

19 SEC. 9. Section 523(b) of the Housing Act of 1949 is
20 amended—

21 (1) by striking out “and” at the end of paragraph

22 (1);

23 (2) by redesignating paragraph (2) as paragraph

24 (3); and

25 (3) by inserting after paragraph (1) the following:

“(2) to make grants to, or contract with, national or regional private nonprofit corporations to provide training and technical assistance to public or private nonprofit corporations, agencies, institutions, organizations and other associations eligible to receive assistance under this section in order to expand the use of authorities contained in this section and to improve performance; and”.

RENTAL ASSISTANCE

SEC. 10. (a) The first sentence of section 521(a)(2)(A) of the Housing Act of 1949 is amended—

(1) by striking out “public and private nonprofit owners” and inserting in lieu thereof “the owners”; and

(2) by inserting a comma before “congregate”.

(b) Section 521(a) of the Housing Act of 1949 is amended—

(1) by striking out, in paragraph (1)(H), “of loans made” and inserting in lieu thereof “of new loans made in any year”; and

(2) by striking out the second sentence of paragraph (2)(A) and inserting in lieu thereof the following: “Such assistance may be for up to 100 per centum of the units in any farm labor, cooperative, or other rental project assisted under this section. In approving such

- 1 projects, the Secretary shall give priority to projects in
- 2 which assistance is provided to 40 per centum or less
- 3 of the units contained in the project."

Senator MORGAN. Gordon, we will hear from you now.

**STATEMENT OF GORDON CAVANAUGH, ADMINISTRATOR,
FARMERS HOME ADMINISTRATION**

Mr. CAVANAUGH. Thank you very much, Mr. Chairman.

We are greatly pleased to be before your committee this morning and we particularly appreciate the leadership and concern you have given to rural housing and community problems.

Mr. Chairman, I appreciate this opportunity to report to you on actions taken to improve our housing programs and to review current problems and future needs.

Our housing program levels in each category are contained in appendix D. In some categories, funding requested is less in fiscal 1980 than in fiscal 1979, in response to the President's effort to reduce inflation. However, it is still well above the levels of just a few years ago, and the reductions have been made in those programs affecting higher, rather than lower, income people.

With this finite budget, and with heavy demand on these limited funds because of high commercial interest rates, the President has directed us to target funds to those people and those areas where need is greatest; where income is lowest; where substandard housing is greatest.

FISCAL 1979 INITIATIVES

Specifically, we have:

Increased the proportion of subsidized interest rate section 502 housing funds from 63 percent in 1978 to 70 percent this year.

Increased the amount and percentage of subsidized section 515 rental housing funds which serve low-income renters. The percentage of subsidized section 515 funds is now 94 percent.

Increased the level of section 504 low-income loans and grants from \$24 million to \$43 million; section 514 loans and 516 grants for the farm labor housing program from \$17.5 million to \$71 million and section 523 self-help technical assistance from \$9 million to \$13.5 million.

Allocated section 502 and 515 funds to States on the basis of need. The need formula is attached as appendix C. These allocations were published in the Federal Register for the first time this year. Briefly, the formula ranks need on factors of rural population, incidence of low income, the amount of substandard housing, and housing cost in the State. Counties within a State are similarly examined so that an FmHA State director can allocate these funds to areas of greatest need in his or her State.

A major step to provide decent housing for low-income people is, of course, the home ownership assistance program, HOAP, which

Congress authorized last year. As of now, funds have not yet been appropriated for HOAP. We have submitted a supplemental budget request to Congress to fund this program in fiscal year 1979.

HOAP is a major step in getting limited funds to those in the most dire need. The recapture provisions, which have the effect of returning to the program any windfall profits from the sale of FmHA-financed housing, will permit us to serve our borrowers with less cost to the Government. Proposed regulations for recapture have been published for comment and discussed thoroughly with committee staff and interested public groups.

We are making further efforts this year to insure that funds go to where they are most needed:

A task force of FmHA filed personnel and others has provided me with recommendations for improving section 502 performance beyond that accomplished this year. National office staff members are refining similar recommendations for the section 515 program.

We are examining possible changes in the traditional FmHA first-come, first-served approach to see if changes will help us better meet the needs of low-income people and isolated rural communities.

We have completed studies, requested by the Congress, of possible changes in income limits; varying regional income limits for eligibility and the question of relative levels at which insured and guaranteed loans are made. These findings are now being reviewed at a higher departmental level, as are my recommendations on changes in maximum income levels.

All of these targeting efforts face great difficulties in a time of heavy demand for limited funds, and high interest rates for home loans.

RESPONSE TO COMMITTEE QUESTIONS

Before discussing legislation, I would like to respond to several areas in which the committee has expressed particular interest.

Section 514/516: In the past the farm labor housing loan and grant programs have used primarily to provide housing for year-round occupancy. Economic feasibility has been a factor and has resulted in limiting the program to a few States.

The fiscal 1979 grant funds of \$33 million and section 514 loan funds of \$25 million of the \$38 million will develop 1,955 units in 39 projects in 11 States. This includes a 6-month occupancy project built in cooperation with the State of California and a migrant facility in Arkansas that will serve laborers working for smaller farmers who grow tomatoes.

We are revising our regulations to simplify the programs, to change eligibility requirements to permit increased participation and to incorporate the changes required by the Housing and Community Development Amendments of 1978.

Twenty-five percent rule: Considerable opposition has developed to the continued use of 25 percent of adjusted income as a maximum for shelter costs. The theory advanced is that if families will pay a higher proportion of income for shelter, say 30 to 40 percent, less subsidy will be required and therefore the scope of those assisted can be greatly expanded. We believe this would be a tragic

assumption to pursue. Low-income Americans have all too little disposable income available, without making them bear the brunt of economy moves. For example, in the home ownership assistance program, a family with the typical adjusted income of \$3,480 would pay \$870 for shelter and have \$2,610 left for other needs. A 35-percent rule would leave \$2,262. While only a difference of \$348, it represents a 13-percent decrease in available disposal income. Such families really cannot afford to pay even 25 percent and meet other obligations.

The 1976 Annual Housing Survey shows these median percentages:

Income spent on rentals—24 percent. Income spent for owned housing with mortgages—18 percent. Income spent for owned housing without mortgages—11 percent. Income spent for rent by a family with \$20,000 income—13 percent.

We believe that a movement to higher percentage payments would invoke a hardship on low-income people. If changes are to be made, they should be progressive, with the very poor paying far less than 25 percent, and those with moderate income meeting the higher requirements.

Home ownership assistance program: Members have expressed an interest in how the program will be operated, and what the cost will be. While Congress has not yet appropriated funds, we have requested money to subsidize 15,094 units in fiscal year 1980. We have estimated an average annual subsidy cost of \$1,875 per unit and a 33-year runout cost of approximately \$985 million.

HOAP, a subsidy for the section 502 program, will be used only where assisted rental housing is not available and/or suitable. A priority for existing housing will be observed. Eligible families will pay 25 percent of adjusted income toward principal, interests, taxes, insurance, utilities, and maintenance—PITIUM—and FmHA will pay the balance. Minimum income will be that required to carry maintenance costs. The family will pay ordinary maintenance, and a reserve will be established for long term and extraordinary maintenance. A utility allowance will be utilized, and modified escrow-type arrangements used for taxes and insurance.

Subsidy recapture is the key to fiscal responsibility for this very necessary program. We have published recapture regulations for prior rulemaking in the Federal Register. FmHA believes that most HOAP borrowers will move upward from this subsidy over time. The average interest credit borrower graduates to a market note rate in 7½ to 12 years, and the average housing borrower sells his house, or otherwise leaves the FmHA program in 10 to 12 years.

Attachment E contains "A Capsulized Look at the FmHA Home Ownership Assistance Program (HOAP)," "FmHA Subsidy Costs Involving HOAP" and "Recapture Assumptions."

Section 525: This technical and supervisory assistance grant program will be implemented this fiscal year. Discussions with the committee staff and public interest groups involving proposed regulations have been held and publication in the Federal Register in the near future should give time to obligate grant funds this year.

In administering it will maintain a balance between counseling and outreach, and housing development. Both preloan and delinquency servicing counseling will be emphasized.

State directors will seek applications from areas of greatest need, areas of low income, areas with substandard housing, and areas with higher levels of FmHA delinquency. Some \$1.5 million of the \$2.5 million appropriation will be targeted to the 15 States that have the greatest need, as evidenced by the incidence of poverty income levels and substandard housing. The remaining \$1 million will be available on a competitive basis among the other States.

MINORITIES

In reviewing FmHA's service to minorities, the Secretary is determined to make improvements in FmHA's record of serving minorities in its housing program. This record has been poor in the past. A downward trend was stopped, and we are now attempting to increase minority participation in housing. Efforts include establishing minority loanmaking targets for each State.

Our success or failure at Farmers Home will be judged by the extent our services are made available to minorities and to those with the lowest incomes who are most in need. All too often, these two categories are synonymous.

The committee has expressed a special interest in Indian housing programs. FmHA activity in Indian housing accounted for less than 500 section 502 and 504 loans annually. We are making every effort to improve this record also.

We have invited several housing organizations to join us in examining title V to see how FmHA programs can be made more responsive to Indian needs and legal requirements.

Internal changes during the past year should help us serve Indians better. To provide overall coordination of FmHA with other Federal and State programs, an Indian coordinator has been employed in the national office. We have established a full-time Indian coordinator in the Arizona State office to serve the Southwest.

In North Dakota, we have established a special district for that State's Indian reservations.

LEGISLATION

The past 2 years have seen unprecedented growth in FmHA housing programs. Housing obligations during fiscal 1977 and 1978 account for 30 percent of the total in the 30-years history of the programs. Fiscal 1979 housing program dollars represent 16 percent of the total program dollars over the last three decades. During this period of rapid expansion we have also begun rental assistance subsidies, compensation for defects, an appeals program, and soon will add final regulations for the section 515 congregate housing program. We think FmHA is moving in the right direction.

As to changes, various authorities under title V of the Housing Act of 1949 need to be extended. Some will expire September 30, 1979.

The Department has submitted to the President of the Senate and Speaker of the House proposed legislation to extend through

September 30, 1981, these authorities, which cover the following programs: low-income home repair, farm labor housing, rental and cooperative housing, homeownership, self-help housing, and rural housing supervisory assistance which are provided for under section 513(b), 513(c), 515(b)(5), 517(a)(1), 523(f), 523(g), and 525(c), respectively, of title V of the Housing Act of 1949, as amended. The proposed bill would extend these authorities for a period of 2 years.

We know the committee's desire for a 1-year limit, but section 607 of Public Law 93-344, the Congressional Budget Act of 1974, requires us to request a 2-year extension.

We also have recommended changes in funding for the farm labor housing grant program, and the self-help technical assistance grant program.

We also recommend an amendment to clarify that the maximum amount of total loans under HOAP will not exceed \$440 million for any fiscal year.

Furthermore, we recommend that the maximum percentage of rural rental housing units eligible for rental assistance without an administrative exception be increased from 20 to 40 percent.

Let me highlight some of the requests for funding changes.

Section 502: The basic program of homeownership loans will account for 96,000 homes during fiscal 1980 at about \$3 billion.

It will include the homes expected to be assisted under the home ownership assistance program.

It includes the guaranteed rural housing loan program, requested to continue at \$500 million.

All funding for section 502 programs is through the revolving fund established in section 517.

Section 515: The rural rental and cooperative housing program. Much more flexibility will be built into this program through the use of congregate facilities, such as central dining. After more than tripling in the past 3 years, it is projected for \$868 million under the administration budget.

Primary funding of the rental housing program is under section 515 with interest subsidy under section 521(a)(1) and rental assistance through section 521(a)(2). HUD section 8 subsidy is also combined with the rural rental housing program.

Section 514 loans and section 516 grants: Although funding requests for farm labor housing loans and grants are slightly reduced from fiscal year 1979, the amounts should be sufficient.

Section 514: \$30 million has been requested.

Section 516: \$25 million has been requested.

Section 504: Provides funds to repair badly deficient homes. It is budgeted to continue at \$48 million in fiscal year 1980, including \$24 million of grant funds for elderly residents.

Funding authorization for housing repair loans and grants is contained in section 513(b).

Section 523: Self-help technical assistance grants and development fund. Section 523(f), the funding authority for technical assistance grants, is requested at \$5 million for fiscal year 1980. Section 523(g) provides loans to self-help sponsors to purchase and develop building sites. A level of \$1 million is anticipated.

Section 524: For rural housing site loans we request a reduction from \$3 million to \$1 million for fiscal year 1980. The agency has

encountered problems in operating this program at market interest rates. To help us find solutions, we have asked national nonprofit housing groups for specific recommendations.

Section 525: Technical and supervisory assistance, a new program of counseling and housing outreach. The request is \$1.2 million for fiscal year 1980.

We are asking for only one substantive change to title V legislation: To increase the maximum percentage of rental assistance units that may be subsidized without an administrative waiver from 20 to 40 percent per project.

Experience indicates that in some cases, economically feasible projects cannot be developed where rental assistance for families is limited to 20 percent of the units. This limitation makes it more difficult to establish projects in areas of greatest need.

Thank you for this opportunity to appear before you. I will attempt to answer any questions you may have and to provide any other information you request.

[Additional material attached to Mr. Cavanaugh's statement follows:]

APPENDICES

Appendix A—A Bill to amend Title V of the Housing Act of 1949.

Appendix B—Budgetary Impact of Proposed Draft "Bill to Amend Title V of the Housing Act of 1949.

Appendix C—Fiscal Year 1979 Rural Housing Allocations (Exhibit C and C-1 to FmHA AN No. 282(440).

Appendix D—Housing Program Levels for Fiscal Years 1977-1980.

Appendix E—A Capsulized Look At: The FmHA Homeownership Assistance Program (HOAP).

APPENDIX A

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., March 21, 1979.

HON. WALTER F. MONDALE,
President, U.S. Senate,
Washington, D.C.

DEAR MR. PRESIDENT: Enclosed for the consideration of the Congress is a draft bill "To amend Title V of the Housing Act of 1949."

The Department of Agriculture recommends enactment of this draft bill.

The draft bill would amend Sections 513(b), 513(c), 515(b)(5), 517(a)(1), 523(f), 523(g) and 525(c) of Title V of the Housing Act of 1949 to extend the expiration dates of rural housing programs and authorizations for appropriations in those sections. The present legislative authority for the sections cited expires, generally, on September 30, 1979. This proposed bill would extend these authorizations for fiscal years 1980 and 1981. It also amends Section 521(a)(1)(H) to clarify that the maximum principal amount of loans to borrowers receiving Home Ownership Assistance shall not exceed \$440,000,000 for any one fiscal year. Furthermore, Section 521(a)(2)(A) is amended to increase the maximum percentage of rural rental housing units eligible for rental assistance without an administrative exception in eligible projects from 20 percent to 40 percent.

The following rural housing programs are affected:

1. Low-income repair loans and grants (Section 513(b))—the authorization for financial assistance for very low-income owner-occupants to make repairs to remove health and safety hazards to their home is extended for fiscal years 1980 and 1981.
2. Farm labor housing grants (Section 513(c))—the authorization for financial assistance to broadly based non-profit organizations, nonprofit organizations of farm workers, and public agencies to buy, or repair housing and related facilities for domestic farm laborers is extended for fiscal years 1980 and 1981.
3. Rural rental housing loans (Section 515(b)(5))—the termination date for insurance authority to provide financial assistance to corporations, cooperatives, public

agencies, individuals and partnerships to buy, build, improve or repair rental or cooperatively owned multifamily living units for occupancy by low- to moderate-income families and persons age 62 or older is extended for fiscal years 1980 and 1981.

4. Rural housing loans (Section 517(a)(1))—the authority to provide financial assistance under this section to low- and moderate-income families to buy, build, improve or relocate homes of their own in rural areas is extended for fiscal years 1980 and 1981.

5. Home ownership assistance (Section 521(a)(1)(H))—the program of financial assistance to low- and moderate-income families who buy, build, improve or relocate homes of their own in rural areas and who cannot meet housing expenses with 25 percent of their income is changed by setting the maximum principal amount of loans at \$440,000,000 for any one fiscal year.

6. Mutual and self-help housing loans and grants (Section 523)—the authorization for financial assistance in the form of loans to buy and develop sites and acquire building materials, and grants to provide technical assistance to families who carry out self-help housing efforts is extended for fiscal years 1980 and 1981 in subsections (f) and (g) and the authorization for appropriations is set at \$5,000,000 in subsection (f) for the fiscal year 1980. Loans to purchase and develop sites and technical assistance grants are available to public agencies or nonprofit organizations. Loans to purchase sites and acquire building materials are available to low-income needy persons.

7. Technical and supervisory assistance grants and loans (Section 525(c))—the authorization for financial assistance in the form of grants to or contracts with certain organizations to provide technical and supervisory assistance to aid needy families in benefiting from Federal, State, and local housing programs in rural areas; and loans to certain organizations for expenses of preconstruction planning and obtaining financing for housing for eligible families under any Federal, State or local housing program in rural areas is extended for fiscal years 1980 and 1981.

8. Rental assistance (Section 521(a)(2)(A))—the program of financial assistance to low-income tenants in rural rental housing projects is changed by increasing the maximum percentage of units eligible for rental assistance under Section 521(a)(2)(A) without an administrative exception from 20 percent to 40 percent. The rural rental assistance program assists low-income families who are currently living in substandard housing or otherwise experiencing substantial rent overburden. Section 521(a)(2)(A) presently permits 100 percent of units occupied by elderly or handicapped persons to receive rental assistance but limits rental assistance to 20 percent of the units occupied by low-income families except when the Secretary determines a higher percentage is necessary or feasible, and an exception is issued. Experience has shown that, in many instances, economically feasible projects cannot be developed where rental assistance is limited to 20 percent of the units.

These changes are needed to extend Farmers Home Administration rural housing programs, to revise authorization levels, and to allow rural rental assistance for a higher percentage of units in some projects.

The extensions of existing program authorizations and authorizations for appropriations in this draft bill will have no Federal budgetary impact that is in excess of what has been proposed for Congressional consideration within the 1980 President's Budget. The other programmatic initiatives included in this draft bill, likewise, have no direct budgetary impact. Attached is a tabular presentation of a section-by-section analysis of the proposed draft bill's budgetary impact which has been reflected in the 1980 Budget and any projected subsidy outlays resulting from 1980 loan program levels during the 1980-1984 period.

Section 102(2)(c) of P.L. 91-190 does not apply to this legislation; therefore, and environmental statement is not attached.

An identical letter has been sent to the Speaker of the House of Representatives.

The Office of Management and Budget advises that there is no objection to the presentation of this report and that enactment of this proposed legislation would be in accord with the President's program.

Sincerely,

BOB BERGLAND.

A BILL—TO AMEND TITLE V OF THE HOUSING ACT OF 1949

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 513 of the Housing Act of 1949 is amended by—

(a) Striking out in subsection (b) "for the fiscal year ending September 30, 1979" and inserting in lieu thereof "for each fiscal year ending prior to October 1, 1980"; and

(b) Inserting in subsection (c) after "September 30, 1979" the following: ", and not to exceed \$25,000,000 for the fiscal year ending September 30, 1980."

Sec. 2. Section 515(b)(5) of such Act is amended by striking out "1979" and inserting in lieu thereof "1981."

Sec. 3. Section 517(a)(1) of such Act is amended by striking out "1979" and inserting in lieu thereof "1981."

Sec. 4. Section 521 of such Act is amended by—

(a) striking out in subsection (a)(1)(H) "of loans made" and inserting in lieu thereof "of new loans made in any fiscal year"; and

(b) striking out in the second sentence of subsection (a)(2)(A) the number "20" wherever it appears and inserting in lieu thereof "40."

Sec. 5. Section 523(f) of such Act is amended by—

(a) inserting in the first sentence after "any such fiscal year," the following: "and there is authorized to be appropriated not in excess of \$5,000,000 for the fiscal year ending September 30, 1980,"; and

(b) striking out in the second sentence "1979" and inserting in lieu thereof "1981."

Sec. 6. Section 523(g) of such Act is amended by striking out "for the fiscal year ending September 30, 1979" and inserting in lieu thereof "for each fiscal year ending prior to October 1, 1980."

Sec. 7. Section 525(c) of such Act is amended by striking out in the second sentence "for the fiscal year ending September 30, 1979," and inserting in lieu thereof "for each fiscal year ending prior to October 1, 1980,".

Sec. 8. There are authorized to be appropriated for fiscal year 1981 such sums as may be necessary to carry out programs and activities for which appropriations for the fiscal year 1980 are authorized by this Act.

APPENDIX B

BUDGETARY IMPACT OF PROPOSED DRAFT BILL
"TO AMEND TITLE V OF THE HOUSING ACT OF 1949"

SECTION	PURPOSE	BUDGET IMPACT--1980 (Program Levels, Budget Authority, Outlays)	FIVE YEAR INTEREST SUBSIDY CO (Outlays)
Section 1(a)	Extends authority for making appropriations to the Secretary for the making of section 504 very-low income repair loans and grants for the fiscal year ending September 30, 1980	\$24,000,000 (Grants) \$24,000,000 (Loans) \$24,000,000 (Budget Authority) \$23,000,000 (Outlays)	\$6,607,000
Section 1(b)	Extends authority for making appropriations to the Secretary for the making of Section 516 domestic farm labor grants for the fiscal year ending September 30, 1980, and reduces the authorized amount to not to exceed \$25 million from \$38 million authorized in 1979.	\$25,000,000 (Grants) \$25,000,000 (Budget Authority) \$1,000,000 (Outlays)	--
Section 2	Extends authority to insure loans under Section 515 for rural rental and cooperative housing through September 30, 1980.	\$820,000,000 (Subsidized Loans) \$48,000,000 (Nonsubsidized Loans) -- (Budget Authority) -- (Outlays)	\$168,350,000
Section 3	Extends authority to insure rural housing loans under the Section 502 program through September 30, 1980.	\$2,007,000,000 (Subsidized Loans) \$500,000,000 (Nonsubsidized Loans) -- (Budget Authority) -- (Outlays)	\$415,045,900
Section 4(a)	Clarifies that the maximum principal amount authorized for loans made to borrowers receiving home ownership assistance is for any one fiscal year.	(Outlays)	
Section 4(b)	Increases the maximum percentage of units eligible for rental assistance under Section 521(a)(2)(A) from 20% to 40%.	(Outlays)	

BUDGETARY IMPACT OF PROPOSED DRAFT BILL
"TO AMEND TITLE V OF THE HOUSING ACT OF 1949"
(continued)

SECTION	PURPOSE	BUDGET IMPACT--1980 BUDGET (Program Levels, Budget Authority, Outlays)	FIVE YEAR INTEREST SUBSIDY (Outlays)
Section 5(a)	Extends authority for appropriations for mutual and self-help technical assistance grants under Section 523 for fiscal year ending September 30, 1980, and reduces the maximum authorized appropriation to \$5 million from \$16.5 million.	\$5,000,000 (Grants) \$5,000,000 (Budget Authority) \$400,000 (Outlays)	--
Section 5(b)	Extends cut off date for making loans and grants under Section 523 to September 30, 1980.	\$1,000,000 (Subsidized Loans) \$500,000 (Outlays)	--
Section 6	Extends authorization for appropriations to be deposited in the Self-Help Land Development fund which shall be available without fiscal year limitations for making loans under self-help land development site loan program.	-- (Outlays)	--
Section 7	Extends authorization for appropriations for the purposes of making technical and supervisory assistance grants and loans for the fiscal year ending September 30, 1980.	\$1,200,000 (Grants) \$1,200,000 (Budget Authority) \$1,200,000 (Outlays)	--
Section 8	Authorizes such sums as may be necessary for programs in the fiscal year ending September 30, 1981.	--	--

APPENDIX C

Fiscal Year 1979 Rural Housing Allocations (Exhibit C and C-1) to FmHA AN No. 282 (440).

ATTACHMENT C—RURAL HOUSING PROGRAMS

Rural housing loan and grant making will be continued for the fiscal year beginning October 1, 1978, in strict compliance with the following:

I. General

A. The interest rate for all rural housing loan programs for fiscal year 1979 will be the same as in effect at the end of fiscal year 1978. See Exhibit B of FmHA Instruction 440.1 for current rates.

B. Funds are allocated to each State on the basis of housing needs. The criteria considered and the formula by which allocations were determined are outlined in Attachment C-1 to the AN. Funds available for each program are indicated in the following paragraphs and attachments.

C. Priority will be given to providing assistance to serve areas having the greatest housing needs and to reach lower-income tenants and applicants. We will provide, to each State Director, information by county, on population, substandard housing, and income. This information is intended to assist in identifying those areas where increased emphasis must be placed on assisting lower-income families.

D. State Directors are to carry out balanced loan making and servicing programs. In some States more emphasis should be placed on borrower records and accounting procedures for RRH and LH loans especially where rent increases, interest credit or rental assistance is involved. Loan servicing of single family housing accounts must be continued following the guidelines set forth in FmHA AN 249(451) dated March 16, 1978.

E. State Directors may not switch funds between subsidized and non-subsidized categories. Also, State Directors serving more than one State may not shift allocations between States within their jurisdiction.

F. State Directors are responsible for administering the rural housing RH programs within their State in strict compliance with applicable procedures and this AN. Dockets should not be processed for any program unless funds will likely be available for the loan or grant. The National Office will maintain only a small reserve of funds for the Section 502, 504 loan and grant and Section 515 programs; therefore, the Administrator will consider requests for additional funds only on a hardship case basis. To assure that funds are utilized, all funds available but not obligated during the first-half of fiscal year 1979 will be pooled as of COB March 30, 1979. Furthermore, all second-half funds available but not obligated will be pooled as of COB August 10, 1979.

G. For Section 502 insured RH, Section 502 guaranteed RH, and Section 504 RH loans and grants, the cumulative amounts to be submitted in each category for obligation each quarter will not exceed the following percentage of the State's annual allocation as shown in attachments C-2 and C-3, as appropriate:

	Percent
First quarter.....	35
Second quarter.....	60
Third quarter.....	85
Fourth quarter.....	100

For Section 515 State Directors will not exceed 60 percent of their total year allocation as shown in Attachment C-4, prior to March 31 without prior written approval of the National Office.

State Directors will take actions necessary to ensure these allocations are not exceeded.

II. Section 502 insured RH loans

A. Transfer of existing Section 502 loans by assumption (465.1 Paragraph XVII) will be used in all practical cases in order to conserve loan funds and assist the greater number of applicants. Subsequent loans may be made to pay for equity and finance needed repairs or improvements.

B. Conditional commitments will not be issued unless the county office can reasonably expect to approve and fund loans for those conditioned commitments within 3 months after the dwellings are completed.

C. Action should be taken to ensure that funds will be available for loans for hardship cases and to those participating in self-help projects to prevent delays in

the construction of homes. Priority processing will be provided for self-help Housing applications.

D. Weatherization loans made by public utilities will be obligated from the National Office reserve established for this purpose.

III. Section 502 guaranteed above moderate RH loans

A. Upon receipt of revised FmHA Instruction 1980-D, Section 502, guaranteed loan authority may be implemented.

B. Action should be taken to ensure that lenders are familiarized and encouraged to participate in the guaranteed RH loan program. Training sessions should be held, as appropriate, with lenders. All applicants who appear to be eligible for a guaranteed loan should be referred to lenders willing to participate in the program.

IV. Section 504 RH loans and grants.

Overall use of Section 504 loan and grant funds increased significantly last fiscal year. However, some States are still showing only a small amount of activity in this program area. With increased funding for the fiscal year it is very important that all States assist families with 504 needs. FmHA offices should especially strive to cooperate with organizations operating federally financed rehabilitation projects.

V. Section 515 RRH loans

A. Attachment C-4 of this AN indicates the annual allocation of subsidized and nonsubsidized RRH funds for fiscal year 1979. The level of funding in fiscal year 1979 represents a substantial increase when compared to the past obligation history in the 515 program.

B. The objective of the RRH program is to provide rental housing to persons with low and moderate incomes and for senior citizens. In recent years, a large percentage of RRH projects have been developed to meet the housing needs of senior citizens. In many areas there is also a need for family-type units which is not being met. In the past very little effort has been made to serve the housing needs of large families although market data indicated such a need. Therefore, a priority will be extended to projects providing family-type units, particularly those serving very low income people. State Directors shall see that this policy is implemented.

C. Any RRH project that will receive interest credit or rental assistance from the FmHA, shall be identified as subsidized loan. This includes single track and dual track loans involving Section 8 rental assistance when an interest reduction is given in accordance with Exhibit 0 to FmHA Instruction 444.5. You should be sure that Form FmHA 444-5, "Multiple Housing Fund Analysis," is properly completed to assure correct identification of funds by type and, until the form is revised, indicate the approval date on the bottom of the form. Also show the following at the bottom of the form for projects involving Section 8:

Number of section 8 units _____
 From HUD set-aside for fiscal year _____
 Single track _____ Dual track _____

VI. Units for the HUD section 8 set-aside program

A. We anticipate receiving a set-aside from HUD of 10,000 Section 8 units for use in fiscal year 1979 under the single track processing. Attachment C-5 of this AN is a tentative distribution of Section 8 units by Region and State. As of the date of this AN, we have not received written approval of the number or distribution from HUD, therefore, it is subject to change.

IX. Section 516 LH grants

A. Grant making activities may resume in accordance with FmHA Instruction 444.6. A total of \$33 million is available for LH grants nationally. State Directors are again requested to examine the need for this type of assistance within their States and to inform County Supervisors in writing to contact applicants, and prospective applicants. Those organizations wishing to be considered, will be requested to furnish current information to the FmHA. Applicants should be informed that any cost involved in obtaining the information will be at their own expense, without assurance that a project will be funded by FmHA.

B. State Directors should review each application and make a preliminary determination as to eligibility. Priority for funding shall be determined by each State Director in accordance with FmHA Instruction 444.6, paragraph VII A. Attachment C-7 of this AN should be completed for each loan application determined to be eligible to assist in determining the priority for funding. The completed exhibits should be submitted to the National Office along with a list showing the order in which funding is recommended. This information must be received in the National Office by December 31, 1978, to assure consideration for funding from FY 1979 grant

funds. Applications meeting all applicable eligibility requirements contained in paragraph IV of FmHA Instruction 444.6 should be submitted.

X. Section 523 TA grants

You may continue processing and approving Section 523 TA Grants in accordance with FmHA Instruction 1933-I.

XI. Section 524 insured and section 523 direct RHS loans

Funds are now available. Loan making operations may continue in accordance with FmHA Instruction 444.8.

B. The National Office is negotiating with HUD to obtain more flexibility in the type of units and location of projects obtaining Section 8 assistance. You should, to the extent possible, assist HUD in meeting the objective of utilizing the Section 8 program to provide more family units rather than units for the elderly.

VII. Rental assistance (RA) units for RRH and LH programs

A. Requests for the obligation of rental assistance units for existing and new construction which were submitted to the Finance Office prior to October 1, 1978, shall be obligated from the National reserve and will not be deducted from the respective States' fiscal year 1979 RA allocation.

B. FmHA has been allocated 23,000 units for rental assistance for fiscal year 1979. Attachment C-6 is the distribution of RA units for existing and new construction by State for FY 1979. the distribution of RA units has been made in accordance with the same formula used in allocating Section 515 funds to the States. There is no separate allocation for the labor housing program this FY. Units are to be allocated to LH and RRH projects on the same basis in accordance with Exhibit R to FmHA Instruction 444.5. However, a National Office reserve of approximately 10,000 units has been maintained for existing units. States that have obligated all of their existing units may request additional existing units from the National Office reserve.

C. All new requests for rental assistance units to the Finance Office made after October 2, 1978, must be made on Form FmHA 444-26, "Request for Obligation of Rental Assistance." Exhibit R-4 to FmHA Instruction 444.5 will no longer be used. Refer to Special Procedure Notice dated September 28, 1978, for additional clarification. In addition, the dollar amount that will be indicated by the Finance Office in Section V of Form FmHA 444-26 shall be inserted in Section 10 of Form FmHA 444-27, "Rental Assistance Agreement." Exhibit R-2 to FmHA Instruction 444.5 shall no longer be used. About 500 copies of each form were sent to each State Office on September 28, 1978. Additional copies may be requested from the Finance Office, St. Louis, Missouri.

D. State Directors may neither switch RA units between States under their jurisdiction nor switch new and existing units without the written content of the National Office.

VIII Section 514LH Loans

A total of \$38 million is available. Each State Director should use its labor housing authority to its fullest extent. Funds will not be allocated to individual States at this time, and loans within your approval authority may be submitted directly to the Finance Office for funding.

ALLOCATION OF RH PROGRAM FUNDS—FISCAL YEAR 1979

The following criteria identifies essential elements that are considered necessary to allocate rural housing funds to various States on the basis of housing needs.

Factor A: State's percentage of national rural population.

Factor B: State's percentage of national rural population living in dwellings which lack complete plumbing and/or are crowded (substandard).

Factor C: State's percentage of national rural population below poverty level.

Factor D: Cost indicator (average cost of new dwelling and site, factored by population).

Factor E: State's percentage of national rural population 62 years of age and over.

Factor F: State's percentage of national rural households with incomes between \$15,000 and \$20,000.

Basic Formula Allocation:

Section 502 rural housing and Section 515 rural rental housing. $(A \times .30 + B \times .30 + C \times .30 + D \times .10) \times \text{funds available} = \text{State allocation.}$

Section 504 loans. $(B \times .50 + C \times .50) + \text{funds available} = \text{State allocation.}$

Section 504 grants. $(B \times .33 + C \times .33 + E \times .33) \times \text{funds available} = \text{State allocation.}$

Section 502 guaranteed above moderate loans. $(A \times .30 + B \times .30 + F \times .30 + D \times .10) \times \text{funds available} = \text{State allocation.}$

Transition adjustment is necessary to temper large differences between previous program levels and a basic formula allocation. A 3-year transition period is used to allow individual States to adjust programs accordingly.

Fiscal year 1978 funds obligated to fiscal year 1979 funds available = (a).

Basic formula allocation = (b).

$a = (b - a/3) = \text{adjusted allocation.}$

Minimum allocations have been established for each loan and grant category.

APPENDIX D

Housing Program Levels for Fiscal Years 1977-1980

PROGRAM	1977 Actual	1978 Actual	1979 Estimated	1980 Budget
Sec. 502 Loans, Subsidized	\$1,485,677	\$1,720,000	\$2,007,000	\$2,007,000
Sec. 502 Loans, Unsubsidized	1,083,112	971,301	863,000	500,000
Sec. 502 Above Moderate Income, Guaranteed	--	--	500,000	500,000
Sec. 504 Repair Loans	7,886	11,942	24,000	24,000
Sec. 504 Repair Grants	5,000	9,000	19,000	24,000
Sec. 515 Rental, Subsidized	512,971	600,000	820,000	820,000
Sec. 515 Rental, Unsubsidized	31,963	75,945	43,000	12,000
Sec. 514 Farm Labor Housing Loans	5,336	9,998	38,000	30,000
Sec. 516 Farm Labor Housing Grants	7,250	7,750	33,000	25,000
Sec. 523 Self Help TA Grants	4,491	3,616	13,500	5,000
Sec. 523 Land Dev. Fund	667	1,169	1,000	1,000
Sec. 524 R.H. Site Loans	1,432	1,754	3,000	1,000
Sec. 525 TSA Grants	--	--	2,500	1,000
Total	\$3,145,805	\$3,412,505	\$4,309,000	\$3,986,200
Sec. 521 R.A. (units)	--	20,000	23,000	20,000
Sec. 521 HOAP (units)	--	--	16,000	15,094

ATTACHMENT E

A CAPSULIZED LOOK AT: THE FmHA HOMEOWNERSHIP ASSISTANCE PROGRAM (HOAP)

1. HOAP is not a new program, it is a subsidy mechanism to be used with the FmHA Section 502 Home Ownership Program.

2. Available only to eligible families unable to afford home ownership with a one percent mortgage.

3. HOAP will not be used where subsidized rental units are suitable.

4. Eligible families will pay 25 percent of adjusted income toward principal, interest, taxes, insurance, utilities, and maintenance (P.I.T.I.U.M.) FmHA will pay the balance.

5. Minimum income: that required to carry maintenance with 25 percent of adjusted income.

6. Applicants will be required to utilize existing housing that is decent, safe, and sanitary; or can readily be brought up to standards.

7. Subsidy recapture is an integral part of HOAP. Administration legislation, enacted in the 1978 amendments, provides for recapture of both HOAP and interest credit subsidies.

8. Handling payments:

a. *Maintenance.*

1. Short-term (ordinary)—family pays.

2. Long-term and extraordinary—reserve account established.

3. Computations for all maintenance based on an average, or allowance, developed by house type, size, age, etc.

b. *Utilities.*

Utility allowance based on consumption for house types, sizes and family size according to type of utility.

c. *Insurance and Taxes.*

Escrow arrangement established.

Section 502 is a modest home program. New units, constructed during fiscal year 1978 had an average living area of 1054 square feet.

10. Budget Requests—Fiscal Years

	1979	1980
Number of units	16,000	15,094
Annual outlays	\$30,000,000	\$30,000,000
Thirty-three year authorization	\$984,960,000	\$984,960,000
Annual subsidy/unit	¹ \$1,875	¹ \$1,875

¹ Based on average income of \$3,480. An average of \$7,000 would result in a \$995 HOAP cost instead of \$1,875.

Few HOAP recipients should receive HOAP for the life of their Section 502 loan. Studies indicate that interest credit borrowers graduate to a market rate after 7½ years. The average loan is held for 10–12 years. (FmHA borrowers are required to graduate to private credit when financially able.)

12. The major objectives of HOAP are:

a. Provide needed housing for low-income rural families.

b. Reduce substandard housing.

c. Provide a necessary deep subsidy at the least ultimate cost to the government through the use of recapture.

QUESTIONS AND ANSWERS ON THE HOME OWNERSHIP ASSISTANCE PROGRAM (HOAP)

Question 1. Is HOAP actually a brand new program?

Answer. No, not really. It is a new subsidy direction added to the Section 502 Home Ownership Program. Section 502 has been FmHA's major housing program since 1949.

Question 2. Page 165 of the budget estimates for the U.S. Department of Agriculture shows a fiscal year amount of \$985 million for the Home Ownership Assistance Program. This seems like a very high level of spending for a new subsidy. Please explain.

Answer. There is understandable confusion concerning the actual cost of the program. Almost every other line item in the FmHA budget is presented in annual figures. But the \$985 million listed for HOAP in the 1980 budget represents a 33-year maximum cost for the life of the loan, for the 15,094 houses scheduled for FY 1980. The 1980 estimated outlay is \$30 million.

Question 3. Is the \$30 million figure an absolute?

Answer. No. It is our best estimate, arrived at by using average costs for principal, interest, taxes, insurance, utilities, and maintenance for a \$27,500 house, and projecting the subsidy needed for an average \$3,480 income. A change in estimated costs or incomes will admittedly produce a different figure. When cost projections for HOAP were formulated about 18 months ago, a \$27,500 mortgage was estimated based on inflation factors and current levels at that time. In addition, a priority for existing housing should help keep the average loan size for HOAP recipient below the average Section 502 loan.

Question 4. The House of Representatives Committee on the Budget has voted a budget authorization of \$500 million and outlays of \$15 million. How will this be reflected in your program operations?

Answer. We will cut the number of assisted units from 15,094 to 7,547.

Question 5. Do you expect the average subsidy to remain constant over the full 33 year period?

Answer. No. The history of the 502 program provides evidence that leads us to believe that few, if any, recipients will stay on HOAP for 33 years. The average 502 interest credit borrower moves to a market rate of interest in 7½ years. Recent data leads us to believe that inflation may cause this figure to be extended to 10-12 years, but the average overall borrower still holds their FmHA mortgage only 10-12 years. We anticipate some upward mobility in this program, as well, although the average movement may be slightly slower.

Question 6. Recapture of subsidy was part of the legislative package that included HOAP. Were recaptured estimates included in the \$985 million figure?

Answer. No.

Question 7. What are your estimates for recapture?

Answer. We expect to recapture about 72 percent of interest subsidy over a ten year period. The HOAP subsidy will probably yield a recapture of closer to 49 percent.

Question 8. What does this mean in terms of dollars?

Answer. We made some calculations and assumptions based on the fiscal year 1979 levels for the Section 502 program, which are as follows:

RECAPTURE ASSUMPTIONS

- a. Fiscal year 1979 Section 502 loans (subsidized)—\$2,067,000,000.
- b. Current market interest rate—9 percent.
- c. Estimated average subsidized borrower rate—2.9 percent.
- d. Rate of interest subsidy—6.1 percent.
- e. Estimate cost of interest subsidy—\$126,087,000.
- f. Estimated rate of recapture on interest subsidy—72.9 percent (2).
- g. Interest subsidy dollars planned for recapture—\$91,917,423.
- h. Net subsidy expenditure—\$34,169,577.
- i. Fiscal year HOAP expenditure—\$30,000,000.
- j. Estimated rate of recapture on HOAP—49 percent (3).
- k. Planned recapture—\$14,700,000.
- l. Net HOAP subsidy expenditure—\$15,300,000.
- m. Total annual net subsidy—\$49,469,577 (4).

(1) Assumptions based on average income and housing cost projections, using 6 percent inflation factors, which projects a more conservative return to government than does a higher inflation factor. All recapture is projected over time, for annual expenditures.

(2) Based on study of recent actual payouts, involving sale of property, and using the recapture formula on a hypothetical basis.

(3) Based on deeper subsidy and a 10 year average mortgage closing to property sale period.

(4) The projected net subsidy cost is considerably less than that of the present interest subsidy program, without recapture.

Question 9. It is the responsibility of government to restrain spending. How can you justify this program?

Answer. HOAP is vitally needed by the poorest of the rural poor to provide decent housing, especially as rental housing is often unavailable in rural areas. HOAP, it should be noted, will be available only in those areas which are not suitable for assisted rental housing.

Under HOAP, families too poor to qualify for the present 502 program would be eligible for homeownership. In fact, under the 502 program which was originally designed for low-income people, we are unable to serve some 62 percent of the rural families in substandard housing—those families and individuals with annual in-

comes under \$5,000 per year. Only 2.4 percent of all 502 loans were made to this income group in FY 1978 and the trend data indicates a lower figure for FY 1979.

The President has taken two steps to lessen budget impact:

- a. First, the recapture provision, previously noted.
- b. Second, the FmHA housing programs have been reduced, overall, by \$375 million in the fiscal year 1980 budget.

Ironically, the 1980 budget message recognizes almost \$20 billion in housing subsidies through tax exemptions, most of which will go to middle and upper income families.

Question 10. Will this program duplicate existing federal efforts?

Answer. No. The HOAP subsidy will only be available to Section 502 applicants when:

1. They cannot afford to carry the necessary mortgage utilizing interest subsidy, alone.

2. The dwelling to be financed is located in an area not suitable for assisted rental housing, as defined in Conference Report No. 95-1792 to the Housing and Community Development Amendments of 1978.

Section 502 Homeownership loans are used to buy, build, enlarge and repair housing for low and moderate income families. Eligible applicants must be unable to finance the necessary housing with their own resources or through other credit sources. Section 502 loans may only be used to finance modest housing. The average new Section 502 unit in fiscal year 1978 contained 1054 square feet of living area. Interest subsidy is available to low-income families to bring the interest rate down to as low as one percent, based on need. Through the use of interest subsidy the average borrower adjusted income was \$9,697.

Question 11. Suppose a low-income family living in a public housing project applied for a Section 502 loan, and required HOAP, would you make the loan?

Answer. No. HOAP is intended to help those who need decent, safe, and sanitary housing. We will not use it to provide ownership for families now living in assisted rental housing.

RECAPTURE ASSUMPTIONS (a)

1. Fiscal year 1979 Section 502 Loans (subsidized)—\$2,067,000,000.
2. Current market interest rate—9 percent.
3. Estimated average subsidized borrower rate—2.9 percent.
4. Rate of interest subsidy—6.1 percent.
5. Estimated cost of interest subsidy—\$126,087,000.
6. Estimated rate of recapture on interest subsidy—72.9 percent (b).
7. Interest subsidy dollars planned for recapture—\$91,917,423.
8. Net subsidy expenditure—\$34,169,577.
9. Fiscal year HOAP expenditure—\$30,000,000.
10. Estimated rate of recapture on HOAP—49 percent (c).
11. Planned recapture—\$14,700,000.
12. Net HOAP subsidy expenditure—\$15,300,000.
13. Total annual net subsidy—\$49,469,577 (d).

(a) Assumptions based on average income and housing cost projections, using 6 percent inflation factors, which projects a more conservative return to government than does a higher inflation factor. All recapture is projected over time, for annual expenditures. Recapture totals have not been discounted to present value.

(b) Based on study of recent actual payouts, involving sale of property, and using the recapture formula on a hypothetical basis.

(c) Based on deeper subsidy and calculations over a 10 year average mortgage closing to property sale period.

(d) The projected net cost is considerably less than that of the present interest subsidy program, without recapture.

RECAPTURE ASSUMPTIONS (a)

1. Fiscal 1979 Section 502 Loans (subsidized)—\$2,067,000,000.
2. Current market interest rate—9 percent.
3. Estimated average subsidized borrower rate—2.9 percent.
4. Rate of interest subsidy—6.1 percent.
5. Estimated cost of interest subsidy—\$126,087,000.
6. Estimated rate of recapture on interest subsidy—72.9 percent (b).
7. Interest subsidy dollars planned for recapture—\$91,917,423.
8. Net subsidy expenditure—\$34,169,577.
9. Fiscal year HOAP expenditure—\$30,000,000.
10. Estimated rate of recapture on HOAP—49 percent (c).

- 11. Planned recapture—\$14,700,000.
- 12. Net HOAP subsidy expenditure—\$15,300,000.
- 13. Total annual net subsidy—\$49,469,577 (d).

(a) Assumptions based on average income and housing cost projections, using 6 percent inflation factors, which projects a more conservative return to government than does a higher inflation factor. All recapture is projected over time, for annual expenditures. Recapture totals have not been discounted to present value.

(b) Based on study of recent actual payouts, involving sale of property, and using the recapture formula on a hypothetical basis.

(c) Based on deeper subsidy and calculations over a 10 year average mortgage closing to property sale period.

(d) The projected net cost is considerably less than that of the present interest subsidy program, without recapture.

Senator MORGAN. Thank you very much. We will come back to questions later on.

Now for the record, we have already noted our next witness and we will recognize Mr. Lawrence Simons, Assistant Secretary for Housing-Federal Housing Commissioner.

STATEMENT OF LAWRENCE B. SIMONS, ASSISTANT SECRETARY FOR HOUSING—FEDERAL HOUSING COMMISSIONER, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. SIMONS. I am pleased to be here today to discuss HUD's efforts to meet the housing needs of America's rural and nonmetropolitan communities. I would like to begin by outlining our past efforts and accomplishments and then share with you some of the new steps the Department is taking to improve the delivery of our programs to nonmetropolitan areas.

Over the years, FHA and HUD have developed a broad range of programs to meet the housing needs of this country. These programs have been available and used in rural and nonmetropolitan areas. But for many reasons HUD programs have not been used extensively in these parts of the country. Lenders, builders, and potential program beneficiaries have not been aware of the potential value of our programs. Nevertheless, the Department has made a significant contribution to the quality of housing in America's smaller communities.

PAST ACTIVITIES

For the record, I would like to submit some statistics comparing activity in FHA's mortgage insurance activity and HUD subsidy programs to metro and nonmetro areas over the last 40 years. For the committee, I would like to highlight a few of our programs. Between 1934 and 1978, 12 percent of all unsubsidized FHA single-family insured units and 18 percent of all FHA single-family subsidized units were located in nonmetropolitan areas. This represents a total of over 1.5 million units. Significantly, in recent years, as Congress has raised the population limit for USDA Farmers Home Administration programs and increased the level of their loan authority, FHA's share of the single-family mortgage insurance market has fallen. In recent years only 7 percent of FHA's unsubsidized single-family units and less than 15 percent of its subsidized units have gone into nonmetropolitan areas. However, this drop represents not so much a decrease in Federal activity, but rather a legislatively directly shift from FHA programs to Farmers Home. Overall, the Federal Government has played an increasing role in

helping to assure that credit is available in nonmetropolitan areas. This is evidenced by Farmers Home statistics which show that, while in the 1960's the Federal Government helped with credit in the construction of about 18 percent of all units built in nonmetropolitan areas, in the 1970's that percentage has risen to almost 27 percent.

In other programs FHA's contributions to housing in nonmetropolitan communities has been equally as strong. Between 1937 and 1978, 15 percent of the total number of subsidized multifamily units were located in nonmetropolitan areas, for a total of 96,000 units. During the same time period almost 500,000 units, or 35 percent of the total number of low rent public housing units were reserved in nonmetro areas. In the title I home improvement and mobile home program 24 percent of the activity was in nonmetropolitan areas; most of these loans in rural areas went for mobile homes. Finally, in the last 3 years we have reserved over 300,000 section 8 units in nonmetropolitan areas. This represents 23 percent of the total number of section 8 units reserved since the program began.

In addition to these programs administered through the Office of Housing, the Department has made a substantial contribution to the nonmetropolitan areas of this country through the commitment of comprehensive planning assistance funds, authorized under section 701 of the Housing and Community Development Act. Since 1973 the amount of program funds benefiting rural areas has been increasing to an estimated 41 percent in fiscal year 1979. In fiscal year 1978, 708 small communities and counties received 701 grants. Of the communities and counties funded in nonmetropolitan areas more than 81 percent had populations of 10,000 or less. Through its special areawide housing opportunity plan bonus fund competition, the Department has also funded rural areawide planning organizations in the States of North Carolina, Alabama, Massachusetts, and Arkansas. Finally, in 1979 16 States will receive technical assistance funds from the Secretary's discretionary CDBG fund to coordinate statewide delivery of housing and community development programs. These moneys should especially benefit small communities that do not have a local agency that can administer housing programs.

1979 ALLOCATION

In fiscal year 1979, the Department has allocated 800 million dollars for small rural communities under the small cities community development block grant program. These funds will have a major effect on the quality of housing in America's small towns. In 1977 alone, \$73 million, or 23 percent of the total nonmetropolitan discretionary block grant funds were used for rehabilitation loans and grants. In addition, \$113 million was awarded in 1978 and 1979 to small, nonmetropolitan cities in urban development action grants.

I think you can see that despite the problems that we have experienced in trying to get our programs out to the nonmetropolitan areas, we have played a vital role in improving the quality of housing outside urban areas. This administration is committed,

however, to improving the delivery of HUD programs to rural and nonmetropolitan communities. The Department shares Senator Morgan's concern that the very small communities around the country are not being adequately served by HUD. Thus, in the last year and a half we have been reevaluating our rural strategies to see where the impediments lie.

As an outgrowth of the work of the Task Force on Rural and Nonmetropolitan Areas, the Secretary has established a departmental rural coordinating group which, among other things, receives suggestions from various representatives of rural and nonmetropolitan communities and evaluates the impact of the Department's programs on small nonmetropolitan areas. In light of the suggestions of the Task Force and various other groups the Department has begun to modify its programs to better serve rural America.

HOUSING FINANCE AGENCIES

This last year we established, in my office, the Office of State Housing Finance Agencies and Bond Financing. Experience has shown us that State agencies do a good job when it comes to meeting the housing needs of rural communities. States like Wisconsin, Kentucky, West Virginia, California, and others are already using some of the techniques recommended by the rural task force. Other housing finance agencies have initiated statewide section 8 existing programs that reach out to communities heretofore unserved by a public housing authority.

MINIMUM PROPERTY STANDARDS

We have begun to review our minimum property standards and subdivision requirements to provide for some flexibility in their administration in nonmetropolitan communities. To reduce costs my office is currently analyzing methods of modifying our existing MPS's. We recognize that minimum property standards must be appropriate for the location of the building. For this reason, wherever viable, we are moving toward the use of local codes. In November 1978 we sent a notice to the HUD field offices encouraging modest design in subdivision development. In addition, we recently revised our minimum property standards to approve a case method septic tank percolation system for mountainous areas.

LOCAL LOAN PROCESSING

One of the recommendations of the rural task force was that FHA delegate to local lenders responsibility for the processing of mortgage insurance applications. We are currently considering several ways of implementing this recommendation, using either coin-surance or some form of a certified lender program.

SECTION 8

Another recommendation of the task force was that HUD institute a small builder's program for section 8 new construction in rural areas. While not benefiting small builders directly, the revised section 8 regulations, which the Department will publish for

comment shortly, have a provision for small projects which should benefit rural areas significantly. Under the new regulations small projects will be given preference for both technical processing and ranking.

INTERAGENCY COORDINATION AND HUD RESEARCH

In an effort to increase the effectiveness of all Federal programs directed to rural areas the Department is improving coordination with other Federal agencies. Most important of these efforts is our work with Farmer's Home. We continue to set aside funds for 10,000 units a year for our joint HUD section 8/Farmer's Home 515 multifamily housing program. At this point, the items of primary importance to both agencies are the need for a closer examination of the housing delivery mechanisms in rural areas and the need for greater involvement of local public and private institutions in addressing the housing and community development needs of small, remote communities. We are also concerned with finding methods for measuring housing quality, better mechanisms for rehabilitating existing housing, acceptable waste disposal systems when central systems are not available, and alternative methods of providing housing to the very lowest income households.

HUD is coordinating the interagency development of uniform mortgage applications, appraisals and other forms which are currently used by HUD, FmHA, and VA to administer various Federal housing programs. HUD and DOL's Office of Youth Programs are jointly sponsoring the assignment of youths to community development corporations to undertake housing rehabilitation, home repairs, and other neighborhood improvement programs.

HUD is also undertaking a major evaluation of the section 8 program in rural areas to determine the accessibility, effectiveness of delivery, and impact of section 8 in rural and nonmetropolitan communities. The Office of Policy Development and Research is conducting a housing needs assessment of rural areas which will look at households in need with relation to current Federal programs that attempt to address those needs. P.D. & R. is also in the final stages of completing two studies: One is on credit availability in rural areas, the other is the rural segment of the study "How Well Are We Housed?"

Finally, HUD continues to be the major funding source of the Housing Assistance Council; in fiscal year 1980, we are allocating \$1 million to HAC, an increase of over 10 percent above the current 1979 level of \$860,000. As you know, the Housing Assistance Council works to increase housing opportunities for the rural poor by providing loans and technical assistance, by sponsoring training workshops in rural housing, and by conducting research on rural housing needs. The total P.D. & R. research budget in fiscal year 1979 for rural areas is \$7.5 million.

SECONDARY MARKETS

A major problem in rural areas, identified by the task force and others, is a shortage of credit. We are trying to address this problem by educating rural lenders on the secondary mortgage market. Also, the Government National Mortgage Association has begun to

issue commitments for Farmers Home guaranteed single-family mortgages.

We believe that there is tremendous room for HUD to expand into rural areas. The 203(b) program, with higher mortgage limits than Farmers Home's 502 program, can make credit more readily available to middle income purchasers. The 235 subsidized single-family program can meet the needs of moderate income single-family homebuyers who are not served by Farmers Home's deep subsidy, low income programs.

The Department is exploring other ways of breaking the barriers that prevent HUD from reaching rural America. The Secretary has formed various task forces and initiated projects to address the housing problems of mountainous rural areas, primarily in Appalachia, including the Working Group on Mountainous Housing Development in West Virginia, and the Eastern Kentucky Coalfield Housing Task Group. In addition, the mineworkers homeownership project in West Virginia has provided technical assistance for subdivisions, supplied land write down assistance for site development, and used Ginnie Mae mortgage-backed securities to increase the flow of credit to rural areas.

In order to test some of the suggestions of the task force the Secretary set aside 1,500 units of section 8 and public housing this year for use in the Department's rural assistance initiative in the States of North Carolina and Washington. Some of the recommendations the demonstration will be testing are scattered site development of section 8 and low rent public housing, delegation of loan processing authority to lenders, and simplifying the CDBG reporting requirement for participating communities. Some of these set-aside units will also be used to continue the joint HUD/FmHA four-State demonstration.

HOUSING COUNSELING PROGRAM

The Department, through the Office of Neighborhoods and Voluntary Associations and Consumer Protection, will institute a housing counseling program this year which will include a \$50,000 contract with rural America to assist rural housing counseling groups, to increase the number of HUD-recognized rural counseling agencies, and to prepare a rural housing counseling handbook.

These are only some of the steps the Department is taking to increase the use of HUD programs outside urban areas. We are concerned that while one-third of the Nation's population lives in rural areas, over 44 percent of the substandard housing units are located in these areas. We need to do all we can to make our programs available and accessible to the rural and nonmetropolitan poor. We hold high hopes that by taking a fresh look at our programs and through increased cooperation with Farmers Home and other Federal agencies we will be able to improve significantly the quality of housing and life in rural America.

This concludes my prepared remarks. I would be pleased to respond to your questions.

[Attachments to statement follow:]

FHA-HUD HOUSING ACTIVITIES IN RURAL AND NONMETROPOLITAN AREAS

SINGLE-FAMILY HOUSING

HUD has insured a total of 12,099,967 single-family unsubsidized units with \$159,417,000,000 of mortgage amounts between 1934 and 1978. In nonmetro areas there were 1,463,271 units and \$16,466,000,000 of mortgage amounts for the same period. The nonmetro share was 12 percent of total units and 10 percent of total dollars insured.

In Calendar Years 1977 and 1978 there were a total of 636,278 units insured. In nonmetro areas there were 51,981 units for a nonmetro share of 8 percent.

HUD has insured a total of 487,867 single-family subsidized units with \$8,917,000,000 of mortgage amounts between 1934 and 1978. In nonmetro areas there were 85,525 units and \$1,494,000,000 of mortgage amounts for the same period. The nonmetro share was 18 percent of total units and 17 percent of total dollars insured.

In Calendar Years 1977 and 1978 there were a total of 15,083 units. In nonmetro areas there were 1,015 units for a share of 7 percent.

MULTIFAMILY HOUSING

HUD has insured a cumulative total of 1,854,164 units in 20,331 multifamily unsubsidized projects with \$24,777,000,000 of mortgage amount under all rental condominium, and cooperative programs between 1937 and 1978. The nonmetro share is 230,652 units, 2,857 projects, and \$3,220,000,000 of mortgages for the same period. The nonmetro share was 12 percent of total units, 14 percent of total projects, and 13 percent of total mortgages insured.

In Calendar Years 1977 and 1978 the percentage of nonmetro units increased. There were in these last two years a total of 179,941 units and 1,803 projects. In nonmetro areas there were 22,589 units and 325 projects for a share of 13 percent of total units and 18 percent of total projects.

HUD has insured a total of 650,664 units in 5,789 subsidized multifamily projects with \$10,737,000,000 of mortgages between 1937 and 1978. In nonmetro areas there were 95,738 units, 1,163 projects, and \$1,475,000,000 of mortgages for the same period. The nonmetro share was 15 percent of total units, 20 percent of total projects, and 14 percent of the total dollar amount insured.

In Calendar Years 1977 and 1978 the percentage of nonmetro units increased. There were in these last two years a total of 4,346 units and 30 percent. In nonmetro areas there were 244 units and 3 projects for a share of 5 percent of total units and 10 percent of total projects.

SECTION 8

From 1975 through 1978, Section 8 reservations were made for 14,894 projects with 1,230,903 units, for a total amount of \$3,678,000,000. The nonmetro areas had 5,577 projects with 281,147 units with a total amount of \$771,000,000. The nonmetro shares were 37 percent of the projects, 23 percent of the units, and 21 percent of the funds.

During 1977 and 1978, there were 588,494 Section 8 units reserved with 147,123 units in nonmetro areas. The nonmetro portion amounted to 25 percent of the total.

LOW RENT PUBLIC HOUSING

From 1934 through 1977, Low Rent Public Housing has produced 1,308,810 units with \$2,114,000,000. The nonmetro areas had 456,774 units with \$738,000,000. Nonmetro areas had 35 percent of both units and funds.

During 1977 and 1978, Low Rent Public Housing units reserved were 88,920. There were 24,898 units in nonmetro areas for 28 percent of the total.

From 1961 through 1978, there were 27,942 units of Indian Housing reserved with \$48,000,000. In 1977 and 1978, 12,923 units had fund reservations. All Indian housing is in nonmetro areas.

TITLE I HOME IMPROVEMENT AND MOBILE HOMES PROGRAM

The Title I Program, since its inception in 1934 through 1978 has insured home repair, and mobile home loans on 32,434,757 units with a total of \$28,341,656,000 in loan insurance written. In nonmetro areas 7,695,161 units with \$6,397,000,000 in loan insurance was written. Nonmetro activity amounted to 24 percent of the total.

NON HOUSING PROGRAMS

HUD has insured a total of 287,318 units¹ in 1,925 non-housing projects with \$3,876,000,000 of insured mortgages in all non-housing programs (hospitals, nursing homes, group practice medical facilities, mobile home parks, and land development loans) between 1964 and 1978. In nonmetro areas there were 75,020 units, 605 projects, and \$656,000,000 of mortgages for the same period. The nonmetro share was 26 percent of total units, 31 percent of total projects, and 17 percent of total dollar amount insured.

In Calendar Years 1977 and 1978 the percentage of nonmetro units increased. There were in these last two years a total of 31,544 units and 213 projects. In nonmetro areas there were 4,731 units and 71 projects for a share of 15 percent of units and 33 percent of projects.

BUDGET INFORMATION

HUD has a housing commitment to the future. The Fiscal Year 1979 budget provides for \$24,116,200,000 of Budget Authority for 304,362 units of Section 8 assistance. The nonmetro areas will receive \$5,668,700,000 for 70,000 units or 23 percent of the total.

In Fiscal Year 1980, \$20,045,200,000 of Budget Authority for Section 8 assistance provides for 250,000 units. The nonmetro areas will receive \$4,610,500,000 for 57,500 units or 23 percent of the total.

In Fiscal Year 1979, Budget Authority for Public and Indian Housing provides for 56,000 units with \$6,905,000,000. The nonmetro areas will receive \$1,902,900,000 for 12,880 units.

In Fiscal Year 1980, Budget Authority for Public and Indian Housing provides for 50,000 units with \$6,162,900,000. The nonmetro areas will receive \$1,417,400,000 for 11,500 units.

Senator MORGAN. Thank you, Mr. Simons.

I might mention that we met with Assistant Secretary Shalala concerning the HUD demonstration in North Carolina and I think it has great potential. It's a good approach.

If I could ask just one question of both of you before I leave, then I'm going to turn the chair over to Senator Kassebaum.

Where do we stand now with regard to efforts to conserve energy in existing homes? Do we have, in new and existing homes, let me cover both of them, do we have insulation standards that are reasonably effective? Would you oppose congressional action to review these standards? In other words, what are we doing to conserve energy in housing today?

Mr. SIMONS. Senator, as you know, we have published for final effect a new set of thermal standards under the MPS's. This is a really stopgap or temporary situation while we wait for the Department of Energy, which is working with HUD and the other Departments, to come up with what they call building energy performance standards.

Now, in our opinion, it seems as though these standards may not be available for a year or two. In the meantime, we have taken a new look at the insulation standards, and our minimum property standards. Using updated cost of energy data we are revising those standards to what we consider the cost-benefit ratio.

Senator MORGAN. What is the problem concerning the use of masonry? This is something we have had a number of visits about, as you well understand, especially since I come from a State which manufactures 20 percent of the Nation's bricks. The masonry people say it's not going to bother the sale of bricks because people are going to buy the bricks anyway, but it's just going to add an additional expense for insulation that's not needed. It seems from

¹ Units mean beds, pads, staff, or lots.

what I can understand that there may be some difference between Farmers Home and HUD regarding energy standards. Is this correct?

Mr. SIMONS. If I could comment from our position, having published these regulations for final effect, I have met now with eight different industry groups about their concerns with respect to our regulations and I would like to point out that the regulations which have been published for final effect are not etched in concrete. They do provide for flexibility and locally accepted standards.

From the Department's perspective, as we deal with energy standards, we are moving into some new areas. The classic concepts of how we measure energy efficiencies when it comes to insulating our homes have changed. With the building energy performance standards we are now getting ready to take into account the efficiency of the units we use to air-condition or heat a house and to look at the total energy consumption of that house. We hope when the building energy performance standards come out they will take all of these factors into consideration.

NEW CONCEPTS

We are also dealing with some new concepts of measurements of effectiveness for insulation purposes. There's a mass factor related to insulation. The wood people and the log cabin manufacturers have raised the same issue. The concrete and brick people have raised the same issue. We have been working with them on data. We have received from them data now and they are running it through the National Bureau of Standards now. If the data supports their position, our regulations will be changed accordingly.

We have plenty of flexibility within the regulations to make changes. It's a pragmatic question on this point.

Senator MORGAN. Gordon, do you have any comment?

Mr. CAVANAUGH. Senator, we implemented our insulation standards in July of 1978. They have been well accepted. They are now observed in all of our housing financing.

With respect to masonry, as you indicated, it's not material that's used significantly in our programs. However, we have just completed some studies and are going to make some revisions in our standards as they apply to the use of masonry in certain sections of the country where it is a more prevalent building material than in our programs elsewhere.

Mr. SIMONS. I might just add one comment. With respect to areas where masonry is the predominant characteristic, we have a locally acceptable standard for the masonry and brick people in Florida and, I think, New Mexico. Gordon and I are dealing with it in the same way. We are trying to do it together.

Mr. CAVANAUGH. We have had a lot of help from HUD.

Senator MORGAN. I must go now. For those on the panel who were not here earlier, I believe we will hear from Mr. Harold Wilson, executive director of the Housing Assistance Council; and Mr. David Raphael, acting director, Rural America; and Mr. William Powers, the national housing law project; and, of course, my good friend Neal Fleming from my own State who's the chairman

of the county commission that's very active and national president of the National Association of Regional Councils. I have to go now to an Ethics Committee hearing. I must be present to hear the witnesses. We are judging credibility of witnesses and it's necessary that I be there to observe the witnesses. So Senator Kassebaum, I thank you for taking over and I apologize to all of you for having to leave.

Senator KASSEBAUM. Mr. Simons, I'd like to follow through a bit on the insulation question if I might because there have been some criticisms voiced in my hometown of Wichita, Kans., about equitable enforcement of some of the insulation standards for minority groups and there have been some questions raised to me that these standards were being used for redlining practices. I wondered if you could comment on that or if that was something you had heard.

Mr. SIMONS. Senator, I have heard many criticisms of the proposed new insulation standards. Specifically, there has been some concern raised about how they would increase housing costs. The standards proposed by the Department, as I said, are cost-effective. The increased cost can be amortized well within the period of the mortgage and the savings as a result of these insulation standards, using the cost of energy today, more than compensates for what that increased cost would be.

The issue we face is a national priority for the conservation of energy. We feel energy conservation is a top priority and we are approaching it in the best way possible.

OVERSIGHT

Senator KASSEBAUM. Well, I'm sure that's true. Do you really pursue with the various local regional FHA administrators on oversight into the equitable enforcement of this?

Mr. SIMONS. To the maximum extent feasible we do. Once these standards are published in the regulations, there will be maximum enforcement and compliance by the local offices. There may be some issues raised under our regulations. We permit a locally acceptable standard; we are not rigid in the way we enforce the standards we are seeking to achieve. We will accept any proven system which, based on data, will result in saving energy. There may be some reluctance on the part of area offices to comply with this type of approach; it's one which requires judgment. We have had this issue raised to us by a number of groups and are taking action so that we at central office will oversee this type of work and be sure that evaluations are done by people with the competence to make that decision.

Frequently, in area offices or local offices that deliver our programs, that type of technical ability is not present. So we are raising this up to the central office where we do have the technical ability.

Senator KASSEBAUM. Thank you.

Mr. Cavanaugh, I'd like to ask you about reorganization plans. I believe it's been discussed—the business industrial loan program of the Farmers Home Administration would be expanded or put into

another agency. What are your feelings on this and how do you think this will affect housing in rural communities?

Mr. CAVANAUGH. Senator, it's expected that the President will send to the Congress shortly an economic development message that will propose, among other things, the transfer of the business and industrial loan program of Farmers Home to the Economic Development Administration of the Department of Commerce.

In addition, the President will be sending to Congress legislation that would broaden the financing resources of the Economic Development Administration to include not only guaranteed-type lending that our program represents but other forms of assistance to bring about greater economic activity in communities that need to shore up or expand their employment base.

My understanding is that that message should be forthcoming and I believe it goes to the Government Operations and Affairs Committees.

Senator KASSEBAUM. This would then, I would think, strengthen and enhance your ability to deal with just the rural housing area.

Mr. CAVANAUGH. Certainly our staff resources carry a very heavy burden and if the transfer is accomplished without our having to transfer the personnel, it would make more people available to work on the housing programs.

Senator KASSEBAUM. This is really kind of leading into my other question to you. As I'm sure you're well aware, there's been a number of complaints from the Midwest—and I can't speak to the rest of the country—about 6 to 8 months lag in processing a loan request and I know that you're severely understaffed. On the other hand, I wonder if this would facilitate that.

Mr. CAVANAUGH. I think the benefits from the transfer of the business and industrial loan program really will be more in the area of a comprehensive economic development for the program of the country. I don't think I could say that it will have any significant impact on our ability to deliver services because, as I understand it, the staff or the staff levels that are currently associated with carrying out the program in Farmers Home would be transferred with the program to the Economic Development Administration.

We are concerned about our ability to deliver and process loans as promptly as the borrowers need them. If I may, I'd just like to point out there's just been enormous expansion in our agency. During fiscal year 1977 our total loan level was \$7.2 billion. By the end of this fiscal year 1979, we will have more than doubled that lending level. Among other things, we have had a tremendous increase in farmer credit, particularly to respond to both economic and emergency problems the farmers have had over the past years between weather and the subsidized prices. With respect to the last fiscal year we did \$5 million in farm credit. We have already done \$5 million in farm credit halfway through this year. We are busy.

Senator KASSEBAUM. Well, I know you are, of course, with the present economic situation in the agricultural communities, but we receive a number of complaints in the office from Kansans who feel that there is—I think really it's a frustration many times of even not knowing what the answer will be on their loan request and a great gap in time there where they can plan ahead.

Mr. CAVANAUGH. I think that's particularly true during this current fiscal year. We have just had extraordinary demand in the housing programs this year. It's the highest level of demand the agency has ever had and notwithstanding that we are at a year record funding levels in the housing program; we are just not able to keep pace with demand. The applications do back up and we are not always able to advise prospective borrowers in decent order when they can expect their loans. It's embarrassing to us, but we are dealing with it as effectively as we can.

I might point out that part of that demand is created by the extraordinarily high interest rates that are in the conventional markets, so that we are being asked to help pick up a number of Americans who might normally be in the conventional market. We have taken some steps in terms of our field structure to improve services in that we have in the past 6 months been transferring out of the county office to the district level some of our more complicated programs such as multifamily housing and waste projects and community facility lending for health care and other purposes, and we are hopeful that in the long run that will enable county offices to be more responsive to the individuals.

REORGANIZATION

Senator KASSEBAUM. You have transferred it out of your program you say?

Mr. CAVANAUGH. No. We have created a system of district offices in all the States. Those district offices are made up of basically following the substate planning districts and they are made up of groups and counties. Heretofore, all of our programs for practical purposes were initiated and largely handled at the county office. The county office has become overburdened. We have now moved these more complicated group loans to the district level so the county office is more able to respond to the farmer and the single house borrower.

Senator KASSEBAUM. In some of the areas I understand that they are out of funding. How is this allocated? I'm just curious. Is there a certain way you figure a percentage to a State or the district within a State?

Mr. CAVANAUGH. Yes. In the housing programs we allocate our moneys basically on three criteria: The proportion of the rural population in the given State to the national rural population, and then also we take into account factors of low-income levels and the extent of substandard housing in the community as well as some slight adjustment for cost factors which vary considerably throughout the country. That formula, incidentally, is attached to the exhibits and testimony I presented today and we published it in the Federal Register so everybody is aware of it.

After we have made that initial allocation of housing funds among the 40 State offices that we now have, the money is allotted to a given State on a quarterly basis. The Office of Management and Budget and ourselves arrive at percentages of the total annual allocation and allot that to each four quarters throughout the year.

Currently, because of the heavy demand and backlog that our program has, it often occurs that not long after the beginning of a given quarter the funds are exhausted.

Senator KASSEBAUM. Thank you. I have one other question and then Bob Malakoff, our counsel, can ask questions.

I think perhaps this is a concern that is addressed in Senator Morgan's amendment, but what is your policy regarding disposition of houses after they have been foreclosed on? Are they torn down or are they sold for whatever the market will bring?

Mr. CAVANAUGH. First, we make every effort to obtain another buyer for the house that would be eligible under our programs and to provide them financing under our programs to purchase the house. If that's not possible, we then list the house just generally with real estate agents and advertise in an effort to sell it. The house is only supposed to be sold if in fact it is suitable for occupancy. We have tightened our procedures in recent months to make sure that we are not selling any houses in the market that are substandard or will not be brought up to some reasonable standards.

I believe Senator Morgan's bill has provisions in the bill that would confirm and strengthen that policy position. I would just like to suggest that as the committee looks at the Senator's proposal that we would like to suggest some slightly different language in the bill which we will submit to the staff and which, among other things, would certainly confirm that we shouldn't sell in the market anything other than a habitable unit or get a commitment from the buyer of that unit that they will make it habitable within a reasonable period. We would also like the bill to specifically provide authority for us to demolish homes that we feel cannot reasonably be made habitable.

Senator KASSEBAUM. Mr. Simons, this policy issue I believe affects you as well.

Mr. SIMONS. We have had to deal with this policy issue for many years. We have a number of strategies for the disposition of what we call acquired properties, depending upon the local situation.

Basically, we give the area office the flexibility to make a determination to sell the property as is with certain conditions for repair or else thoroughly repair that property themselves before the property is sold.

The overriding policy is that we will not dispose of properties in a way which would harm the location in which they are in. The determination as to whether we repair them before we sell or sell as is is determined by what that neighborhood situation is and what the condition of that house is. In neighborhoods which are declining we will make every effort to repair those houses and keep them in code condition before disposition is made. Even if we dispose as is, we have certain mandatory restrictions, such as lead paint removal and other items like that. These items must be taken care of within a reasonable period of time when the purchaser acquires them.

But it's a flexible policy and it's one that's determined by each individual market situation.

Senator KASSEBAUM. Thank you.

Mr. MALAKOFF. Mr. Simons, I wonder if you could tell us how you reach a decision to demolish rather than to dispose?

Mr. SIMONS. Well, we do in very rare instances demolish where the condition of the house is such and the marketability is such and the neighborhood is such that the demolition of that house would help that neighborhood and help that neighborhood situation.

There are situations, Mr. Malakoff, where the demolition of dilapidated structure will help that neighborhood rather than harm it.

Infrequently, there are situations where the cost of repair to bring it up to physical standards far exceeds the market value of that property. The decision to demolish becomes an economic decision at that point.

Mr. MALAKOFF. I believe Mr. Cavanaugh has a similar problem facing him and I wonder if you have any comment on that?

Mr. CAVANAUGH. We do use some of our funds to try to repair the house up to some feasible amount of spending. We have faced at least one situation that's been brought to my attention where in fact there was an amount of repair needed in a house in a particular subdivision which was beyond any price that it could ultimately be sold at but, in addition, where there are problems in the subdivision itself. The subdivision had gone forward without proper roads and water systems and where no matter how much repair was done to the property it couldn't be sold or shouldn't have been sold into what in fact was an unapproved subdivision and it is for that reason that we would like to have clear the authority that in some cases we can just demolish the property rather than dealing with what is, for all practical purposes, the impossible task of trying to provide a decent house in a decent environment.

Mr. MALAKOFF. Senator Kassebaum, I think in introducing his amendment, Senator Morgan wanted to provide reasonable flexibility for the agencies but at the same time he, as well as others, are concerned that demolition may be too easy an option to take and, hence, there would be very serious concern about using that option too much.

Mr. CAVANAUGH. If I can speak to that, at least I know—at Farmers Home we may operate a little different situation than HUD does, because our houses tend not to be in a densely populated, built-up community. But I'm convinced that our staff makes every possible effort to renovate the house and to market it and make it a standard house and keep it available in the housing stock. There's no inclination on our part to be demolishing property at all, but I have seen at least one serious situation since I have been here where I really felt demolition was the only solution, that the subdivision and our financing should never have been provided in a given area because it was never going to be possible to see that there was proper roads and water waste treatment facilities servicing the housing that had become abandoned by the occupants.

Senator KASSEBAUM. That's all the questions I have. Do you want to add some more for Senator Morgan?

MIGRANT FARMWORKERS

Mr. MALAKOFF. There is another policy issue involved in Senator Morgan's bill and I'd like to ask for you both to comment. The bill would authorize Farmers Home to assist in building rental housing for migrant farmworkers suitable for seasonal occupancy. Now we understand that existing policies did not permit Farmers Home to provide migrant farmworker housing unless that housing meets standards for year-round occupancy. The result has too frequently been no housing rather than decent housing on a seasonal basis.

I wonder, Gordon, if you would comment first and then Secretary Simons, on the issue of standards and suitability of Federal housing on a seasonal basis?

Mr. CAVANAUGH. Senator Kassebaum and Mr. Malakoff, our main problem in housing migrants—that is, people who are only resident in an area for a short period of time and then move on—has been more one of economics of financing a house than of the type of construction. In short, our farm labor projects largely have been built around longer-term occupants in order to be able to carry the cost of financing and development.

As I indicated in our statement, we are trying with experimental projects for short-term occupancy, but that's been one of the main problems. We think we have made some solutions to that.

As far as building a type of construction that is less substantial than would be needed for full-term occupancy, we believe we have the authority to do that with our regulations and we have reviewed the Senator's proposal and the amendments to our legislation and we support them.

Mr. SIMONS. Our answer would be almost the same as Mr. Cavanaugh's. As you understand, we have certain programs that are available to us to fill this type of need. One is the insurance program which provides for actuarial viability. The problem raised by Gordon of the economic problem is one which mitigates using that program. The assisted housing programs also come out economically not feasible for this type of worker.

As far as the standards, we too would have flexibility within our legislative authorities to have lower standards for this type of housing, but what prevents us from going this route is the economic question, the actuarial soundness of that type of housing. It would be my recommendation, if you wanted this Department to address the housing needs of migrant farmworkers, that we be given specific legislative authority which would recognize the high-risk nature of the economic problems dealing with this kind of housing.

Mr. CAVANAUGH. That's been part of our problem, trying to see that there's enough income stream to carry the financing. In the Senator's bill where it would limit payments by an occupant to 25 percent of income, we would need to be assured that we had adequate rental assistance as an additional subsidy. We would have to tie rental assistance payments to the financing of such short-term migrant housing and set aside funds for that, but it would be something we would have to consider in the light of other demands on the rental assistance programs.

Mr. MALAKOFF. May we switch subjects and ask whether this is correct: it's been reported there are differences in the subsidies provided by Farmers Home and HUD programs and that these differences sometimes lead to particular problems. For example, that they may well lead to the encouragement of sprawl by providing a better option outside of the city than in the city. I wonder if you would tell us about the possible differences, Gordon, and, if so, what recommendations do you have?

Mr. CAVANAUGH. I guess a major difference is in the homeownership program where we are able to provide a subsidy for buyers within the income eligibility for our program where they get a 10-percent mortgage if necessary to bring that within their reasonable ability to pay.

HUD's program, as I understand it, is not at this point allowed or administered to provide subsidies at that low level. There are many who feel that somebody coming to Farmers Home—buyers are attracted there in part at least by the deeper subsidy that we are able to provide in our homeownership program and periodically we do get a complaint that, in effect, we are attracting town or city residents out to the smaller more rural communities if they can afford it.

Mr. SIMONS. I think there's no question that Farmers Home has a much broader array of subsidies for homeownership than we now have available in HUD. That being the case, there are situations just as Gordon pointed out where Farmers Home programs are more attractive than our programs. They are not parallel programs and the attractiveness of Farmers Home programs could possibly be having a sprawl effect.

Mr. CAVANAUGH. Let me say that we are trying to respond to that in this way: In that we feel that the basic commitments and purposes of Farmers Home as an agency is to serve the most rural communities, and as I indicated earlier in our testimony, we are trying to target our moneys to the main policy objectives of the agency. As part of doing that, we are having State directors in allocating housing moneys within a given State to see that the allocations are going to those districts and counties that in fact are indeed the most rural and that will to some degree avoid the demand that has built up on the urban edges for Farmers Home financing in competition with the financing that might be available in the city itself. We think that will at least assure that our funds are first used for those people who are most in need of them; namely, those who are in smaller communities where mortgage financing is less available.

Mr. MALAKOFF. Senator Morgan would very much like to have your comments now on the tentative House proposal that would tie the Farmers Home rate of interest for low- and moderate-income housing to the HUD/FHA rate. Could you both comment on that?

Mr. CAVANAUGH. The other day the House Housing Subcommittee proposed that Farmers Home set its unsubsidized interest rate at the same level as the HUD, FHA and VA rate. As you may know, the Secretary of HUD periodically establishes an interest rate for HUD-guaranteed mortgages through the Federal Housing Administration programs. That rate is followed by the Veterans

Administration which has similar programs. Those programs, incidentally, do not have income limits on the borrowers. They are regulated, as I understand it, by the size of the mortgage, by the mortgage limit; but there's no income limit on them.

Our funds are provided a different way. The HUD/VA funds are primarily private financing with a Government guarantee. Our housing funds are coming from the Treasury, in effect, and our unsubsidized rate is taken from the Federal cost of borrowing. In other words, we establish our unsubsidized interest rate by reference to comparable maturities for Federal securities in the market.

Now we feel that that makes good sense in that we do conduct I think, at least in terms of our direct lending, a much different program than the other agencies. One, we do have income restrictions. You can only have adjusted income up to \$15,600 for a direct and insured Farmers Home loan. In addition, about 70 percent of our program carries an interest subsidy. That is, for those who are at lower income levels we can provide interest subsidies down to 1 percent. The effect of the House proposal I think is to ignore that we do have a different financing source and that we are dealing with a much more income restrictive group of people.

Moreover, for us to follow the HUD/VA rate which is slightly higher than ours simply means we would be taking money in one pocket and out the other because to the degree our program is heavily interest credit, if we raise the unsubsidized rates we are simply raising the amount of interest rate subsidies we have to provide to 70 percent of our buyer/borrowers who get interest credit.

So I think on the direct lending programs of Farmers Home it makes sense to do exactly what we do; namely, take the Federal cost of borrowing and use that as our interest rate. Among other things, it avoids us having to process a lot of people for interest credits who would not otherwise need them. To review the rates for unsubsidized rates we would have to process more people for interest credit and we would simply be taking money out of another pocket to make up those subsidies.

Second, when we have another guarantee program which parallels in many ways the HUD, FHA, and VA programs for low- or moderate-income borrowers, their adjusted incomes run from \$15,600 to \$22,000. Farmers Home has these guaranteed programs periodically over recent years. It's never functioned. Last year the Congress amended our program to provide that we would have a negotiated interest rate in our guarantee program. In other words, there would be no prescribed rate, but the borrower and the lender would negotiate the rate and we would then guarantee that loan. That's a different situation than is the case with the HUD/VA program. Everybody involved felt what we were doing makes sense, at least for those communities we serve. Many of the bankers were not accustomed to the point system that prevails in the FHA and VA programs and they preferred the directness and less complicated negotiation of rate without having to deal with points. The amendment passed by Congress was supported not only by Farmers Home but by the Independent Bankers Association, the Savings and Loan League, the American Bankers Association. All felt it

was a wise way to handle a guarantee program in smaller communities.

Were we to follow what the House is now proposing, it would really undermine that legislation of last year and I think make a significant difference in our ability to carry on an effective guarantee program.

Mr. MALAKOFF. Any comment, Mr. Simons?

Mr. SIMONS. No. I think Mr. Cavanaugh said it very well. They are just not comparable situations.

MOVEMENT OF STAFF

Senator KASSEBAUM. Thank you very much, Mr. Simons and Mr. Cavanaugh.

I would have a parting comment, Mr. Cavanaugh, that reflects my parochial interest again, on the question that has caused a lot of comment in Kansas and I would think it could be a problem in all the States, and that's the moving of staff and your changing requirements from the county to district offices within Farmers Home. For instance, in western Kansas, we do have far more farmers loans than housing loans and the shifting of staff there has just been counterproductive and I would hope some redirection perhaps in that effort might be productive.

Mr. CAVANAUGH. I would just briefly comment on that and certainly discuss it at a later time further. We have had a fair amount of movement in the Farmers Home staff in the past year. Some of that has resulted from the restructuring that I mentioned earlier. Our staff, understandably, does not like to move and many of them have made complaints about transfers and so forth.

I feel that the moves we have made are in the public interest and have tried to emphasize that we all have to adapt ourselves to what is the best interest of the public and that may entail relocation of an employee elsewhere.

Mr. Daniel, our State director in Kansas, I think is a very, very able State director. He's also a career employee in Farmers Home and I think he has been giving both good leadership and been very sensitive to the concerns of the staff, but some moves were inevitable and have to be done. Some people don't like it.

In addition, as you mentioned, the western part of Kansas has heavy farm lending and we periodically have had to pick up our staff from one part of Kansas and Texas and a number of other farming States and move them over to the other side of the ship to help bail out the heavy amount of loans going on in the other side.

Senator KASSEBAUM. Thank you very much.

Mr. WILSON and Mr. RAPHAEL and Mr. POWERS. I don't know if there's any particular order or if anybody would like to start first. Mr. Wilson is executive director of the Housing Assistance Council. Would you like to start?

Mr. WILSON. I would be glad to, Senator.

Senator KASSEBAUM. I might say before we start, I don't know how you feel, but if you would like to summarize in any way feel free to do so. I know your time is valuable and the actual remarks, of course, will be in the record.

STATEMENT OF HAROLD WILSON, EXECUTIVE DIRECTOR,
HOUSING ASSISTANCE COUNCIL, INC.

Mr. WILSON. Thank you very much.

I would like to summarize my remarks but more than that would like to make a few comments that are contained in our remarks.

The first is simply to raise again the question of rural housing need. In this era of balancing the budget, it seems that we may already have conceded the need for housing low income people in our country and are no longer measuring our program production over against need.

In rural areas we have over 4 million families who live in substandard housing in our rural areas. In Kansas, Senator, there are 43,000 units of substandard housing in rural portions of your State, and over 25,000 units of housing in the rural areas of Kansas that still do not have indoor plumbing. In the South, it's even worse. Sixty percent of the Nation's substandard housing is in the South but only 32 percent of the Nation's total units are in the South.

If you're a minority, the situation is even worse. Minorities experience the worst health care, the fewest opportunities, economic and other, the lowest incomes, the highest morbidity and mortality rates, and the worst housing of any other group of people in our country. Two out of every three units occupied by minorities in our country are substandard.

In addition to that, there are about 60,000 Indians living in substandard housing conditions.

I think we simply need to remember that all of these numbers represent human beings, human beings who are living in trailers that are substandard or living in the backs of automobiles.

Over against that brief picture, I'd like to mention the HUD and the Farmers Home Administration program funding levels for fiscal 1980. As you're aware, the Senate Banking Committee has recommended 326,000 units of housing, and the Senate Budget Committee—with the rent-to-income ratio increase of 30 percent and the 50-50 split between existing and new construction—has recommended 250,000 units of housing. If you eliminate the 30 percent rent-to-income ratio and the 50-50 split, indications are that the dollars recommended by the Senate Budget Committee will only produce 190,000 units of housing.

The Farmers Home Administration is experiencing a 12-percent reduction in their programs and we are going to see reductions in the farm labor housing program after some hard-fought gains that were made last year. The crucial 525 program which helps support local organizations who are doing counseling for families who need Farmers Home services, is being reduced from \$2.5 million to \$1.2 million for fiscal 1980.

The greatest concern that I'd like to mention to you this morning in terms of budget problems is the homeownership assistance program mentioned by Mr. Cavanaugh earlier. I believe we are in great danger of losing this program, a program that really has never been tried. There are two reasons for this that I'd like to speak to.

One is simply the ideological argument that the poor should not own property subsidized by the Federal Government. I think this argument fails to recognize that in rural areas, particularly in

remote areas, there's a tradition of homeownership that needs to be supported.

Additionally, we have experienced large numbers of poor moving into our cities and without a deep subsidy homeownership effort we are going to force people to continue to move out of the remote rural areas where they want to live because we cannot produce rental or homeowner units in those areas.

In addition to the ideological argument, there's a cost argument. People have argued that the program is too expensive. Unfortunately, they have argued the expense of the program without looking at a couple of very crucial ingredients. One is that families will probably not stay on this program for the entire 33-year length of the mortgage. Farmers Home clientele generally graduate from the interest credit program after 7 years. They generally sell their property or leave the program after 10 to 12 years and yet the calculations for the expense of the homeownership program were run on a 33-year basis.

In addition to that, the recapture provision which we feel will bring embarrassingly large amounts of money back into the Federal Treasury was not calculated in determining the expense of the program. It seems unusual for one to set up a budget and not calculate all of the revenues that one can anticipate receiving in light of budget expenditures.

The effect of these losses is significant for rural areas. If the Budget Committee's recommendation is followed, there will be only 47,000 units of housing under the HUD program for rural areas. This represents a 50 percent loss for rural communities. Also, I was very pleased to hear Mr. Simons indicate that the Farmers Home Administration will be receiving their 10,000 unit set aside for next year. I hope that this remains true in spite of the severe funding constraints being put in place for fiscal year 1980. We will be losing 3,000 units of rental assistance in rural areas for next year and if the HOAP program is not funded we will lose an additional 15,000 units for low income families. This will make the targeting that the Farmers Home Administration wants to achieve extremely difficult. With that, I would conclude my comments, except to add that we are very pleased with this committee's interest and your efforts to support the housing need of our poor in rural communities.

Thank you very much.

[Complete statement of Mr. Wilson follows:]

TESTIMONY OF
HAROLD O. WILSON, EXECUTIVE DIRECTOR
HOUSING ASSISTANCE COUNCIL, INC.

TABLE OF CONTENTS

	<u>PAGE</u>
I. Introduction	1
II. The Impact of Administration and Congressional Budget Proposals on FmHA and HUD Housing Programs	2
III. Realistically Assessing the Home Ownership Assistance Program (HOAP)	5
IV. Recommendation on Improving FmHA's Service Through Targeting	10
V. Section 8 and the Rural Rental Program	12
VI. Expanding FmHA's Section 523 and 525 Technical And Supervisory Assistance Program	13
VII. Minority Housing Opportunities	14
VIII. Strengthening FmHA's Farmworker Housing Programs	16
IX. Prepayment - Low-Income Character	20
X. FmHA Staffing Shortage	25
XI. Conclusion	27

I. INTRODUCTION

Mr. Chairman and distinguished members of the Subcommittee, my name is Harold O. Wilson and I am the Executive Director of the Housing Assistance Council. HAC is a federally funded, national nonprofit organization working exclusively on the housing problems of the rural poor. Through a revolving loan fund which we administer and the technical assistance and training we provide to local, regional and state organizations across the country, we have developed a capacity to analyze the import of national legislative and administrative proposals on the housing opportunities of low-income rural Americans. We very much appreciate the Chairman's invitation to present this testimony on legislative proposals as they affect rural housing.

In the presentation that follows, we will first give an overview of the impact of the Administration's budget proposal and of House and Senate budget proposals for the Farmers Home Administration and HUD for FY 1980. We will then focus on implementing the Home Ownership Assistance Program (HOAP), improving FmHA's service through targeting, utilizing Section 8 and the rural rental program, expanding FmHA's technical and supervisory assistance, providing minority housing opportunities, strengthening FmHA's Farmworker housing, addressing the rural rental prepayment problem, and looking again at the FmHA staff shortage.

II. The Impact of Administration and House and
Senate Budget Proposals on FY 1980 FmHA
Programs

The FY 1980 FmHA budget as proposed by the Administration, represented a severe set back for rural housing. After the 1979 budget reached commendably high levels in many program areas, the new budget continues to all too familiar roller coaster pattern of funding for assisted housing in rural America.

But, however depressing the Administration's budget seemed just a few weeks ago, recent action by the House and Senate Budget Committees may prove devastating to rural housing programs. The Home Ownership Assistance Program (HOAP) appears to have almost no chance of being funded in FY 1979, only a little better likelihood of funding in FY 1980, and may be headed for extinction before it is ever implemented. And when taken together with drastic Congressional proposals to cut the HUD budget, the combined FmHA and HUD budgets for FY 1980 will bring to a sudden halt the success of recent years in making serious inroads toward a substantial reduction in the number of substandard units in rural areas.

The Senate Budget Committee has proposed cutbacks in HUD's budget authority from the 400,000 units proposed for FY 1979 to a level of around 190,000 for FY 1980. Under HUD's mandate to use 20-25% of its housing programs to serve rural areas, this will result in approximately a 50% reduction in units for rural areas down to 47,000 units for FY 1980. Such a level threatens the 10,000 unit Section 8 setaside for the Section 515 rental program; deprives rural areas which have low rental vacancy rents of full use of the Section 8 program; leaves the FmHA rental assistance as the

only federal housing assistance to the most poor and most rural areas of the country; will hit rural minorities, especially Indians, the hardest; and, finally, will impair the ability of the small builders in rural areas to participate in federal housing programs. HUD has also proposed a sharp reduction in its Indian housing program.

In addition to the threatened extinction of HOAP and cutbacks in the HUD budget, FmHA is requesting no additional budget authority for staff, or for the Section 502 low-income loans, Section 515 rental housing, and Section 504 loans. With double digit inflation whittling away at costs, the same dollar figures for this year as for last year, will mean a production loss in units, and a severe strain on an already overworked FmHA staff. This reduction of program and staff levels appears incongruous at a time when FmHA is attempting to target more resources to the lowest income people; a long overdue goal which requires extended and affirmative action from FmHA's local staff.

Compounding this problem is the fact that the administration has proposed a 52% cut (\$1.3 million) in the Section 525 program which provided technical and supervisory assistance grants for nonprofit and public agencies. These grants are intended to develop a more effective delivery system for FmHA's resources and to provide default as well as pre-purchase counseling.

Also, we want to draw the committee's attention to the reduction in funding for the rental assistance program and to two of the programs suffering the most severe budget cuts: the Farm Labor loan and grant program (Sec. 514/516), which provides 1% loans and grants for up to 90% of the development cost for farm labor

housing, and the Self Help Housing program (Sec. 523), through which families work together to build one another's homes. It is important to remember while discussing these programs, that they serve not only the lowest income households in the country, but also that these households are disproportionately minority.

The proposed budget would cut farm labor loans by 21% (\$8 million), farm labor grants by 24% (\$8 million), and self-help housing grants to the local sponsor by 63% (\$8.5 million). FmHA's contention that the new Home Ownership Assistance Program (HOAP) will take some of the loss of units in these two programs does not take into account HOAP's inapplicability to migrants nor the very limited number of HOAP units nationally - simply too few to make an adequate replacement for farm labor and self-help units lost. Farm labor projects alone would fall from 45 to 28. FmHA's plans for HOAP to make up for unit losses in other programs also did not anticipate the possibility that Congress would not appropriate funds for HOAP.

III. Realistically Assessing the Home Ownership Assistance Program (HOAP)

With passage of HOAP in the last session, Congress recognized the need for home ownership opportunity for the rural poor. The basis for this need included:

- 1) the increased cost of housing which made homeownership, even with subsidized interest, all but impossible.
- 2) the limited availability and production level of rental housing
- 3) the limited number of rental developers and managers in rural communities
- 4) the restriction of rental units to "established places or towns"
- 5) the tendency of rural rental units not to exceed two bedrooms
- 6) the tradition of homeownership in rural areas

In approving the HOAP program last session, Congress also approved the concepts that a family should pay no more than 25% of their adjusted income each month for housing and that the government be allowed to recapture part of the cost of its subsidy upon resale of the house. Finally, the program was restricted to rural areas where FmHA has determined that the availability of rental housing is unlikely; generally this will be remote rural areas having widely dispersed populations of less than 2,500 persons.

A supplemental appropriation to implement the program in Fiscal Year 1979 was introduced several months ago, but the Senate and House Budget Committees recently proposed eliminating it. The

supplemental, it was estimated, would have assisted 16,000 households, with a run-out cost of \$985 million, which does not take into consideration recapture of subsidy.

In its 1980 budget, the administration requested funds for, according to FmHA, 15,094 households, at the same run-out cost of \$985 million.

Because of elimination of this entire amount for FY 1980 by the Senate Budget Committee and a halving of this amount in the House Budget Committee, we want to make two brief points.

First, we urge this committees continued efforts to have HOAP funded for FY 1979 and 1980. We are deeply appreciative of Senator Morgan's efforts in this regard.

Second, it is essential to refute one of the major criticism's of the HOAP program, namely, the estimated run-out cost of HOAP. We estimate that the Administration's \$985 run-out will finance 23,162 to 32,832 houses, potentially double FmHA's estimate.

At least part of the explanation of FmHA's gross overestimation of HOAP cost is that the agency did not take into consideration any recapture of federal subsidies, an integral part of the HOAP program that is required by federal law. Even without considering recapture, it can be demonstrated that:

- * the HOAP subsidy is 22% cheaper than HUD's Section 8 projects financed by state housing finance agencies through the Section 202 elderly housing direct loan program; 21% cheaper than Section 8 projects that are conventionally financed and uninsured; and 18% cheaper

than Section 8 projects that are FHA insured

With recapture however:

- * the true cost of the government after recapture of HOAP subsidies (based on a family's staying in an HOAP-assisted house for 10 years) is from 60% to 80% cheaper than any Section 8 alternative over the same period of time.

In figuring HOAP cost, HAC has made the following assumptions, using costs higher than those recorded for typical FmHA houses:

1) Housing expense - assuming a purchase price of \$30,000, amortized over a 33-year term, with \$600 for taxes, \$90 for insurance and \$1,350 for utilities and maintenance. We have also used an inflation rate of 8%, compounded annually, which is 2% higher than that used in FmHA's projections.

2) Subsidy required - with these costs, we assume that the average HOAP applicant will have an adjusted family income of slightly less than \$5,000 (which is less than half of what an average Section 502 borrower earned in FY 1978). Given this low income level, the federal subsidy for principal, interest, taxes, insurance, utilities, and maintenance would be \$1,875 per unit, per year.

3) Length of subsidy - FmHA estimates that the average Section 502 interest credit borrower graduates from the interest credit program in 7 years because of increased earnings, and that the average Section 502 housing is sold every 10-12 years (the average American home changes hands every 7 years). Using these estimates as a guide, we have figured the annual cost of HOAP under two different circumstances. In the first case, we assume that 20% of the families (or 3,200 units) sell their homes at the end

their homes at the end of 20 years, with the balance remaining through the 33-year term. We have also assumed no reduction in the HOAP subsidy due to increased family incomes (which will certainly not be true). This plus our very conservative housing turnover figures, results in a considerable overestimate of the cost of the HOAP program, but one which is nevertheless more reliable than that of FmHA. The new run out costs include the recapture of federal subsidies, according to FmHA's recapture formula.

Case #1

<u>Term</u>	<u>% and # of Units</u>	<u>Net Runout Cost</u>
10 Years	20% - 3,200	\$47,193,600
15 Years	20% - 3,200	54,700,800
20 Years	20% - 3,200	76,393,600
25 Years	20% - 3,200	150,203,200
33 Years	20% - 3,200	195,779,200
	100% - 16,000	\$479,270,400

Average Per Unit HOAP run-out cost = \$29,955

For \$985,000,000 in run-out cost, 32,883 units could be subsidized (not the 15,094 estimated by FmHA)

Case #2

<u>Term</u>	<u>% and # of Units</u>	<u>Net Run-out Cost</u>
20 Years	50% - 8,000	\$190,984,000
33 Years	50% - 8,000	489,448,000
	100% - 16,000	\$680,432,000

Average per unit HOAP run-out cost = \$42,527

For \$984,000,000 in run-out cost, 23,162 units could be subsidized (not the 15,094 estimated by FmHA)

CUMULATIVE HOAP COSTS PER UNIT (IN DOLLARS)

<u>TERM</u>	<u>FEDERAL OUTLAY</u>	<u>AMT. RECAPTURED</u>	<u>NET COST</u>	<u>AVG. NET COST/YEAR</u>
1	1,875	-----	1,875	1,875
5	10,075	2,029	8,046	1,609.2
10	22,370	7,622	14,748	1,474.8
15	37,918	20,824	17,094	1,139.6
20	58,213	32,390	23,873	1,293.6
25	85,652	52,776	32,876	1,315
33	152,919	91,721	61,181	1,854.1

IV. Improving FmHA Services Through Targeting

In the Housing and Community Development Act of 1977 Congress required that 60% of FmHA loan funds be used for low-income households. To meet this mandate, FmHA has with some regularity adjusted its definition of "low-income" upward, so that at the present time its low-income ceiling is \$11,200 adjusted (or \$12,737 gross income for a family of five) - a definition that conforms neither to common sense nor to other government agency standards of "low-income." For example, a gross family income of \$12,700 exceeds the median income of the nonmetropolitan areas of 30% of our states and exceeds 80% of median in all but six states. FmHA's ceilings are simply out of line with anything Congress contemplated when it passed its interest credit subsidy programs.

The Section 502 interest credit program should be utilized to develop the least expensive newly constructed housing as well as the purchase and/or rehabilitation of existing housing stock. Keeping housing costs down by these means obviously keeps families from being pushed out of the FmHA housing market because they are too poor. However, because of the ease with which "creaming" can take place with low-income ceilings as high as FmHA's, we propose that a targeting program be mandated by Congress to require that the expenditure of FmHA loan funds be based on service to the lowest income families possible. The Housing Assistance Council proposed limits prior to the recent congressional action on HOAP and the HUD Sec. 8 levels by the Budget and Banking Committees. These limits were based on the availability of

of the 10,000 unit set aside of Sec. 8 for use with the Farmers Home Administration Rural Rental financing program and 16,000 units of HOAP proposed in the Administration budget. With those two assumptions the following limits would be easily obtainable, given the willingness of the Administration to meet them.

- * 35 percent of all households assisted should have an income less than 50 percent of the median income.
- * 50 percent of all households assisted should have an income less than 60 percent of the median income.
- * 90 percent of all households assisted should have an income less than 80 percent of the median income.

The 35% of assisted households earning less than 50% of the median income could be served by HOAP, were sufficient funds made available.

With the extremely unfortunate probability that HOAP will not be funded and the equally devastating possibility that the 10,000 unit set aside of Section 8 will be diminished or eliminated, HAC supports a more modest targeting of assisted housing.

- * 30 percent of all households assisted should have an income of less than 50 percent of the national median income.
- * no more than 15 percent of all households assisted should have incomes above 80 percent of the national median income.

V. Section 8 and The Rural Rental Program

The following chart indicates that the most effective use of the Section 8 program in rural areas has been when it is combined with FmHA RH Program.

Section 8 New Construction

<u>Type of Financing</u>	<u>Cost/Unit/Year</u>
202 Elderly	\$4470
State Finance Agencies	4470
Noninsured conventional	4440
FHA insured	4310
FmHA	3450

We have repeatedly pointed to these cost estimates as a justification for substantially increasing the Section 8 allocation for the Section 515 rental program. This would be a wise use of scarce resources. However, advocacy of an increase in the setaside from 10,000 to 30,000 units takes on an air of distinct unreality in light of the previously mentioned possibility that the entire set aside will be eliminated. We urge the members of this committee to take whatever efforts it can to insure an adequate nationwide Section 8 unit level as a means to protect and eventually raise the 10,000 setaside.

VI. Expanding FmHA's Technical and Supervisory Assistance

Technical assistance and supervisory assistance is an essential component of FmHA's attempt to target resources to lower income areas. Recognizing this, Congress for the first time in 1979 appropriated \$2.5 million in grants under Section 525(a) to fund public and nonprofit agencies to provide outreach and counselling. The FY 80 budget proposed by the Administration drastically reduces the capacity of the 525 program by 50%, down to \$1.2 million.

Section 523 technical assistance grants are used by sponsors to provide supervision to families in the construction of their own housing. The administration has proposed an alarming 63% cut in this program, from \$13,500,000 to \$5,000,000. Even with a carryover of unobligated funds of \$16,644,000 FmHA expects to reduce the number of grants from 200 to 33. This funding level will severely cut back the participation of any new self-help groups. Self-help is a proven program which allows lower-income families to obtain homeownership and provides the participating families with important knowledge about the operation and maintenance of their homes. The savings can be substantial, as the following table on Section 502 loans made in FY 80 shows.

Sec. 502 Initial and Subsequent Loans - FY 78

	<u>White</u>			<u>Black</u>			<u>Hispanic</u>	
	Regular	SH		Regular	SH		Regular	SH
No. of Loans	88,961	537		9,310	131		2,228	263
Family Avg. Income	\$10,979	\$9,578		\$10,129	\$7,554		\$10,746	\$10,084
Avg. Mortg. Amt.	\$25,478	\$17,261		\$23,074	\$14,467		\$25,896	\$14,522

It is important to note that not only are lower-income families being served through self-help, but that minorities often neglected in other FmHA programs are the major beneficiaries of self-help assistance.

We strongly oppose the cuts proposed in the 523 and 525 programs. We also support changing the Section 523 program to make grants available to national or regional private non-profit corporations to provide training and technical assistance to local public or private non-profit groups.

VII. Minority Housing Opportunities

Minorities in rural areas -- blacks, Spanish speaking persons, and Indians -- have the worst health care, the fewest economic opportunities, the lowest incomes, the highest morbidity and mortality statistics as well as the worst housing. In rural areas, 62.4% of the Indians, 69.2% of the Blacks, and 45.2% of Spanish speaking persons live in substandard housing. Overall, nearly two of every three rural minority families live in substandard housing.

In the past, FmHA housing programs have been less than responsive to this huge need. In 1978, FmHA made over 110,000 loans under its Section 502 and 504 grant programs, of which only 13.1% were to minority borrowers. In terms of loan dollars, white borrowers received more than \$2 billion under Section 502 and 504 while minority borrowers received only \$289 million. Breaking this amount down between minority groups and whites and comparing the expenditures under 502 and 504 for each group to the number of families in each group living in substandard housing, the following chart is revealing:

Share of FmHA Expenditures to Families
in Substandard Housing

	<u>Whites</u>	<u>Spanish</u>	<u>Blacks</u>	<u>Indians</u>
1974	\$ 625	\$ 425	\$259	\$147
1978	\$ 1078	\$ 671	\$281	\$194

Not only did the largest share of expenditures go to white families in both 1974 and 1978 but the statistics clearly show the biggest percentage increase between 1974 and 1978 was for white families living in substandard housing. This indicates that the gap between FmHA services to whites and minorities is widening.

We would like to direct particular attention to Indian housing. The major source of housing assistance for Indians is provided by HUD under its public housing program authority. Even though since inception of HUD's Indian housing effort in 1961 some 25,000 new homes have been constructed, over 86,500 Indians still live in substandard housing. The annual increase or addition to this substandard figure is estimated at about 4,000 additional units which become substandard each year. The administration has proposed to cut back the Indian housing program from 6,000 to 4,000 units, a level which would barely keep us even with the need and which would take us 20 years to meet the needs of those presently living in substandard housing. We urge this committee to oppose HUD's efforts to cut back on Indian assistance. Federal assistance to Indians, to whom we have a unique and special responsibility, has already been cut repeatedly and should at a minimum be kept at the 6,000 unit level, which represents 5.8% of the existing need. Finally, we urge this Committee to study and implement legislative and regulatory changes in the current HUD and FmHA programs over which it has jurisdiction, in order that we might better address and fulfill our commitment to the American Indian.

VIII. Strengthening FmHA's Farmlabor and Self-Help Programs

Farm Labor Housing

In 1976, the United States Department of Agriculture reported that the annual average earnings of farmworkers in the South totaled \$1,487. While income alone is enough to exclude most farmworker families from the major rural housing homeownership program (Sec. 502), migrancy itself serves to eliminate other farm laborers from subsidized rental housing in the homebased states, since with the intense competition for decent shelter, as soon as a migrant family moves out, a non-migrant farmworker family moves in. This leaves migrants without access to home-based housing, whether constructed through the FmHA Sec. 514/516 farm labor loan and grant programs or Sec. 515 rental housing loans. Nor do migrant farm laborers find decent housing "in the stream," since with the limitations of current subsidy programs and high operation and maintenance cost, FmHA financed housing constructed for less than full year occupancy is normally judged "economically infeasible," even with a full Sec. 516 grant covering 90% of the development cost.

While solutions to farmworker housing problems are neither easy nor cheap, certain legislative and programmatic changes can effect significant improvements. First, in the Sec. 516 grant program, the Secretary of Agriculture should be permitted to allow the construction or rehabilitation of farmworker housing for less than year-round occupancy even when year-round is needed, whenever, he finds that the latter can be constructed through the use of other programs (502, 504, and 515). Second, and closely related, in order to "free" the Sec. 514/516 program for use by

migrants, the Secretary should have the authority to allow exclusive occupancy by farmworkers in a rural rental project (Sec. 515) developed solely for this purpose with the right to review the need for exclusive tenancy every two years.

Third, given the changes described above, FmHA must be prevented from giving priority in Sec. 514/516 funding to those projects where 75% occupancy can be shown. This provision operates to exclude most migrant farm laborers from the nation's only farm labor housing program, regardless of housing need.

Fourth, the Sec. 516 grant program should be extended to cover up to 100% of the development costs of a project, wherever economically necessary.

Fifth, keeping in mind the extraordinarily low incomes of migrant farm laborers, a FmHA rental assistance set-aside should be automatically granted to Sec. 514 or 514/516 projects that house migrants. (This arrangement is similar to HUD's Sec. 8 commitment to all units financed under its Sec. 202 elderly program.) Further, rental assistance should be provided to pay up to three months' rent on a migrant farmworker's permanent residence (in a FmHA project) while the family is pursuing agricultural employment away from home. This allowance would help prevent the turn-over of a migrant family's dwelling unit to another family while at the same time giving the migrating family a three-month grace period during which they would not have to pay double rent. (i.e., rent at two places.) Also, in existing farm labor housing projects, the owners should be prohibited from raising rents if they refuse

to apply for FmHA rental assistance to prevent low-income families from having to pay more than 25% of their income for rent.

Finally, we propose that rental assistance be allowed for farmworkers on their permanent residence for up to three months. While they are away from their homes. Otherwise, these families could be forced to pay double rent for the months they are in stream. In Hidalgo County, Texas, for example, approximately 98 families whose incomes ranged from \$1,363 to \$3,640 annually, paid up to \$90.75 per month for rent at their permanent residence, while being in stream an average of four months during that year. If one of these families traveled in stream to Danville, Illinois to find work in the apple orchards, for example, they could be expected to have to pay up to \$155 for a two bedroom apartment.

While adoption of these programmatic changes will, we believe, improve the delivery of decent rental housing to migrants and to year-round farm laborers, they will not be sufficient unless the nation, led by Congress, throws off its indifference toward agricultural workers who stoop to till our fields but who reap only a harvest of degradation, ill health, and bad housing.

Last year proved a milestone for the farm labor housing programs as the 514 and 516 budgets were significantly increased. As a result every penny in both programs will be obligated this fiscal year and states that never received farm labor housing assistance will now have their first units. But even as the need was first beginning to be met the Administration has proposed drastic cutbacks (21% - \$8 million) from the 516 grant program and 24% (\$8 million)

from the 514 program. These cuts are totally unjustifiable and we urge this committee to do what it can to see that an adequate level of funding is provided.

IX - Prepayment-Low Income Character

Current federal regulations permit a developer of low-income rental housing under the FmHA Sec. 515 program to pre-pay the mortgage without any restrictions. Although the developer has received substantial benefits through subsidy and tax deductions he is allowed at any point and time a substantial windfall profit although his actual risk has been minimized by federal benefit. These federal benefits include:

- 1) A substantial savings in financing through a reduced interest rate via the Rural Housing Insurance Fund; no points service fees, discounts, or other conventional finance charges; substantially reduced equity requirements (5% as opposed to the average 25% in the conventional market); etc.
- 2) Substantial market guarantees through interest credit subsidy; rental assistance; Sec. 8 Housing Assistance Payments, etc.
- 3) Substantial tax deductions at a lower investment to tax deduction ratio than conventionally financed apartments.

The major problems with the prepayments are not just the windfall profits to the developer but also the subsequent cost to the federal government to provide a replacement unit for the low-income apartment that is removed from this particular segment of the market.

During the 15 year period from 1963 through 1978 the average mortgage for a Farmers Home Administration 515 rental unit increased from \$4,875 in 1963 to \$19,035 in 1978, an increase of over 390%. In order to demonstrate the effects of this inflation on the federal effort to provide decent, safe, sanitary low-income housing, we

have analyzed the effect of pre-payments under the 515 program indicated that the majority of mortgages were approximately 6-8 years old.

If during these 15 year period there were no pre-payments made in conjunction with the provision of this unit of housing; the federal government would pay \$7,8993.29 in interest credit subsidy, the federal government would pay \$7,8993.29 in interest credit subsidy. During the same period if the developer pre-paid every 5 years and the federal government replaced the unit, the total cost of interest credit subsidy would be \$17,200.20. This would represent a 218% increase in the cost of providing a single unit of low-income housing. This does not take in consideration the administrative cost in staff-time and money for processing and financing three projects as opposed to the cost of one.

In addition to the increased subsidy cost, there is a substantial loss in federal income tax revenues each time a unit is pre-paid and a replacement unit is constructed. The following chart shows a comparison of the provision of a single unit of low-income housing for 15 years in comparison to the replacement during the same period as it relates to the total real estate depreciation adjustments allowed under our federal tax laws. Current tax laws permit a developer to retain all accelerated depreciation above the straight line method provided the developer reinvests in an eligible project within a specified time. Therefore, it is probable that the cumulative depreciation adjustments will be fully taken by each of the developer's involved.

Fiscal Year	Interest Credit					
	Interest Rate	Interest Credit Factor	Average Mortgage Amount	Annual Interest Subsidy	Total Subsidy Cost Per Unit	
					Single Unit	
					yr. Amt.	Multiple Replacement #yrs. Amt.
1973	7%	0.0443	11,886	526.55	15 \$7,898.25	5 \$2,632.75
1978	8%	0.05313	19,035	1012.28	-	5 5,061.40
1983	9%	0.0623	30,517	1901.21	-	5 9,506.05
Interest Credit						
Total Subsidy Costs						
					15 yrs. \$87,898.25	15 yrs. \$317,200.20

Fiscal Year	Mortgage Amt.	Replacement Value	Tax Depreciable Value	Tax Year	Federal Income Tax		Depreciation Adjustments	
					Single Unit	Multiple Replacements		
1973	11,836	12,512	12,012	1973	600.60	600.60		
				1974	570.57	570.57		
				1975	542.04	542.04		
				1976	514.94	514.94		
				1977	489.19	489.19	2,717.34	2,717.34
1978	19,035	20,037	19,235	1978	464.73	961.75		
				1979	441.50	913.66		
				1980	419.42	867.98		
				1981	398.45	824.58		
				1982	378.53	783.35	4,351.32	4,351.32
1983	30,517	32,123	30,838	1983	359.60	1,541.90		
				1984	341.62	1,464.80		
				1985	324.54	1,391.56		
				1986	305.31	1,321.99		
				1987	292.90	1,255.89	6,976.14	6,976.14
Total Depreciation Adjustment					6,446.94	14,044.80		
Loss Federal Income Tax Revenues (50% Tax Bracket)					3,223.47	7,022.40		

Assuming a developer in the 50% bracket, the actual cost to the federal government would be 218% more expensive with the multiple replacement as compared to the retention of the original unit. The total cost difference would be \$11,121.72 compared to \$24,222.60.

IX. FmHA Staff Shortage

Every year rural organizations express concern about the inadequacy of FmHA staffing levels, particularly during years when program authority and dollars soared. The concern remains the same today. Although numerous budget cutbacks are anticipated, FmHA continues to administer programs of enormous financial scope and complexity. It will do all this with a staff level that remains far below what is needed.

The existence of the staff shortage is legendary and the consequences should be obvious: limited servicing and counselling (resulting in costly deficiencies), lower quality projects (when non-specialists make design and construction judgments they are not qualified to make), poorly managed units (leading to physical deterioration, interim management or default), and huge processing delays (consistently over 100,000 outstanding applications). These problems have strained the department's ability to cope with newly created programs, expansion of the eligible population, and recurrent natural disasters which preoccupy staff time, with the ultimate losers being the programs beneficiaries.

FmHA projects that 7,900 permanent, full-time positions will be funded in FY 80, the same number as FY 79, but with less money. This is accomplished says FmHA by replacing higher-grade retirees with lower-grade new employees. It is difficult to accept this reasoning since fewer dollars in any program usually mean lower production, fewer services and fewer personnel. Though the budget

does not seek funding for 437 non-permanent staff we urge this committee's support for a much more adequate response to this severe problem.

X. Conclusion

Mr. Chairman, we appreciate and are always grateful for the opportunity to testify before this committee and to share with you and the members our experiences with and analysis of rural housing issues. HAC is mindful of your great concern and commitment to addressing the housing needs of the rural poor and we look forward to continuing our work with you and this committee in the future.

Senator KASSEBAUM. Thank you, Mr. Wilson. I think before asking any questions we will go ahead and hear all the testimony and then come back. Mr. Powers or Mr. Raphael, does it make any difference? Mr. Powers, National Housing Law Project.

**STATEMENT OF WILLIAM POWERS, VICE CHAIRMAN,
NATIONAL RURAL HOUSING COALITION**

Mr. POWERS. A slight correction in that. I'm the vice chairman of the National Rural Housing Coalition and I'm going to testify in that capacity today.

Senator KASSEBAUM. All right.

Mr. POWERS. I have previously submitted written testimony and I'd like to take this opportunity to make a few remarks and highlight that written testimony.

We are grateful for the opportunity to be invited to testify today and we want to thank the committee, as Mr. Wilson stated, for its concern about the problems of low income rural poor people in housing. We would urge the reauthorization of all Farmers Home and HUD programs at the highest possible levels as a way of reinforcing commitment to the federally assisted housing programs. Among those key programs in rural areas are the Farmers Home rental assistance program, the homeownership assistance program (HOAP) and the HUD section 8 housing. We urge that current mix of section 8 in rehabilitation versus existing is essential to many rural communities which have no standard housing and therefore cannot use the existing section 8 program.

In addition, our coalition strongly urges that the committee support a continuation of the current rent to income ratios for the HUD subsidized program. This is known as the Brooke amendment and has been a key factor in keeping decent housing affordable for many low income people and elderly people in our Nation. Former Senator Brooke recently testified before the Senate Housing Subcommittee and eloquently stated the case for retaining this 25 percent of income for rent limitation. We ask your assistance in retaining this equity for low income people.

As has been stated in testimony by previous witnesses, by Mr. Cavanaugh and previously by Senator Brooke, we are asking low-income people to pay more for basic needs than we are asking any other portion of our society and it's just not fair.

Few groups in our society have housing problems which have defied solution as tenaciously as migrant farm workers. I note in Senator Morgan's bill, which was just introduced, S. 1064, that he has included several provisions designed to improve the current Farmers Home Administration 514-516 program and, of course, these changes are welcome and they should prove helpful.

However, we must say that even if we made those changes we would really not get at what is an extremely critical problem in our country that we have really not tackled effectively and what we must do is take a deeper look, a more sustained and vigorous effort to solve this problem.

In our written testimony we have made a number of recommendations for administrative as well as legislative consideration. We would ask the committee's review of these for possible action.

We would also urge early oversight hearings into the housing problems of migrant farmworkers. I think we have just moved around the periphery of the problem. We really haven't tackled it.

This fiscal 1979 year is probably the best year in funding for the migrant workers programs of the Farmers Home Administration and it will only produce about 1,900 units. This is in the face of an estimated need of somewhere between 130,000 and 300,000 units, depending on whose figures you use. That's also a critical problem. We don't have accurate information on the nature of the problem.

Congress last year instructed the Farmers Home Administration to produce a study. So far we have not seen a study. We don't know when it will come and we would urge this committee to ask when FmHA expects to produce that study. The first portion of that study was due in March. As far as we know, the contracts have not even been let at this point.

In addition, I would also suggest that HUD give what they are doing about migrant housing in their program. While I can understand the whole question of cost effectiveness and being able to pay off mortgages, et cetera, I think when we are dealing with problems that don't get solved by the traditional methods, then we have to look for new methods and I don't think there's been any innovation at this point in terms of the HUD section 8 program in dealing with farmworkers housing. As a matter of fact, we have instances on record where local communities have asked whether or not they should count farmworkers coming through their area in determining their housing assistance plans and they were told by HUD not to count them. HUD was afraid of double counting. Well, I would be less afraid of double counting than not counting, and I think that's really what's happened, is the former; we have not counted farmworkers in our society.

PREPAYMENT OF LOANS

The bill that Senator Morgan has introduced has also addressed another serious problem which I think Mr. Cavanaugh has spoken to and that is the question of prepayment of section 515 and 514 loans by owners and their conversion to other than low- and moderate-income use. Between 1956 and 1978, there had been about 7,000 section 515 loans. During that same period over 482 of those loans have been refinanced or paid off. This is almost 77 percent of these loans and 215 of these loans have been paid off within the last 2 years and I think what we see is a beginning of an urgent problem. With continued inflation in housing, we are fearful that such prepayments will reach epidemic proportions. Between 1966 and 1978 there have been 120 conversions of 514 farm labor loans, 51 of these in the last 2 years. The effect of these prepayments is to lose most of these projects for low-income use as originally planned for. This was obviously not the intent of Congress. A tremendous investment of Federal time and effort to meet the housing needs of rural elderly and low-income people is being negated.

I would like to submit for the record today a research paper on this problem that was prepared by the National Housing Law Project. The coalition urges adoption of a provision in Senator

Morgan's bill to cure this problem and keep assisted housing for those for whom it was built.

Finally, I would just like to indicate our concern, together with Mr. Wilson, on the whole question of the HOAP program, its nonimplementation or its possible non-implementation by Congress, and the fact that we now have a recapture program which will take back from people any equity or some equity that they may get in the sale of their houses. Recapture was instituted at the same time that the HOAP program was. If HOAP doesn't get passed, we will have really the worst of both worlds. We will have no deep subsidy program and we will have low income people being forced to pay back what might be normally acceptable profits on the sale of that house and it would seem to me that the rural low-income people are asked to do things at this point that nobody else is being asked to do.

We would urge this committee to look carefully into this problem and if necessary develop standby legislation to eliminate the recapture if HOAP is not funded.

Thank you very much.

Senator KASSEBAUM. Thank you very much, Mr. Powers, and we will put the testimony in the record.

[Complete statement and attachment follows:]

TESTIMONY OF WILLIAM POWERS,
 VICE-CHAIRMAN OF THE
 NATIONAL RURAL HOUSING COALITION
 BEFORE THE
 SENATE COMMITTEE ON BANKING,
 HOUSING AND URBAN AFFAIRS,
 SUBCOMMITTEE ON RURAL HOUSING

May 4, 1979

Mr. Chairman,

The National Rural Housing Coalition (NRHC) appreciates this opportunity to comment on the reauthorization of the housing programs of the Farmers Home Administration (FmHA) and the Department of Housing and Urban Development (HUD).

The NRHC is a national membership organization concerned exclusively with improving housing and related facilities for low and moderate income people in rural America. We urge this Committee to reauthorize all of the HUD and FmHA housing programs which expire at the end of this fiscal year. We urge that the programs which directly affect low and moderate income people be reauthorized at the highest possible levels.

The Administration's FY 1980 budget recommendations, especially with respect to subsidized housing programs, have generated much concern both within the NRHC and among many other organizations. The notion that the federal budget deficit is the primary, if not sole, cause of inflation appears to dominate the thinking of the Administration's budget-makers and also many members of Congress. Reliance on this false assumption has been fostered by opportunistic public officials and private corporations who first gouge the public through administered pricing, which generates high profits, and then complain about labor problems and federal spending.

While the NRHC shares the President's concerns about inflation, we certainly do not share his views on the means to best reduce it. Cutbacks in funding for programs which serve the basic needs of low and moderate income people is not the way to fight inflation. The most needy are asked to pay twice: first, they are inflation's main victims, forced to pay huge increases in costs for necessities of life. Then they must suffer the results of diminished funds for the federal programs to which they turn for resources and assistance.

Where is the sharing of burden? While the Administration proposes cuts in the subsidized housing programs, the tax system continues to pay high subsidies to middle and upper income homeowners and investors. Not only are these not

-2-

proposed for cutbacks, they are expected to increase dramatically in FY 1979 and FY 1980. Of course, very few of those subsidized by these tax expenditures consider themselves federally subsidized. Yet, as Cushing Dolbeare of the National Low Income Housing Coalition has pointed out, there will be as much in tax expenditure subsidies going to families with incomes over \$50,000 per year as there will be for those whose incomes are below \$6,000. This is no small irony.

The NRHC appreciates the efforts of the Banking Committee to maintain reasonable levels for the assisted housing programs as part of its recommendations to the Senate Budget Committee. We are extremely concerned about the action of the Senate Budget Committee in severely cutting back the assisted housing programs from the already inadequate levels proposed by the Administration. Of special concern to the NRHC is the Budget Committee's failure to include the rural homeownership assistance program (HOAP) in the first concurrent budget resolution. This will severely limit the ability of the FmHA to serve low income rural people. We are grateful for the efforts of Senator Morgan to have this important program included in the budget resolution. We urge that these efforts be continued for the conference on the budget resolution as well as in the appropriations committees.

The NRHC is also concerned that the Budget Committees in both Houses appears to be moving into legislative areas and virtually dictating to the rest of Congress just what it should do. This has serious implications for the future of the legislative process and may make the authorizing committees' actions meaningless.

In addition to expressing our concern over reauthorization of the subsidized housing programs at the highest possible levels, the NRHC would also like to share with the Committee some thoughts on critical housing problems in rural areas, how the agencies are meeting these problems, and other issues related to program function and delivery.

FARMWORKER HOUSING

Farmworkers, whether year-round, seasonal or migratory, are among the most poorly housed people in this country. One major indication of their housing problems is the fact that precise numbers reflecting the size of the housing need are not available. The count has ranged from 130,000 units estimated by FmHA in 1973 to 350,000 units estimated by Rural America in 1978. FmHA is presently under mandate to conduct a study and come up with better information on the scope of the need and the cost of remedying it. Although preliminary reports should have been available at this time, it is our belief that the study has not yet been started.

One thing is clear: even without an exact count on the size of the farmworker housing need, all of the federal and state housing programs combined have only scratched the surface. Most of these programs at best have been limited to serving year-round and long-term seasonal workers. Migrant farmworkers have the most severe problems and receive few of the housing resources.

Meeting the needs of our nation's farmworkers will not be simple. The traditional federal subsidy programs are not designed to meet the special conditions faced by farmworkers. These special conditions include the relationship of housing to employment. Should occupancy of subsidized farmworker housing be tied to a specific job? Should employers be permitted to use housing as an economic pressure on farmworkers?

Another problem is getting local communities to accept responsibility for the provision of services as well as housing. Very often, agriculture is the primary industry in the local community and county, and yet more often than not the responsibility to react to housing need and services for farmworkers is ignored. Yet another problem area is often state government and its lackadaisical approach to code enforcement responsibility, the provision of technical assistance, and services to farmworkers. There are many problem areas too lengthy to explore in this statement but which, we urge, should be the subject of oversight hearings in the near future.

Given the critical problems faced by farmworkers, there are changes in the current programs of the FmHA and HUD programs which should be considered in order to make them more effective in meeting farmworker needs. The FmHA Section 514 loans and 516 grant programs are the only federal housing programs exclusively for farmworkers. However, even when the full subsidies available under these programs are used the rents produced are often too high for most farmworkers. This is because operating costs push up rents. For these reasons we recommend the following changes in the Section 514/516 program:

1. Provide rental assistance for every Section 514/516 unit, new construction. Give priority for the rental assistance program to currently occupied Section 514/516 projects.
2. Remove the current regulations which give priority to those Section 514/516 projects serving farmworkers who will occupy the units for 75 percent or better of the time. This provision discriminates against migrant as opposed to seasonal farmworkers. This would be consistent with the FmHA's new targeting policy of serving the neediest first.
3. Make the farm labor housing program a 100 percent grant program when used for migrant farmworkers on a temporary

basis and sponsored by nonprofit farmworker controlled organizations. This would be done in order to make projects feasible. The Section 514/516 program is currently 10 percent loan and 90 percent grant. The loan can only be paid from funds available from rental assistance, so that the government is in effect paying itself back.

4. Permit the construction of farmworker housing for less than year-round use, even when year-round housing is needed, provided that other sources for construction of such housing are available. The law currently requires that the housing be suitable for year-round occupancy, even though it may not be used for such.

5. Limit rentals in farmworker housing to 25 percent of annual adjusted income, and require owners of such housing to apply for rental assistance before raising rents.

6. Give priority to groups controlled by farmworkers on applications for Section 514/516 projects.

7. Permit the Section 515 rural rental program to be used for projects which exclusively serve farmworkers. Such projects would be largely for seasonal or year-round rental use. This priority would insure that the limited resources available would be held for the neediest, e.g., farmworkers. This priority system could be reviewed periodically to insure the need is still present.

8. Make the HUD Section 8 rental assistance program available to FmHA Section 514 financed projects. HUD Section 8 assistance is currently only available for use with the FmHA Section 515 program. To date, HUD has not responded to suggestions that this be done.

While these suggested changes will help the existing programs to serve farmworkers more effectively, they will not be enough to significantly change the situation. What is needed is an agency with sole responsibility for meeting farmworker housing needs with adequate responsibility for funding. It is clear that none of the federal or state agencies with responsibility for farmworker housing is able to make a serious dent in the problem. This means that an evaluation by Congress is in order with new approaches being given consideration.

INDIAN HOUSING

We are pleased that the House Subcommittee on Housing will be looking at the housing problems of reservation Indians and the effectiveness of the various federal agencies in meeting those needs. A recent General Accounting Office study reaffirms the tragic plight of reservation Indianas and the inadequacies of the

-5-

federal response. While new approaches may emerge from such hearings, the current programs of HUD and FmHA, both within the Committee's jurisdiction, require changes to make them deliver faster and with a better product. The NRHC urges the Committee to push for both legislative and administrative changes to meet immediate necessary changes while looking for possible new approaches. In addition, the Committee should encourage HUD not to cut back on the 6,000 unit-per-year commitment to Indians.

FARMERS HOME ADMINISTRATION

Maintaining Rental Housing for Low and Moderate Income Households

FmHA is now allowing owners of Section 515 rental projects to prepay the outstanding mortgage and convert low and moderate income housing to higher rental property. As real estate values continue to escalate, the pressure for this profit-taking will increase. We think that this is not within Congressional intent. When Congress made funds available for these projects, it intended their continued use for low income projects for as long as the need exists. Congress should restate that position so that its intent will be carried out by the Administration.

Attached to this testimony is a background memorandum which convincingly details the arguments for immediate Congressional action to address this growing problem. In addition, there is language for this Committee to consider. As the memorandum points out, this is not a theoretical problem. Over 400 projects built with FmHA direct financing either paid off their loans or were forced to refinance by FmHA.

This means that several thousand units of housing originally built to aid low and moderate income people are no longer available. To produce the same units today or in the future is much more costly to the federal government.

In the meantime, the basic reason for building the assisted housing in the first place -- decent living quarters for the elderly and low and moderate income people -- is negated through FmHA action. We urge the Committee to adopt strong legislative language to preclude this abuse of Congressional intent from continuing.

Property Disposition

FmHA has in the past sold back to an unsuspecting public defective housing units in its possession. This policy dis-serves the goals of a decent home and suitable living environment for every American as set forth in the Housing Act of 1949. Legislation is needed which requires FmHA to either rehabilitate the housing in its possession prior to selling it or restricting it to non-housing use.

Targeting

The FmHA recently announced a policy of targeting the agency's resources on a priority basis to areas and individuals of greatest need. We support the concept of targeting. Targeting reflects the concern of Congress that programs it creates should serve those most in need. FmHA's specific targeting plans are as yet unknown, and we encourage the Committee to examine how well the new targeting plans will carry out Congressional intent. We also believe that it may be necessary for Congress to provide the Administration with more guidance on what income levels it expects to be served.

Section 515 Rural Rental Programs

This program is the major rental program of the FmHA. We cited earlier several suggested changes in the Section 515 program which could assist in delivery to farmworkers of program resources.

The FmHA is currently limited by law to using rental assistance in only 20 percent of the units in a Section 515 rural rental project, with the exception that where the tenants are elderly the project may be used in 100 percent of the units. We urge that the Committee permit rental assistance to be used if necessary in all of the units. While income-mix may be a desirable goal in subsidized housing programs, the crunch on lower income people for decent housing is so great and the resources so limited that the limitation should be set aside for the time being.

These are additional changes in FmHA authority we think the Committee should take up in this year's bill:

Compensation for Construction Defects in Existing Housing

The Compensation for Defects Program (Section 509(c)) created in the 1977 Housing Act should be extended to existing and rehabilitated housing. FmHA inspectors continue to permit existing housing that has substantial and, to the trained eye, obvious defects to be financed under the Section 502 program. Unsuspecting borrowers end up, at best, with a subsequent loan for repairs and at worst with foreclosure.

FmHA should bear financial responsibility for the mistakes of its inspectors.

In addition, the amount of time that a borrower has to discover a defect and make a claim under the program should be extended to 36 months instead of 18 months currently

-7-

provided. Although the program was only recently implemented, experience shows that the results of some serious defects do not become obvious for several years.

Staff

This is another area over which this Committee may have no jurisdiction but certainly has a good deal of concern. Direct service by FmHA staff from almost 1,800 county offices is one of the things which makes the agency uniquely suited to meet the varied needs of rural America. It is the position of the NRHC that the FmHA system must be strengthened. As the federal government's largest lender, the FmHA has a unique responsibility to insure that the credit needs of rural America are served, the huge federal investment is protected, and supervisory and technical assistance is adequately provided. With multiple responsibilities assigned to the FmHA, it is clear to us that more staff and more highly skilled staff are needed. This makes good cost-effective sense, as well as guaranteeing better delivery of the broad range of services desperately needed by rural America. The NRHC urges the Committee to use its influence to achieve higher staff levels for the FmHA.

Recapture

When the Home Ownership Assistance Program (HOAP) was first proposed by Senator Humphrey in 1977, the recapture concept was also suggested. It was recommended for use only with HOAP in order to prevent windfall profits. The Administration embraced the recapture idea and recommended that it be applicable to interest credit loans as a means to reduce federal expenditures for subsidized housing.

The arguments for requiring recapture for HOAP do not apply only to regular Section 502 borrowers receiving interest credit loans, and therefore the Committee should consider removing recapture from the regular 502 interest credit program. In addition, it should consider legislation that would make the funds recaptured from poor people available for more housing by requiring that these funds be returned to the Rural Housing Insurance Fund for HOAP, rather than to the U.S. Treasury, to reduce the national debt.

-8-

Self-Help Technical Assistance

Many of the organizations receiving grants to carry out self-help housing programs would benefit from training and technical assistance from national and regional organizations with long-standing experience in the self-help housing field. FmHA believes it does not have authority to use funds, authorized and appropriated for Section 523, to pay for this training and technical assistance. While we strongly disagree with their misreading of the law, we think a simple clarifying amendment is necessary to make clear that FmHA has authority to fund organizations with Section 523 grants to train and advise the self-help housing projects.

Land Cost Write-Downs

In several areas of the country the recreational, mineral extractive and agricultural industries have caused the price of land to escalate so greatly as to exclude its use by anyone with low or moderate incomes. In those areas, FmHA's programs cannot be used. The Committee should provide FmHA with authority to forgive all or part of the principal and interest payments of its site development loans so as to make the Section 502 program available in high land cost areas.

HUD

The past year has seen an increased interest in rural areas by the Department of Housing and Urban Development. A Taskforce on Rural and Nonmetropolitan Areas produced a very candid report on the Department's role in such areas. A number of recommendations for changes were made, most of which are still under study. A two-year demonstration is just beginning on improving the delivery of HUD services to small communities. The Department is also involved in a four-state demonstration in cooperation with FmHA and state governments to create models on how to better serve remote rural areas. The small cities Community Development Block Grant program plus an interest in the problems of housing farmworkers are additional examples of the Department's interest. This new interest is most welcome and we hope it can be sustained. However, demonstrations and studies are only part of what must be done to improve the delivery of service to rural areas.

Earlier parts of this testimony cited serious problems with the Indian housing program and the need to look more closely at how HUD programs will be used to meet the needs of our nation's farmworkers. I might also note that the set-aside of Section 8 assistance used in combination with the FmHA Section 515 rural rental program still has problems in being implemented. Unfortunate delays have resulted in spite of an inter-agency agreement. A study of this problem

was made about 18 months ago by the Housing Assistance Council, Inc. Although HUD paid for this study, the recommendations have yet to be implemented.

In its review of the Section 8 program, we urge the Committee to examine the recommendations made to improve the operation of the Section 8 program when used with the FmHA Section 515 rural rental program. In the same context the Committee will probably look with interest at why the per unit cost of FmHA Section 515 rental housing is the lowest among any of the long-term financing mechanisms used in combination with the Section 8 program.

In regard to HUD programs, we are very disappointed at the limited response to the traditional public housing programs which the NRHC has historically supported as the best system to meet the needs of low income people in urban and rural areas. We urge the Committee to look closely at the program and what can be done to ameliorate the problems. Of special interest is why the Department has chosen not to use the Turnkey III homeownership program for low income people.

Finally, the NRHC is concerned about the problem of early sell-off by owners of HUD assisted projects which then result in the loss of subsidies to the tenants of such projects. The General Accounting Office recently called attention to the potential for that problem in Section 8 assisted units. We are advised that HUD is considering remedial administrative action. There are several instances of this problem occurring already and with the tremendous increase in property values the potential for abuse is present. The NRHC therefore urges the Committee to adopt statutory language which will prevent this situation from getting out of hand. The huge cost in federal resources in building decent housing for low and moderate income people must be protected. We urge the Committee to adopt provisions to prevent early sell-offs of HUD assisted projects.

* * *

This concludes our testimony. We have earlier given to staff of the Committee suggested legislation to deal with the cited problems as well as other concerns. We hope this aids the Committee as it proceeds with its work this year. We are prepared to assist in the future.

BACKGROUND MEMORANDUM ON
NEED TO LEGISLATE RESTRICTIONS
ON PREPAYMENT AND REFINANCING POLICIES
RELATING TO RURAL RENTAL AND FARMLABOR HOUSING
FINANCED BY FmHA

The Farmers Home Administration has financed more than 300,000 units of rental housing in some 5,000 - 6,000 projects through its "rural rental housing" program under Section 515 and its "labor housing" program under Section 514 of the Housing Act of 1949. Many of these units are in jeopardy of being lost by low- and moderate-income people, farm workers and the elderly because FmHA is either requiring or permitting the project owners to prepay their loans and subsequently convert the projects to other uses.

FmHA reports that, between 1966 and the end of 1978, 482 rental loans and 120 labor housing loans had been paid in full (pre-paid). FmHA statistics further show that, between 1965 and the end of 1978, with the exception of 1976 for which there are no statistics, 76 loans were refinanced through private credit sources. What is alarming about this figure is that nearly half (37) were refinanced in 1977 (14) and 1978 (23). We are convinced that this reflects the pressure on owners presented with the opportunity for profit-taking created by the recent rapid increase in real estate values. It seems reasonable to expect that without intervention this trend will continue.

The Housing Subcommittee in the House of Representatives has proposed legislation which deals with only a small part of the problem. Their proposal would require FmHA to obtain assurances that the housing will be used for its original purposes when FmHA requests that the project be refinanced. The proposal would also require the loan agreements entered into in the future to contain provisions requiring that the projects be used for the original purposes for the contemplated life of the loan. The proposal does not, however, deal with the 5,000 - 6,000 projects already constructed whose owners may at any time decide that the tax benefits, reduced interest rates and other governmental subsidies are insufficient when compared to the profits to be derived from sale or refinancing and conversion to higher-income housing.

Loans under Section 514 have an interest rate set by statute at one percent per annum. Interest rates under Section 515 vary. Under one scheme the loans bear interest at three percent and under another scheme they bear interest at approximately the market rate but (for projects built after 1968) to serve low-income families the interest is subsidized to an effective rate of one percent per annum.

-2-

These reduced interest rates and other subsidies such as rental assistance (rent supplements) and Section 8 make the housing affordable to lower-income people.

Among other statutory requirements, and with specified exceptions, loans under Section 514 and 515 must be made with "terms and conditions substantially identical with those specified in Section 502," the FmHA homeownership program. Included in those conditions is [§502(b)(3)] one which requires borrowers to agree, upon the request of the Secretary, to refinance the balance of the indebtedness through private credit sources whenever the Secretary determines that the borrower's circumstances would permit it.

In applying this condition to rental projects, two distinct issues are raised. The first is: what circumstances of the borrower must exist in order to permit a feasible refinancing? Totally apart from that is the second issue: Does the mere existence of the refinancing condition require the Secretary to accept prepayment of the loan when the borrower chooses to prepay?

It is our belief that the existence of the refinancing condition need not adversely affect the availability of adequate rental housing for low- and moderate-income people. Indeed, the plain meaning of the 1949 Housing Act makes clear that its purpose is to increase the supply of decent housing for low-income persons as soon as feasible. To operate programs in derogation of that purpose is clearly illegal.

In apply the refinancing condition, FmHA is apparently looking only to the availability of private credit. It does not take into consideration the result of the loss of any interest subsidy a project is receiving or the future need for that subsidy. It is not an ingenious observation that increased interest payments will cause increased rents or that rents can be maintained at reasonable levels in the future by the application of increased interest subsidies and rent supplements. When borrowers are required to obtain private credit, they no longer are eligible for subsidies, and rents are sure to increase.

It seems reasonable that Congress did not intend the result achieved by this refinancing requirement. As originally enacted, it applied only to the homeownership programs then in existence. When determining what the farmer-borrower's circumstances were for purposes of refinancing, it went without saying that it was assumed the farmer wanted to continue to carry out the purposes of the loan, i.e., to live in the farm house as his principal residence. What had to be determined was whether there existed a private credit source which would

-3-

refinance the loan on affordable terms and conditions that would permit the farmer to continue to live there and carry out the farming operation. The same standard should be applied in the case the rental housing: The purpose of the loan is to provide housing to low- and moderate-income and elderly people. If that purpose can be carried out after refinancing and such refinancing is available from private sources, then the loan must be refinanced. But if the refinancing results in changing the nature of the project--deviating from the original purpose of the loan--then such refinancing, obviously, is illegal and FmHA should not permit it, not to mention require it.

The second issue raised--to what extent may FmHA permit prepayment of the loan?--should be answered in the same manner as the previous issue. FmHA should permit prepayment only when it can be demonstrated that the nature of the project will not be changed or that the purpose to be served by the project has been met and there is no longer a need to maintain the project for low-income or elderly people.

We understand FmHA to argue that because it is required by §502(b)(3) to refinance loans when feasible (and, presumably, because refinancing involves prepaying the existing loan), it is estopped from preventing prepayment. Of course, this argument fails to recognize that loans should not be refinanced (and thus prepaid) when to do so would cause the nature of the project to change. It would not be difficult for FmHA to change its policy on requiring refinancing. That has no apparent adverse effect on any borrower. But conditioning prepayment is seriously complicated because FmHA, believing as it does, has entered into loan agreements with each borrower.

These loan agreements, *inter alia*, provide that so long as the loan obligations remain unsatisfied, the borrower shall, unless the government gives prior consent, not use the housing for any purpose other than as rental housing and related facilities for eligible occupants. This language, which is verbatim from the loan agreement, strongly implies that when the loan is paid (the loan obligations satisfied), the borrower is freed from having to obtain prior consent before using the rental housing for any purpose he likes. Arguably, one could say that the meaning of the words "loan obligations" within the loan agreement runs beyond paying off the loan. However, it does not seem necessary nor productive to engage in an argument over the meaning of words written by the agency which continues to insist on misreading the clear meaning of the purpose of the Housing Act.

-4-

A better solution is to recognize the situation for exactly what it is--a misinterpretation of the law by the administering agency and a promulgation of regulations (loan agreements) based on that misinterpretation. Faced with that, the best solution is to suspend the regulations and to declare that provision of the loan agreement illegal and unenforceable. While FmHA could legally take such a position, it is not likely to without being directed by the Congress. It is within Congress' power to redeclare its intent that programs created by the 1949 Act not operate in a manner that would deprive the intended beneficiaries of the housing constructed under it. It is also within Congress' power to require that refinancing and prepayment be permitted only after the Secretary has received reasonable assurances that the housing will continue to be available to low- or moderate-income or elderly people, whichever the case may be. This can be done regardless of the loan agreements already entered into. A United States Court of Appeals has held that when provision of a contract are contrary to even a new concept of public policy not foreseeable when the contract was made, the contract becomes illegal and cannot be enforced. Massachusetts Mutual Life Insurance Co. v. SEC, 151 F.2d 424 (8th Cir. 1945), cert. denied, 327 U.S. 795 (1945).

Contracts may create rights of property, but, when contracts deal with a subject matter which lies within the control of the Congress, they have a congenital infirmity.
[Norman v. Baltimore & Ohio RR Co., 294 U.S. 240 (1934).]

A similar situation was alleviated through legislation that was subsequently upheld by the U.S. Supreme Court in FHA v. The Darlington, 358 U.S. 84 (1958). Then the Court held that a statute that prohibited the use of federally insured veterans housing for transient renters did not violate the due process rights of the owners who wanted to rent the housing to transients, even though the statute was passed after the property had been insured and the owners had begun to use the property as a hotel. The Court stated that the original act was passed

to aid veterans and their families, not. . .
to promote the hotel or motel business. . .
and therefore the new law did not impair any
vested rights of the owners.
[358 U.S. at 87 and 91.]

Section 515 of the Housing Act of 1949 does not vest borrowers with the right to prepay in a manner which would deny beneficiaries access to decent housing. Neither can such a right be vested

-5-

through loan agreements flowing from it. If Congress were in so many words to restate that policy, no existing right would be impaired. Borrowers of Section 515 funds could prepay loans as long as the prepayment did not deny beneficiaries of their right to occupy decent housing.

The language that we propose paraphrases the language that was unsuccessfully challenged in *F.H.A. v. the Darlington*: "The Congress hereby declares that it has been its intent since the enactment of the National Housing Act that housing built with the aid of mortgages insured under that Act is to be used principally for residential use; and that this intent excludes the use of such housing for transient or hotel purposes which such insurance on the mortgage remains outstanding."

The following language would legally prevent owners of Sections 515 and 514 housing from changing the nature of the housing projects.

Prepayment of Sections 514 and 515 Loans

(a) The Congress declares that it has been its intent since the enactment of Section 514 and 515 of the Housing Act of 1949 that Section 502(b)(3) of such Act not operate in a manner which will deprive low and moderate income occupants or potential low and moderate income tenants of rural rental or farm labor housing financed under such sections of their right to continued residency in that housing upon reasonable terms and conditions.

(b) Section 502 of the Housing Act of 1949 is amended by adding the following new subsection at the end thereof:

"(c) With respect to recipients of any loan made or insured under Section 514 or 515 before or after the date of the enactment of this subsection, the Secretary shall, when enforcing the provisions of subsection (b)(3) of this section with respect to any such loan or when approving the prepayment of any such loan before the time when it was originally scheduled to be paid, the Secretary shall receive from such recipients adequate assurances that the housing project to be refinanced or prepaid will continue to be used for its original purposes and that no person occupying the housing shall be required to vacate because of the transaction."

NATIONAL HOUSING LAW PROJECT
SUITE 300
2150 SHATTUCK AVENUE
BERKELEY, CALIFORNIA 94704
(415) 548-9400

November 15, 1978

Gordon Cavanaugh
Administrator
Farmers Home Administration
U.S. Department of Agriculture
South Building
14th and Independence
Washington, D.C. 20250

Washington, D.C. Office
Suite 500
1025 - 15th Street, NW
Washington, D.C. 20005
(202) 833-9073

Washington, D.C. Office
Suite 800
1016 - 16th Street, NW
Washington, D.C. 20036
(202) 659-0050

Dear Mr. Cavanaugh:

It has come to the attention of the National Housing Law Project (NHLP) that FmHA county and state offices are accepting prepayment on FmHA multi-family housing loans, terminating project subsidies in connection therewith, and releasing FmHA's control over such projects without regard to the term for which the loan has been outstanding and without regard of the consequences to the projects' tenants. Since such actions almost uniformly result in an immediate rent increase, actual or constructive eviction of the tenants, and elimination of low-income housing, the practice is contrary to the purposes of the Housing Act of 1949 and FmHA regulations. We request that FmHA take immediate steps to stop prepayments and transfers by informing county and state offices that no prepayments on \$515 loans are to be accepted and that no transfers of \$515 loan obligations are authorized without the express written approval of the national office. We further request that FmHA take immediate steps to amend its regulations and loan documents to make clear that prepayment or transfers will not be authorized unless they further the purposes of the 1949 Housing Act. Such regulations should clearly delineate the circumstances under which prepayment or transfers will be authorized.

The National Housing Law Project is aware of three projects where the owners have either taken the option of prepaying the mortgage loan or have contemplated prepayment. In all three instances the prepayment was in anticipation of or actually coupled with a change in project ownership.

The first of these projects is located in Idaho. There the project owner sought to sell a small \$515 project. In expectation of removal of the FmHA interest credit subsidy, and to

Gordon Cavanaugh
November 15, 1978
Page 2

facilitate sale of the project, the owner commenced evictions of all tenants. After some tenants vacated the project, some of the remaining tenants sought and obtained legal assistance. Threatened with a lawsuit based on violations of the tenants' lease, the owners of the project terminated any attempts to evict the remaining two tenants. FmHA officials, who apparently were unaware of the contemplated sale, were contacted by the Legal Services attorney representing the remaining tenants and were asked to intervene by not approving the sale. They, apparently, informed the Legal Services attorney that FmHA could not preclude the sale if the loan was prepaid. In response to a request to provide the tenants with a notice regarding the sale, FmHA officials responded that FmHA had no obligation to inform the tenants of any impending sale. While there is some question whether this particular project is still up for sale, there is no question that a number of tenants have been illegally and improperly evicted and that FmHA's Idaho office does not view itself as having any obligations to §515 tenants when a prepayment and sale are contemplated.

In Amelia, Ohio, a limited-profit corporation sponsoring a six-unit §515 project recently prepaid its mortgage loan and sold the project to a private individual who promptly raised the rents from \$115 to \$225 per month. Prior to the sale, FmHA did not inform any of the tenants of the impending sale or of the termination of the interest credit subsidy. By raising the rents over \$100 per month and by requiring all tenants to execute new leases, the project owners are constructively evicting all but one of the project's tenants, some of whom have lived there since it was first completed in 1974. FmHA's authority to accept prepayment on this loan and its authority to terminate the interest credit subsidy without prior notice to the tenant are presently being challenged in Hafer v. Bergland, C-1-78-693 (S.D. Ohio, filed Oct. 27, 1978).

In Orange County, Florida, a nonprofit farm labor housing sponsor (the sponsor is a grower-sponsored nonprofit organization) has recently entered into an agreement to sell its §514 project to the county. The project sponsor, who has been in default in its payments to FmHA for over two years and who has deferred all maintenance in the project for a number of years, apparently stands to pocket a substantial profit from the sale. That profit is being underwritten by HUD's Community Development Block Grant Program. FmHA officials in Florida apparently have taken the position that they have no authority to preclude the sale. Only after suit was threatened did the county pledge not to evict any of the project's tenants. Nonetheless, this farm labor housing project which is about 10 years old will be no longer dedicated to serving only farm laborers.

Gordon Cavanaugh
November 15, 1978
Page 3

FmHA's acquiescence in the conversion of these FmHA-financed low- and moderate-income housing projects to above moderate-income housing projects, its participation in the constructive eviction of the tenants through the elimination of various rental subsidies, and its failure to afford tenants any due process protections, are all in derogation of FmHA's obligations under the Housing Act of 1949 and contrary to FmHA regulations.

The Housing Act of 1949 is intended to benefit low- and moderate-income residents of rural areas, not sponsors of low-to-moderate-income housing. The declared purpose of the Act is the provision of decent, safe and sanitary housing to every family. 42 U.S.C. §1441. FmHA has a statutory obligation to exercise its powers consistently with the purposes of the Act, 42 U.S.C. §1441, and to give its highest priority and emphasis in serving the housing needs of low-income families. 12 U.S.C. §1701t.

Sponsors of rental housing are not prime beneficiaries of the Housing Act of 1949. When they agree to borrow funds from FmHA they are clearly informed that the purpose of the rural rental housing programs is to provide eligible occupants with economically designed and constructed rental housing at rents that are within the payment ability of low- and moderate-income persons, 7 C.F.R. §1822.8 and §1822.84(a)(2); that they are ineligible for FmHA assistance if the housing which they propose to construct is intended for sale in the near future, 7 C.F.R. §1822.86(b)(9); that if they operate the project on a limited-profit basis their return on investment will be limited to 8%, 7 C.F.R. §1822.88(k); and that the operations of the project will be subject to a host of other FmHA statutes and regulations, all of which are intended to assure the low-to-moderate-income status of the project. See, generally, 7 C.F.R. §1822.88(d).

To induce FmHA to make the loan, sponsors represent that they intend to provide housing for low- and moderate-income rural residents and that they are unable to obtain financing for such purposes on terms and conditions which they could reasonably expect to fulfill. 7 C.F.R. §1822, Subpart D, Exhibit G. Moreover, in the loan agreement and promissory note, they specifically obligate themselves to providing housing for low- and moderate-income persons. Id.

From the actions and representations of the Idaho, Ohio and Florida offices of FmHA, it appears that borrowers have an unpimpeded privilege of prepaying rental housing loans and, thereby, abrogating all of their representations, duties and obligations. If that is true, the Housing Act of 1949 has been made to stand

Gordon Cavanaugh
November 15, 1978
Page 4

on its head. The Act's incidental beneficiaries, project sponsors, become its prime beneficiaries. The intended prime beneficiaries, low-income rural residents, at best become incidental beneficiaries. Tenants' interest in continued occupancy of decent, low-cost rural housing becomes subservient to the borrower's interest in increased profits and/or freedom of operation. Clearly, when Congress passed and amended the Housing Act of 1949, it did not intend this result. FmHA should not allow its recurrence.

We are aware that FmHA presently has no express regulations prohibiting loan prepayments. We urge, therefore, that it adopt as soon as possible regulations precluding prepayment of \$514/516 and \$515 loans for a period of at least 25 years without prior express approval of the Administrator. Similar regulations have been adopted by HUD with respect to the operations of the \$521(d)(3) and \$236 programs. A copy of those regulations is enclosed. We suggest that the FmHA regulations enumerate those circumstances under which the Administrator's approval will or will not be given. In that regard, we believe that approval for prepayment is only justified when the interests of low-income rural residents are not adversely affected.

On an interim basis, we believe that FmHA can refuse to accept loan prepayments when the purposes of the Housing Act of 1949 are not likely to be advanced as a result of the prepayment. As we have previously pointed out, borrowers, as part of their loan obligations, agree to sponsor the project for the benefit of low- and moderate-income persons. FmHA has a right and an obligation to insist upon the specific performance of that agreement. It can thus refuse prepayment when its acceptance would undermine the purposes of the loan, the program and the Housing Act of 1949.

Considering the limited resources of FmHA, both in terms of loan funds and staff, we urge that FmHA take immediate steps to prevent the loss of already constructed and occupied low- and moderate-income rural rental and farm labor housing.

If the NHLP can be of assistance in drafting regulations or in proposing amendments to various FmHA documents, please feel free to call on us.

Sincerely yours,

Gideon Anders
Staff Attorney

GA:kc
cc: Betty Walker
Art Collings

Senator KASSEBAUM. Mr. Raphael.

STATEMENT OF PHIL BROWN, ASSOCIATE DIRECTOR, RURAL AMERICA

Mr. BROWN. A little correction there, Senator. I'm Phil Brown. Mr. Raphael couldn't make it.

Senator KASSEBAUM. All right.

Mr. BROWN. I'm the associate director of Rural America.

I am grateful to the subcommittee for giving me the opportunity to comment on behalf of the acting executive director, on the extension of authority for housing programs that serve rural people.

Rural America is a national membership organization that advocates on behalf of rural people in such areas as housing, health care, energy and land reform. Our primary objective is to assure rural people equity in the distribution of services and the allocation of resources.

As one of our major initiatives, Rural America administers a nationwide housing program for migrant and seasonal farmworkers. The administrative costs of this program are funded by the Department of Labor. For the past decade Rural America, through a system of sub-grantees based in rural areas, has used Farmers Home Administration rural housing programs to finance the construction of farmworker housing. At the present time using DOL funds, we contract with over 50 public and private nonprofit organizations in 36 States and the experience gained from this housing development network provides the basis for our comments today.

EXTENSION OF FmHA HOUSING PROGRAMS

We believe that all of the FmHA housing programs whose authority expires next September 30 should have that authority renewed for at least 1 year—longer if the committee sees fit. These programs include section 502 loans, section 504 loans and grants, farm labor loans and grants, section 515 rental housing, self-help technical assistance, and section 525 technical and supervisory assistance.

PROPOSED 1980 PROGRAM LEVELS

We had been warned ahead of time that the President was going to submit a tight budget last January. We thought that would mean a hold-the-line budget. Instead it meant that the rural housing program of the Farmers Home Administration was scheduled to take a step backward. We estimate that the FmHA programs for 1980 in order to assist the same number of people, should be funded at a 10 percent higher level than 1979. Instead, with one small exception, the programs are budgeted at the same or lower levels than those for the current fiscal year. We do not believe rural housing programs should be cut, nor should they remain at the same level. We believe that decent shelter is a fundamental right of every person and that Federal rural housing programs should continue to grow and expand until that need is met.

To be more specific we believe that the section 502 insured homeownership program should be funded at a level of \$3.4 billion rather than \$2.4 billion as proposed by the administration. \$3.4 billion is a 20 percent increase over the current year. Ten percent of this would keep the program at the 1979 level and the other 10 percent would be a partial response to the increasing demand. The demand for these loans has always been far greater than the funds available, but these days, with interest rates soaring, the number of people who need decent housing and cannot afford conventional financing is skyrocketing. Farmers Home does out its funds to its field offices on a quarterly basis. The typical office this year uses up its quarterly allotment in a matter of days.

The same situation prevails with the section 515 rental housing program. Recently a high-ranking FmHA official told us they had 3 years worth of rental housing applications on hand. We recommend that the program level for rental housing loans in 1980 be \$1 billion rather than the \$868 million proposed. This represents a 20 percent increase over the current year.

FARMWORKER HOUSING

We have a special interest in farmworker housing. Helping farmworkers obtain better housing has been our main concern for more than a decade. Moreover we are convinced that farmworkers are the poorest housed of any group in America. The study the Farmers Home Administration is about to undertake as directed in the Housing and Community Development Amendments Act of 1978, will give us the exact dimensions of this problem.

We are optimistic enough to believe that this study is part of a new found governmental concern for farmworker housing. It is about time. Looking back, it is a wonder the program survived the seventies. From 1972 through 1976 the administration then in power announced each year that the program was not needed; and then when the Congress proceeded to appropriate funds anyway, the administration would freeze the appropriations. It got so bad that in 1974 Rural America had to sue the Government to pry loose the funds. And in fiscal 1976 the administration managed to keep the funds frozen from July 1, 1975, to mid-February 1976.

Today things are looking up. We have an Administrator of the Farmers Home Administration who supports the program, and we have an administration that uses the funds the Congress provides. Let us proceed and make the existing program more effective. This will necessarily involve some hard thinking about that group of farmworkers which has the most desperate housing needs—migrants.

Practically all of the housing for farmworkers that Farmers Home has financed in the past has been intended for permanent, year-round shelter. And much of this has been constructed in the so-called home base areas of California, Texas and Florida. Very little farm labor housing has been provided thru FmHA along the routes migrants travel. In neither area has the FmHA program done more than scratch the surface.

In order to better meet the need in home base areas we believe that FmHA should be encouraged to make available other forms of

financing such as that available under sections 502, 504 and 515. An expanded, modified and innovative section 514-516 program should be used to provide housing along the migrant stream.

Migrant housing occupied only part of the year would require a deeper subsidy than is now available. Construction costs could be completely subsidized through grants and operating costs heavily subsidized through rental assistance payments. Nothing less will do the job, given the magnitude of the need.

No one who has seen it can deny that temporary housing for farmworkers while they are on the road is poor at best and unbelievable at worst. Listen to what a member of one of our delegate agencies in California has to say about conditions migrants still have to deal with, even today, 40 years after "The Grapes of Wrath" brought the shameful treatment of our migrant workers to national attention.

[The following extract is taken from an interview taped in January 1979:]

Well there is a camp in the southern part of Tulare County, a farm labor camp that is made up primarily of boxcars, and this houses some 120 families. It's a privately owned camp that has a common washroom where the toilets are almost always stopped up, last summer in the peak of the harvest season there were close to 500 or 600 people there, sleeping next to the grapes and under the trees and using those very inadequate and non-functioning facilities there. There are other small camps throughout the agricultural area, where migrant families sleep outdoors, sleep under bridges and wherever they can find a place. Then there are year-round farmworker families of 13 and 14 sleeping in one- and two-bedroom shacks, that sometimes have no indoor plumbing or no electricity.

We recommend that the current authorizations of \$38 million for farm labor housing grants and \$38 million for farm housing loans be each increased to \$100 million.

SECTION 504

Another specific program which we believe needs expanding is the home repair loan program under section 504. We are in the process of putting the final touches on a rather detailed study of the program statistics for this program. It has had an uneven history through the years. First it was almost completely ignored by FmHA. Then, under President Johnson, a demonstration program showed that section 504 had great potential but that it involved using the program's grant authority on a substantial scale and this led to congressional opposition to home repair grants for more than a decade. Now, they have been reinstated for elderly homeowners and the program is beginning to show signs of rebirth. We would recommend several initiatives in connection with these home repairs for very low income.

First, the grant authority should be extended to nonelderly as well as elderly—as was originally intended. Data from the 1976 Annual Housing Survey showed that more than 40 percent of all nonmetro owner-occupant households with incomes of below \$5,000 were headed by someone less than 65 years of age. At those income levels, very few can afford to repay a loan even at 1 percent interest. If their housing is in unsafe and unhealthy condition, as it frequently is, they need to have access to the section 504 grant for at least part of the costs of remedying that condition.

Second, our analysis makes it clear that the section 504 program has suffered from the lack of attention within FmHA. In many counties field staff don't use the program because they aren't really familiar with it and no one is pushing them to become familiar with it. The requirements for preparing a 504 loan package vary greatly from State to State and this is not only inequitable but also inefficient. The procedures for this program need to be streamlined and the entire FmHA field staff need to be trained in it and encouraged to take advantage of its potential for assisting the lowest income households.

Finally, we would point out that this program can only serve homeowners. Again, the 1976 Annual Housing Survey data show that 60 percent of the lowest income nonmetro households in the worst housing are renters. A substantial number of these live in housing which is so bad that the landlord neither collects any rent nor feels any interest in making repairs. We urge the committee to direct FmHA to take a look at this aspect of the rural housing problem and to study possible methods for adapting the section 504 home repair program to meet the needs of these people. If they can't be provided with alternative standard rental housing in the near future—and this seems unfortunately to be the situation—then we should at least be looking for ways to make their present conditions somewhat safer and healthier, if at all possible.

STUDY OF EMERGENCY SEWAGE AND POTABLE WATER PROGRAM

The Housing and Community Development Amendments Act of 1978 directed the Secretary of Agriculture to conduct a survey to determine the approximate number of rural housing units without access to sanitary waste facilities or potable water or both and report the same to both Houses of Congress within 6 months together with a projection of the cost of implementing an emergency program to provide such facilities for such housing units within 2 years.

This condition creates an acute and critical health problem for many people and must not be tolerated. We suggested that loans made for this purpose shall bear interest and be payable only to the extent that a borrower's total housing expenses—principal, interest, taxes, insurance, utilities and maintenance—will not be increased to an amount in excess of 25 percent of his or her annual income. Grants should be used to the extent necessary. This type of assistance can be provided under section 504. We urge the committee to increase the section 504 authorization to the necessary level. FmHA should be able to indicate that level in the near future.

SELF-HELP HOUSING

We also have a special interest in self-help housing, Rural America got its start as a self-help housing agency back in 1967. When Congress sought to find a permanent home for the experimental self-help housing program launched by the Office of Economic Opportunity we testified in support of the legislation that in 1969 established a permanent program in FmHA. We say permanent program for that is what Congress intended it to be, but like the FmHA farmworker housing program, self-help would have died in

the seventies if the executive branch had had its way. Fortunately the will of Congress prevailed and the program was retained. But it suffered greatly.

Today, so far as self-help housing is concerned, is a whole new ballgame. This special approach to home construction has strong support in the upper ranks of the Farmers Home Administration. A special housing section has been created in the national office to give this program and others like it the attention they deserve. As a starter the FmHA held a conference here on March 1 where self-help sponsors all over the country were invited to discuss possible changes in the regulations governing the making of FmHA self-help housing technical assistance grants.

A major cause of the rise in home mortgage cost is the costs of land. The first self-help house was built in 1966 for \$6,600 including the site. In the same areas of the San Joaquin Valley of California land costs are now over \$8,000 per lot. Land costs nationally have gone up by 60% since 1970.

In order to insure continuing service to low-income families under the self-help housing program we urge that the self-help site loan program be amended to allow FmHA to forgive a part or all of the interest and principal on site development loans.

We recommend that the program level for self-help technical assistance be set at \$30 million for 1980 rather than the \$5 million level suggested in the budget. We believe that the sympathetic treatment the program is now receiving plus the proposed addition of a self-help rehab program will require that amount of funding.

SECTION 525

Our current federally subsidized multifamily projects theoretically are for the benefit of the underhoused, but in reality most directly profit the developers, syndicators, and tax shelter seekers. The time has come for an honest and less costly program of decent housing sponsored by locally owned and controlled nonprofit corporations, public housing authorities, and housing cooperatives. The present system of private sector housing is a byproduct of pump-priming and tax sheltering. This system is not designed as it should be to enable the individuals or local communities to help themselves as is possible through tenant-owned and managed housing cooperatives or locally controlled nonprofit corporations and public housing authorities. We strongly believe in a local housing system which enhances individual initiative, self-reliance and community enterprise, which cooperative and community-controlled housing provides.

It does not come as a surprise to us that the Comptroller General of the United States has just uncovered some serious and very costly problems in the private developer-oriented HUD section 8 program. The Comptroller General found that private investors who own and operate section 8 housing with heavy subsidies from HUD can sell their projects or convert them to condominiums in as little as 5 years. The Comptroller General said and I quote:

This would likely result in the displacement of low- and moderate-income tenants and is in marked contrast to much longer service which can be expected from a program such as conventional public housing which should serve subsidized tenants for at least 40 years at much lower costs.

We believe that FmHA through its 525 technical assistance loan and grant program and HUD through its public housing programs should begin to develop, fund and implement a large-scale nationwide nonprofit housing delivery system. Such a system would not only provide an alternative to the numerous costly loopholes and tax shelters provided to private investors such as uncovered by the Comptroller General, but more importantly help people and communities to help themselves.

Such a program would augment the small but vital farmworker housing program we administer with funds from the Department of Labor.

To enable FmHA to begin to develop such a program we recommend that the authority for section 525(a) grants and section 525(b) loans be raised from the cumulative amounts of \$10 million each to an annual authorization of \$20 million each.

RENTAL ASSISTANCE

Present statute limits the rental assistance to 20 percent of the units in a project occupied by families. While the goal of economic integration is important, we feel that the housing conditions in a community should dictate the population served rather than national regulations. We urge therefore that rental assistance to projects be based on overall community needs.

Similarly, we have seen over time that the financial assistance available under sections 514-516 does not insure that the rents will be within the reach of low-income farmworkers. We urge the set-aside of rental assistance funds for all new units financed by FmHA which will serve migrants.

RECAPTURE

When the Home Ownership Assistance Program of the FmHA was being considered last year we supported the concept of enabling FmHA to recapture, under certain circumstances, some of the deep subsidy this program provides. We had no idea that the recapture provision would also include the subsidies supplied in the interest credit program. We certainly are opposed to the recapture of interest credit subsidies and we are having second thoughts about the recapture of HOAP subsidies.

It seems to us patently unfair to ask low-income people to repay their subsidies when middle- and upper-income people receive millions every year in tax advantages linked to their home ownership. The 1980 budget indicates that in 1980 these tax expenditures as they are called will total almost \$16 billion, approximately half of which will go to people with incomes over \$30,000.

What's more, the recapture program is going to be a nightmare for all concerned. A mortgage is something you can understand, a recapture provision is a veiled threat that hangs in the background threatening you with a loss that defies understanding. The difficulty the FmHA is encountering in developing a workable recapture system is an indication of what lies ahead. The formula they are proposing—0.5 (value appropriation) multiplied by Borrower Payments divided by Total Cost equals Payment to the borrower—is a striking symptom of the illness called recapture.

TARGETING

Another major item of evidence that this administration is in the process of revitalizing the rural housing program is its strong concern with targeting of housing assistance—making sure that it goes to those who need it most. This is a concern we share and the statistics make it clear that it is not a misplaced concern. Between fiscal year 1973 and fiscal year 1977 the average adjusted income of section 502 borrowers went up by 53 percent and that of section 504 borrowers went up by 79 percent. These increases are substantially greater than the contemporary increase in median family income in the Nation, or in the cost-of-living. The rise in borrower incomes was even more rapid than the rise in the average loan size. The share of section 502 loans going to borrowers with incomes below \$8,000—adjusted—was 82 percent in fiscal year 1973. Roughly the same proportion of section 504 loans went to borrowers with incomes of less than \$3,000—adjusted. In fiscal year 1977 those figures had been cut to less than 40 percent in each program.

Administrator Cavanaugh has made it clear that he wants to do a better job of targeting Farmers Home assistance and we understand that he has received recommendations from an agency task force on the way to do this. We urge this committee to give such an effort your strong support and to indicate that FmHA targeting should have at least three essential elements: First, an allocation system, nationally and in the distribution of assistance to the States, which assures that an appropriate share of the available funds be reserved for the lowest income families—those with adjusted incomes that are less than half the national median for rural families. Second, an allocation system that also assures that appropriate shares of FmHA housing assistance go to meet the special needs of large families, seasonal and migrant farmworkers, minority households, female-headed households, et cetera. HUD already requires that local housing assistance plans indicate the separate needs for various types of lower income households and FmHA should seek to similarly target its funds. Third, in order to make such an allocation system work at the local level, FmHA staff should be required to observe a system in processing applications for assistance which gives first preference to those with the lowest income and the worst current housing conditions.

FmHA STAFF

For more than a decade we have been pointing out, at every opportunity, the need for FmHA to have additional staff. We note with some pleasure that the agency made a small gain in the recent distribution by the OMB of position ceilings. FmHA now has a ceiling of 7,900 permanent positions for fiscal 1979 and 1980. We are also pleased to note that in the reorganization plans proposed by the White House, FmHA will keep its housing and community facility programs. That's an increase of 125 employees over the level at which the agency entered the 1979 fiscal year. But we believe at a minimum the FmHA staff should be increased by 2,000 full-time employees. That would provide on the average one more person in each FmHA county office. That is the least that should be done to strengthen the best delivery system for financing hous-

ing and community facilities, to say nothing of farm operations, in rural areas that has ever been created.

Mr. Chairman that concludes my remarks. If you have any questions I'll be glad to respond.

Senator KASSEBAUM. Thank you, Mr. Brown. I'm sorry I didn't have the correct introduction.

I would just like to ask a question in general to the three of you as representing the Rural Housing Coalition.

Do you feel that the work you have done in preparing as a task force, so to speak, and preparing material, has prodded those you would seek to prod in the right direction? Have you felt it has been effective perhaps in making some changes and not necessarily some changes so much as influencing some directions that you feel are important? Do you feel this has been valuable?

Mr. POWERS. Well, are you asking if we feel the work we have done is—

Senator KASSEBAUM. Do you think it's making a difference perhaps in some directions?

Mr. POWERS. We would like to think so. If not, a lot of us are getting tired for nothing.

Mr. WILSON. There have been, over the years, some significant changes in Farmers Home Administration programs and in HUD efforts for rural areas, and we would like to feel that information that we have provided has helped with that.

I'd like to mention specifically that we are having or will have problems with the homeownership assistance program. It was a result of a number of people that those needs for the deep subsidy program came to light. It has been pointed out by rural groups over the last number of years that the Farmers Home Administration has on an increasingly large basis been unable to serve lower income clientele with its programs. The income levels that they have been able to serve has gone up consistently over the years and as a result of that information the homeownership program was born.

Now that it's time to fund that program that need has not gone away and with their finite resources the Farmers Home Administration has sought to target its resources to lower income clientele. That targeting is going to be extremely difficult, though, without the tools to achieve that effort and the homeownership program is one of the crucial tools that the organization needs to meet the needs of families that it once served a number of years ago but now can no longer serve.

I think the answer is, yes, there has been some significant movement in growth, but we really seem to be at a turning point this year where we are faced with the decision of whether we are going to use our limited resources to house the truly poor in our country or, as Gordon indicated, whether we are going to continue to subsidize others that may not need it as greatly as the poor.

Hopefully, we will be able to answer affirmatively this year that we did not turn our backs on the poor.

Senator KASSEBAUM. I understand that the House is considering some changes in the section 525 program. Is this correct and are you familiar with it? I'm not familiar with what corrections they might be addressing at this time.

Mr. BROWN. What I noticed in the House action was that they have added a section to the 525 which is solely concerned with counseling. For some reason, they seem to feel that even though section A covered counseling along with outreach, they wanted to, I guess, emphasize the importance of counseling, so they put a section in there just authorizing grants for counseling, period.

Mr. WILSON. I think there was some question—and my colleagues can correct me if I'm wrong—but I think there was some question whether the 525 loan program would remain in the act. There is a grant provision, 525(a) and a loan provision 525(b). We would like to urge that the loan provision—the portion of the 525 program for groups to receive money for front-end expenses and so forth—be retained even though it has not been funded and is not scheduled to be funded this year. The authorization and authority for that loan provision should definitely remain on the books because our experience indicates that the loans are crucially important portions of money that rural organizations need. One is the salary and expense money that the grant provision will provide, but then the groups also need working capital to take care of front end expenses and the revolving loan provision will allow them to have funds to option land and to do other things that they need to perform with loan funds.

MINIMUM STANDARDS

Senator KASSEBAUM. This, again, would be in general. HUD requires certain minimum standards to apply to the different localities. Do you feel that these are adequate and are reflective for poor rural housing? Do you think they are adaptable, these standards, or is this a problem?

Mr. BROWN. Well, we think that they may be a little too rigid and we were encouraged this morning to hear Assistant Secretary Simons when he was talking about all the good things they're doing for rural America to say that they are considering modifying those standards. I think that would be a step in the right direction.

Mr. POWERS. I think there are excellent reasons why we have the minimum property standards in the agencies, and that's because of past abuses in the programs. I would think that at some times they are applied inflexibly on the local level and that might be a problem. As an example, in some cases there is insistence on where they build a small subdivision of Farmers Home to require curbs and gutters when nobody else in the community has curbs and gutters. We would hope the flexibility would extend to not putting those extra requirements in areas where they are not normally used. I think some of that is happening. That flexibility is slowly coming about, but I don't think there are simple answers to that. I don't think there's a single rule that we can follow and there are areas where the minimum property standards are just excessive and there are other areas where I would sure want them to protect the consumer.

Senator KASSEBAUM. Thank you very much.

Do you have any questions?

Mr. MALAKOFF. No.

Senator KASSEBAUM. I certainly appreciate your time and I thank you for the testimony.

Last, but not least, it's a pleasure——

Mr. FLEMING. There are some who would argue with you.

Senator KASSEBAUM. It's a pleasure to welcome you, Mr. Fleming, and any remarks any way you might wish to present them because certainly your full testimony will go in the record.

STATEMENT OF N. N. FLEMING III, CHAIRMAN PIEDMONT-TRIAD COUNCIL OF GOVERNMENTS, GREENSBORO, N.C.; ACCOMPANIED BY GEORGE GABERLAVAGE, FEDERAL LIAISON, NATIONAL ASSOCIATION OF REGIONAL COUNCILS

Mr. FLEMING. Thank you, Senator Kassebaum.

I am registered as an individual witness, but I am here on behalf of the National Association of Regional Councils, and there's a dissertation in my remarks as to the Regional Councils and their activities, but the National Association of Regional Councils represents over half of the regional councils in the United States and they are very much concerned about the possible effects of the administration's budget proposals on efforts to improve rural housing.

[Complete statement follows:]

TESTIMONY

N. N. FLEMING
Chairman, Piedmont Triad Council of Governments
Greensboro, North Carolina

ON BEHALF OF THE
NATIONAL ASSOCIATION OF REGIONAL COUNCILS

Mr. Chairman, I am Neal Fleming, Chairman of the Piedmont Triad Council of Governments and Chairman of the Board of Commissioners, Alamance County, North Carolina. I appreciate the Subcommittee giving me this opportunity to testify on the extension of authorizations for rural housing programs.

Regional councils are public areawide organizations of general purpose local governments encompassing a total regional community. Their primary purposes are to increase communication, cooperative decision-making and coordination among local governments, and to develop policies and programs to meet mutual problems. More than 600 regional councils have been established to deal with areawide problems such as housing, community and economic development, environmental quality, transportation, and public safety. The National Association of Regional Councils represents over half of the regional councils in the United States.

NARC members are very concerned about the possible effects of the Administration's budget proposals on efforts to improve rural housing. They are particularly concerned about the housing programs administered by the Farmers Home Administration and the Section 8 Housing Assistance, public housing, and Section 701 Comprehensive Planning programs of the Department of Housing and Urban Development. The Administration has proposed to fund these programs at the same or lower levels than those for the current fiscal year.

NARC believes adoption of the Administration's recommendations will seriously impair the ability of local governments and their regional councils to meet the housing needs of rural areas. In my region alone, there are 55,000 households who are paying excessive rents or who are living in substandard or overcrowded housing. Over 18,000 of these households consist of elderly persons and 11 percent are minority households. In one county (Caswell) 42 percent of the housing is substandard. Yet our region received only enough federal assistance under all programs to produce 2,000 new units.

The Farmers Home Administration housing programs, while limited in funding, are among the most useful and effective of the federal housing programs. We believe that the Section 502 Insured Homeownership Program should be funded at a level higher than that proposed by the Administration. In my region, Section 502 makes up the majority of FmHA housing assistance and the demand for these loans far outstrips the funds made available. NARC also supports higher funding levels for the Section 515 Rural Rental Program and the Section 504 Home Repair Program. In the entire Piedmont Triad Region, FmHA was able to make only four Section 504 loans last year. We and other regions have had good success in coupling the Section 515 Rural Rental Program with the HUD Section 8 Rental Subsidy Program. Our region has been limited to 300 units per year of Section 515 rural rental housing, and we can use many more units.

NARC believes the Administration's budget projections for the Section 8 Housing Assistance Payments Program to be unrealistic in light of the present rate

of inflation. We hope that Congress will provide enough authority to complete at least 300,000 units in FY 1980. In addition, we feel HUD can do more to make the program address the needs of rural areas. One positive step HUD might take is to re-examine its administration of the program. In fact, many builders are discouraged by the large amount of paperwork and the number of inspections associated with HUD projects.

There is also a need for better coordination between HUD personnel administering the Section 8 program and the Section 202 Elderly Housing Program. Frankly, they don't seem to communicate with each other. The proportion of elderly persons in the Piedmont region's population has been increasing rapidly and housing for this group is one of our primary concerns. Most elderly North Carolinians cannot really afford non-subsidized housing, and we would like to receive more cooperation from HUD in meeting their needs.

HUD has concentrated most of its assisted housing in the metropolitan areas of the region such as Greensboro, Winston-Salem and High Point. However, the vacancy rate for rental units throughout the region is low. In my home county, it presently stands at .25 percent. This low vacancy rate, combined with the limited number and metropolitan location of assisted units severely restricts the housing choices of rural low and moderate income households. It also creates an equal opportunity problem because a large number of these households are minority households.

The Piedmont Triad Council of Governments has addressed these problems by developing an areawide housing opportunity plan. This plan has been approved by the Council's Board of Delegates and is presently being

implemented. It outlines a program to reduce the concentration of low income housing, establish housing priorities based on need, reduce the incidence of substandard housing, eliminate dilapidated housing, encourage adequate housing production levels to meet future needs, and eliminate discrimination in housing. This program was developed under the auspices of the HUD 701 program.

Our regional council, and many others across the nation, depend heavily on 701 funds to implement the areawide housing program approved by local governments. Housing projects undertaken by the 17 public housing agencies, local governments and private organizations in our region, undergo an A-95 review to assure consistency with the areawide housing program. The council checks the flood plains and market analysis of each project to make sure that we are spending our housing dollars in the most efficient manner. The market analysis is particularly important in rural areas to prevent overbuilding and adverse affects on small towns. All of these activities are funded by the 701 program.

The Administration has proposed an authorization of \$40 million for the 701 program in fiscal year 1980. This is a sharp reduction from the current fiscal year (\$57 million) and reflects a continuing decline in federal funding support.

We recognize that many members of Congress are skeptical about the 701 program and what its impact has been in implementing national community development goals. HUD's past failure to closely integrate the housing element

required under 701, and the housing assistance plans (HAP) under the Community Development Block Grant Program contributed to a lessening of support for the program. However, HUD has been moving to ensure that its decisions on housing funding are related to areawide housing plans developed under 701. In 19 areas, HUD has used the "housing opportunity plans" devised as part of an incentive demonstration program to allocate housing funds at the regional level.

NARC and other public interest groups have proposed a revision of the program's language to require the preparation of a community conservation and development strategy instead of separate housing and land use elements. The legislation would also provide for a strengthening of interagency coordination at the federal level and a stronger emphasis on coordinating various federal programs through the A-95 process. The community conservation and development strategy would be a coordinated set of policies, and programs developed by the 701 recipient to guide major public and private investment decisions for the conservation, revitalization and development of the region. While retaining the essential comprehensiveness of the present 701 program, the community conservation and development strategy would add a new dimension by acting as the focal point for public and private investments.

Any federal agency undertaking a development project within a region for which a conservation and development strategy has been approved would be required to comply with that strategy unless the purposes of the federal statute being administered could not be fulfilled. NARC would also propose stronger

performance standards for the recipients of 701 grants. Under our proposal, significant progress in implementing the strategy would have to be shown within two years or no further grants could be awarded.

NARC strongly urges the Congress to maintain the present authorization of \$57 million for the 701 program. We also hope the Committee will give serious consideration to our proposals for revising the program. As local elected officials serving the same citizens you serve, we recognize the budgetary implications of our requests, but NARC feels strongly that we must continue to commit significant resources toward meeting the housing needs of the nation's rural areas.

Thank you.

Senator KASSEBAUM. Thank you very much, Mr. Fleming.

I would like to ask just some questions for my own information. Once these plans are drawn up and you said you had drawn up the plans and they were being implemented, how are they carried out? Is this then HUD's responsibility?

Mr. FLEMING. It's a cooperative effort. The region plan is adopted by the majority of the 52 governments in my region and consequently they become the yardstick for A-95 review for any project that comes through for A-95 consideration.

Our regional council is a planning agency. It's not an implementing agency. But it's a cooperative effort between all the governmental entities in our region and so consequently when an A-95 review comes up for any application, either Farmers Home application or HUD application or any other of the housing applications, they are measured against the regional housing plan which indicates there is no violation of the plan that we have adopted, and then the A-95 review is given a positive approval and it goes on to the clearing-house.

We coordinate or correlate the activities of all the individual applicants for whatever program that they might be interested in. So we are not implementing. We are a planning agency and sort of a correlating agency.

Senator KASSEBAUM. Do you feel you have certain directions that you place a priority in one of the various aspects of the plan? Do you then tend to try and push in that direction?

Mr. FLEMING. We try to encourage the local governments and other governmental agencies to endeavor to carry out the plan as adopted. Of course, in developing a rural regional housing plan we take the cities' and counties' thoughts and put these together into a regional housing plan and in my own county it has 100,000 population. My own planning department developed a housing program for our county considering the housing needs both urban and rural, and these become a part of the regional housing plans or a negotiated part of the regional housing plan. So local governments have had the input into this program. They are aware of what the program is and they are aware of what effect their interest has on any other governmental agency within our region.

Then we do encourage areas to develop or to implement these plans. Now we would also encourage—where there is a specific need and there is no proposed course of action to fulfill that need, we would go into that area as a regional council and encourage the government to make application, or if there is a private entity that would be making application for Farmers Home funds or something else to assist in this area we would encourage them. We would give them technical assistance. We would tell them about our knowledge about what programs are available to assist them in carrying forth this project that would fulfill this particular need. I don't know whether I answered your question or not.

Senator KASSEBAUM. Yes, but you actively go out and seek assistance then?

Mr. FLEMING. Yes.

Senator KASSEBAUM. Whether it's federal or private monies?

Mr. FLEMING. Yes, and we would endeavor to possibly put together a cooperative effort of maybe both kinds. We are a strong

believer in our effort of cooperative federalism which I understand is Federal, State and local cooperation.

Senator KASSEBAUM. How many regional housing groups are there around the country? Do you know?

Mr. GABERLAVAGE. Well, there are over 600 regional councils across the country and most of them are involved in HUD programs of some sort, mainly the 701 program. They do the planning for the housing in the region.

Mr. FLEMING. Senator, this is George Gaberlavage of the national association staff. He knows more about the national level. I can talk about North Carolina.

Senator KASSEBAUM. And those 600 are operated under the 701?

Mr. GABERLAVAGE. Yes.

Mr. FLEMING. We have 17 planning regions in North Carolina and all 17 of them have 701 programs.

Senator KASSEBAUM. Do you have any questions?

Mr. MALAKOFF. No.

Senator KASSEBAUM. I think I have one other particular question. I guess it would go back almost to one that I asked the Rural Housing Coalition and you answered it a bit I think by saying you felt you had had some difficulty with HUD. Do you feel that HUD or Farmers Home Administration or any of the other agencies that you're working with are receptive to this type of input?

Mr. FLEMING. Yes, I think so. We have very good working arrangements with the HUD office in Greensboro which serves my county and the other counties in North Carolina, so our staff members are on a first-name basis with the staff members there and we work very well together.

Senator KASSEBAUM. Thank you very much, Mr. Fleming. We appreciate it.

[Whereupon, at 12:15 p.m., the hearing was adjourned.]

