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RURAL HOUSING OVERSIGHT AND REAUTHORIZATIONS

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HEARINGS

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BEFORE THE

SUBCOMMITTEE ON RURAL HOUSING AND DEVELOPMENT

OF THE

COMMITTEE ON

BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

NINETY-SIXTH CONGRESS

SECOND SESSION

ON

S. 2647

TO AMEND TITLE V OF THE HOUSING ACT OF 1949

S. 2650

TO AMEND TITLE V OF THE HOUSING ACT OF 1949 TO AUTHORIZE APPROPRIATIONS FOR FISCAL YEAR 1981, AND FOR OTHER PURPOSES

APRIL 1 AND 30, 1980

Printed for the use of the
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RURAL HOUSING OVERSIGHT AND REAUTHORIZATIONS

TUESDAY, APRIL 1, 1980

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

The subcommittee met at 10:15 a.m. in room 5302, Dirksen Senate Office Building, Senator Robert Morgan, chairman of the subcommittee, presiding.

Present: Senators Morgan and Stewart.

OPENING STATEMENT OF SENATOR MORGAN

Senator MORGAN. We'll call the Subcommittee on Rural Housing and Development to order.

This morning's hearing has been called to receive testimony concerning rural housing and development programs. There are six items for discussion on our agenda for this morning. While I certainly don't want to limit the discussion except in terms of the time that's available, I'm hopeful that our witnesses will provide the committee with information regarding these six matters.

First, the President's budget calls for a cut in housing assistance, particularly in the programs administered by Farmers Home. While there's no doubt in my mind that fiscal restraint is needed at this time, I do have doubts about the wisdom of cutting back sharply on rural housing programs this year. In light of the growing needs for housing in the Nation's nonmetropolitan areas where population is growing rapidly after decades of outmigration and in light of the depressed conditions in the homebuilding industry, I am concerned that excessive restraint on housing production today will result in persistent housing shortages in the future. It appears that the administration is calling for a cutback of at least 15 percent in the number of housing units that Farmers Home will administer in 1981. Low-income housing would be reduced by 5,000 units below last year's level and low-income rental assistance by almost 3,000 units. Moderate income homeownership loans would be cut by almost 50 percent, resulting in 12,000 fewer housing units assisted. Above moderate income homeowner loans would be cut out entirely.

The only significant increase sought by the administration is the low income homeowner assistance program and as you know this deep subsidy program was reduced in appropriation last year. In order to initiate the program in the coming fiscal year the administration has sharply reduced its request to a pilot program level of

just over 900 units. Of course, I can't be optimistic about its chances in light of last year's Senate debate and this year's budget actions.

The immediate outlook for rural housing programs and the President's proposal for Farmers Home is particularly worrying. I look forward to receiving testimony concerning the President's budget proposals in order to assist me and the committee in determining what we shall recommend to the full committee.

Second, while we have not received the administration's legislative proposals for this year's rural housing bill, I would be interested in hearing what changes in legislation are needed to improve our housing programs. I'm not looking for any amendments that will be contentious, as some of those that were enacted last year. I will be very interested in any constructive proposal our witnesses can offer.

Third, the General Accounting Office last Friday released a report entitled "Ways of Providing a Fairer Share of Federal Housing Support to Rural Areas." The report contains a number of findings regarding the conduct of Farmers Home and HUD programs in rural areas. It makes specific recommendations to the agency on how rural housing programs can be improved. I would be interested in hearing HUD and Farmers Home reactions to the GAO's recommendations and any comments our other witnesses wish to make on this report.

Fourth, last year HUD's Office of Program Planning and Evaluation conducted an evaluation of HUD's Indian housing program. The region IX report issued in December of last year reached several interesting conclusions and made four specific recommendations. We will hear this morning from a panel of persons with knowledge about Indian housing and development programs as well as from HUD and Farmers Home officials. I will be very interested in learning about housing and development issues which affect Indians living on or near reservations and how they can be solved.

Fifth, I would be interested in hearing about special programs that are being conducted by HUD and Farmers Home to improve services in rural areas. I'm referring to HUD's rural initiatives program in North Carolina and in the State of Washington and the joint HUD-Farmers Home program being carried out in five States. I look forward to hearing what they have found and where they expect to head on the basis of these demonstrations.

Sixth and last, I would be interested in hearing from the administration's witnesses concerning their roles in developing and implementing the administration's recently announced rural development policies. I will be equally interested in hearing from our other witnesses any views they may have concerning the administration's report.

The agenda is ambitious for the time we have available so we'd better begin it. I'd like to call our first panel: Mr. Alex Mercure, Assistant Secretary for Rural Development, Department of Agriculture; Mr. Gordon Cavanaugh, the Administrator, Farmers Home Administration, Department of Agriculture; Mr. Clyde McHenry, Deputy Assistant Secretary for Public Housing and Indian Programs, Department of Housing and Urban Development; and Mr.

Michael A. Stegman, Deputy Assistant Secretary for Office of Research, Department of Housing and Urban Development.

Following them, then we will hear a panel of three national organizations representing groups that are concerned about rural housing and development issues and who closely monitor the programs conducted by Farmers Home and HUD. We have invited as our third panel this morning three persons with particular knowledge about Indian housing and development programs. These persons represent special views that must be considered in any comprehensive view of Indian housing programs. They have been invited for their particular perspectives and particular experience. Their position as the final panel this morning reflects the narrower scope of their subject rather than the priority of their program.

Senator Stewart has come in to join us this morning and I will yield to Senator Stewart.

OPENING STATEMENT OF SENATOR STEWART

Senator STEWART. Mr. Chairman, I don't have anything specific to add to what you have already had to say about the housing programs. I have been concerned about some information that's been provided me, though, by members of my staff which indicates, for instance, that the percentage of Farmers Home Administration borrowers who are very poor with incomes below \$7,000 a year which has dropped to 40 percent in I think about 1973 compared to about 10 percent in 1979. So apparently those particular needs are not being met by Farmers Home or the need for housing in that income group are not being met. HOAP is an effort I think in that direction, but apparently that has not been successful and will perhaps not be successful this coming year.

The other thing that I know for a fact, and apparently this GAO study bears it out again, is that a large percentage of the substandard housing in this country is located in the rural areas and despite efforts on behalf of this Administration by good people like Gordon Cavanaugh and Secretary Mercure, they are not being reached, and this Administration's record in that regard may be somewhat better than they have been in the past but it's not good enough for me and, Mr. Chairman, I would hope that we would improve that record and maybe some of you folks here who are testifying this morning can enlighten me and tell me why that's so, why you haven't been able to do the kind of things you want to do.

I would say one other thing, Mr. Chairman, with regard to housing in general, and since we don't get much in the rural areas as far as housing is concerned, and a lack of attention to housing on the part of the administration more severely impacts rural areas than perhaps it will other areas, but this administration's commitment to the people who sent them up here is going to be judged in my State by what they do for those people or have done and will be doing in the 1980 budget and the 1981 budget, and I would say right now that they do not score very well in the State of Alabama. I can't speak for the State of North Carolina or other places, but they are not scoring well in the State of Alabama and I think we've got good people running the housing programs under this administration but if they don't improve this situation they won't be running the housing programs next year and there will be

somebody else running them and I like you all and I have gotten to know you and I look forward to working with you, but I think how well we work together in the next months will have something to do with how we work together in 1981. I plan to be back in 1981. That's all I have to say.

Senator MORGAN. Thank you, Senator.

Mr. Mercure, you may go ahead. We have your statement and we will make it a part of the record if you would feel freer to summarize it or speak extemporaneously or proceed in any way you like.

**STATEMENT OF ALEX P. MERCURE, ASSISTANT SECRETARY
FOR RURAL DEVELOPMENT, DEPARTMENT OF AGRICULTURE;
ACCOMPANIED BY GORDON CAVANAUGH, ADMINISTRATOR,
FARMERS HOME ADMINISTRATION**

Mr. MERCURE. Thank you, sir. I will attempt to summarize the statement. It's a fairly lengthy one, so in view of the time you need I would just as soon allow you some time for questions.

Let me make a number of points and I think in the process we may be able to address some of the six points you raised today.

Mr. Chairman, since President Carter took office, Farmers Home's overall loan and grant program has equaled 45 percent of the agency's 44 year total. As Senator Stewart said, that's a very significant improvement but clearly not enough yet to give us any sense of security. We are really solving the fairly pressing problem of rural housing and for the very poor in rural areas.

Farmers Home has made in rural housing 1.5 million loans for a total of \$26 billion since the Housing Act of 1949 was enacted. In the last 3 years, more than 360,000 rural housing loans have been made for \$9.4 billion. That means that we have made more investments in rural housing in the last 3 years than in the prior 10 years before 1977. Now that's an impressive change and although the dollar investments are significantly higher, it represents a significant improvement also in number of units, but I think that the comments you made and the comments Senator Stewart made have to be recognized; that despite this improvement, we still have 1.9 million units of rural housing which are substandard in rural America and an additional 2 million units which are deficient and deteriorated.

A number of studies that have been done continue to highlight this fact, including the Comptroller General's study which I just got this morning.

Additionally, I want to point out—and you asked for some reference to the President's recently announced small community and rural policy and its relationship to efforts of the Federal Government to improve rural housing conditions. The President, as part of the housing action agenda, calls for the Federal Government to increase opportunities for low- and moderate-income rural people to become homeowners or live in decent rental housing, improve access to Federal, State, and local housing programs and resources for lower income residents; and to insure that the housing needs of rural America are reflected in national housing programs and standards.

With regard to that, Mr. Chairman, I want to take a few minutes to point out that Farmers Home Administration, USDA, and HUD

and VA and the Department of the Interior have initiated a task force to take a look at national policies with regard to rural housing. We have had a number of meetings pursuant to the President's call to action on December 20th on small communities and rural policy.

HOMEOWNERSHIP ASSISTANCE PRIORITY

Among the number of initiatives which we hope we can undertake is that, No. 1, we place a high priority on the homeownership assistance program which both you and Senator Stewart have referred to. I would urge and the President urges the support of this program even at its small level because it's particularly important to note, as again both you and Senator Stewart have pointed out, families with very low incomes are increasingly having difficulty acquiring ownership of homes and the only alternative to them is the rental subsidy program which in many rural communities in fact is not available and is not feasible to deliver. The smaller the community, the more difficulty there is for rental subsidy programs.

I would hope that as the Senate and the House look at the Administration's submission, they recognize that the homeownership assistance program, even though started with 910 units as a pilot program, can be an important demonstration of how we can provide decent homeownership opportunities for low income families below that \$7,000 income level without at the same time breaking the Government.

There is an important feature in that program which permits us to recapture subsidy out of appreciation when and if a home gets sold. Later I will give you a little bit more information on that.

Other initiatives which we think are important are to develop modest energy efficient housing plans. We are working with HUD on revision of minimum property standards to permit more local adaptability and to try to lower housing costs, standardization of loan application forms, an interagency agreement on farmworker housing and continuation of the demonstration and to provide Farmers Home assistance to families.

One brief word of explanation. In many places around this country there are three generations in a household. The grandparents often live with the family. But our housing regulations have heretofore not encouraged the keeping of that three generation family together and in the past year or so, 2 years I guess, we have given attention to how we can provide housing without forcing the grandparents to move out in a sense or forcing an overcrowding condition. In a number of rural places it seems to be working very well. There are a number of other benefits which flow from that. Later maybe we can discuss those.

As cochairperson in the Department of Agriculture, and the Farmers Home Administration, the Department serves as cochair of the interagency working group on small communities and rural development and we have intensified the working relationship with other agencies that have housing responsibilities.

Among the several goals that we have established is something that's called the principle of targeting resources to those most in

need. It's called for in the President's policy and it's an effort that Farmers Home Administration continues to focus its strategies on.

I should point out that the targeting effort is seriously impeded because as the housing costs have gone up provision of housing for low-income families—that is, people with \$7,000 or \$8,000 or below—is becoming increasingly difficult. It is difficult to demonstrate repayment ability of those families. Nevertheless, nationally, the Farmers Home Administration has established an allocation formula that distributes funds on the basis of the State's relative share of the Nation's rural population on the incidence of poverty and substandard housing in the SMSA, and housing costs, and these variables all work into the developing of the formula which allocates resources to each of the States.

The shift in funding levels resulting from this formula have been implemented or are being implemented over a 3-year period to recognize that some States potentially could lose some portion of that allocation and over a 3-year period we reduce the effects of the shock. This is for rental housing. It's a 4-year cycle that we have established for homeownership.

The other issue that is an issue of targeting is the question of focusing on the first-come first-serve policy which has generally been followed by the Department. We are modifying it to the extent that we are establishing the kind of criteria which defines priorities for section 515 rural rental housing programs. In fact, public comments are being received on the publication of those rules and the following four principles will be applied and there will be a weighted priority system that uses section 515 rental assistance and HUD section 8 subsidy for projects in communities with a higher proportion of substandard housing and they are: Use FmHA rental assistance and HUD section 8 subsidies, are in communities with higher proportions of substandard housing, are in communities with lower per capita incomes, contain higher proportions of three or more bedrooms, and are located away from urban centers.

In fact, the GAO study indicates that to a large extent much of our housing investment has been located relatively close to urban and metropolitan areas.

ENERGY CONSERVATION

In the area of energy conservation, I just want to say a couple things. Farmers Home Administration in July of 1978 established construction standards that improve the energy efficiency of homes. This effort has already produced 140 dwelling units and have accounted for a sizable reduction in energy consumption and a corresponding reduction in the utility bills for our borrowers. We have become very concerned and the impetus for modifying our construction standards stems from that concern, that utility costs in some places are running higher than the monthly payments, and we believe that it's important to build an energy efficient home.

We are also developing a series of energy efficient housing designs which focus on the use of passive solar principles, no cost or very low cost kind of options that do not require expensive gadget-

ry, intelligent designs, if you will, that capture the environment in terms of reducing the utility cost. We have an efficient home and we ought to be able to make certain that that house is designed in such a way that it reduces by its location and siting, by some of the cosmetic things we can do, that it reduces the consumption of utilities. We have done such progressive things, if you will, as making the use of wood burning an option that is fundable and we're really making progress as you can see—we just moved from the 1,800's—these energy saving devices I think are important where they are appropriate, but they operate to provide people an opportunity to use resources that are readily available to them.

Finally, on the energy side, our people are working on what we call a home energy index which will enable users to compare advantages of different energy saving measures and to assist Farmers Home Administration to fairly establish mortgage appraisal value. This will help both the homeowner and the builder. In cooperation with other agencies, we are developing residential solar energy systems which we think at some point, we hope this year, will be fully tested and will provide us an opportunity to use some minimal active systems that are low cost.

The Department has submitted to Congress proposed legislation to extend through September of 1981 those authorities which cover the following programs: The home ownership programs, rental and cooperative housing, home ownership assistance, farm labor housing, low-income home repair, self-help housing, and rural housing technical and supervisory assistance.

The proposed bill would extend these authorizations for a period of 2 years and set dollar levels which are consistent with the President's budget request for 1981. That reflects the administration's policy to target limited public funds to those most in need.

Mr. Chairman, the rest of my discussion focuses on specific elements of the program, but I think in order to save time I would just as soon have us answer questions that you may have rather than going into detail on specific programs.

Let me just repeat the importance that we attach in the Department—because of the tremendous problems we have in serving people of lower income—the importance we attach to the home-ownership assistance program, and I had a feeling that in your comments and those of Senator Stewart that perhaps you feel somewhat pessimistic about the possibilities of getting the appropriation for the authorization that we got last year. We believe, and we hope you share the view with us, that the home ownership assistance program is an absolutely essential alternative to become a viable substitute for a more expensive rental subsidy which is often not feasible in smaller communities and that without that kind of instrument our ability to serve very low income families over the next few years is going to be very severely limited. Inflation has made certain that as the cost of housing has escalated the ability of income of people with limited incomes has actually required higher and higher income levels to qualify.

With that, Mr. Chairman, I would be very happy to try to answer any questions.

[Complete statement follows:]

STATEMENT OF ALEX P. MERCURE, ASSISTANT SECRETARY FOR RURAL
DEVELOPMENT, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman, thank you for this opportunity to report to the Subcommittee on current needs in rural housing and to review U.S. Department of Agriculture (USDA) and Farmer Home Administration (FmHA) actions to meet national housing objectives.

I will report on current Administration initiatives, implementation of legislative changes adopted in the Housing Amendments of 1979, and review the Administration's rural housing funding request for fiscal 1981.

Mr. Chairman, since President Carter took office, FmHA's overall loan and grant production has equaled 45 percent of the Agency's 44 year total.

In rural housing, FmHA has made 1.5 million loans for a total \$26.9 billion since the Housing Act of 1949 was enacted. In the last three years, more than 360 thousand rural housing loans have been made for \$9.4 billion.

Clearly, this level of activity is not without problems. The number of loans in our portfolio, which we must service, has doubled in only three years. Managing this portfolio is a serious, complex business. We can assure you every effort is being made to ensure its proper management.

RURAL NEEDS AND POLICY CONSIDERATIONS

A recent study by USDA's Economic, Statistics, and Cooperative Service (ESCS) shows that 35 percent of the nation's poor live in rural areas. The study, prepared as a background paper for President Carter's December 20, 1979, report, "Small Community and Rural Development Policy," shows a marked decline in the percentage of substandard housing units in both rural and urban areas during the past 25 years. Despite this improvement, 1.9 million units of rural housing are substandard and an additional 2 million units are deficient because of deterioration or excessive rent.

The study highlights conditions tending to make corrective action difficult and adding to the need for service. The population of 350 non-metropolitan counties grew at a 16.7 percent annual average from 1970 to 1976, for a total increase of 4.3 million. This growth increased overall demand for a variety of services, especially housing. Local governments have therefore been faced with the task of meeting the demands of this growth while attempting to replace substandard housing.

SMALL COMMUNITY AND RURAL DEVELOPMENT POLICY

The primary goal of the President's Small Community and Rural Development Policy is to meet the basic human needs of rural people. Housing, of course, is one of these needs. The policy's Housing Action Agenda calls on the Federal government to: "Increase opportunities for low and moderate income rural people to become homeowners or live in decent rental housing; improve access to federal, state, and local housing programs and resources for lower income residents; and to ensure that the housing needs of rural Americans are reflected in national housing programs and standards."

HOUSING INITIATIVES

President Carter's December 20th policy paper addresses the pressing rural housing problems by establishing specific initiatives to meet those needs. It endorses funding of the Home Ownership Assistance Program (HOAP) to assist low-income families and stresses close coordination between Federal agencies. Other initiatives include:

- Developing modest energy efficient house plans,
- Revising HUD/FmHA minimum property standards to permit more local adaptability and lower house costs,
- Standardization of loan application forms,
- An Interagency Agreement on Farmworker Housing,
- Continuing the small cooperative housing demonstration, and
- Providing FmHA assistance to extended families.

USDA and FmHA have a large responsibility for implementing the initiatives in this overall policy. As Co-Chairperson of the Interagency Working Group on Small Community and Rural Development, we will continue to work closely with HUD, the states, and rural communities to improve delivery of housing to the rural poor. We shall keep you well informed of our progress.

TARGETING

The President's message and the ESCS study support current Administration and USDA/FmHA policies for the targeting of resources to those most in need.

FmHA targeting efforts are based, in the first instance, on allocating rural housing funds among the states on the basis of need and statutory objectives, rather than simply on demand. The allocation formula distributes our funds on the basis of a state's relative share of the nation's rural population, on the incidence of poverty and substandard housing in the FmHA service area, and FmHA housing cost. FmHA State Offices subsequently reallocate funds to districts or counties by utilizing the same concept.

The shifts in funding levels resulting from the allocation formula are being phased in over a three-year period for rental housing and four years for home ownership. The process began in fiscal 1979. We believe the elements of the formula to be fair, but it is undergoing further review to make sure that regional differences in the country are reflected.

The second phase of targeting covers application priorities. While "first-come, first-served" appears to be a fair policy, its strict application tends to best serve those most skilled in preparing applications. It thus requires modification to meet the objective of serving those with the greatest housing need.

We have published proposed rules covering priorities in the Section 515 Rural Rental Housing programs. Public comment has been received and evaluated, and we are preparing final regulations to provide a weighted priority system for projects that: (1) Use FmHA Rental Assistance and HUD Section 8 subsidies, (2) are in communities with higher proportions of substandard housing, (3) are in communities with lower per capita incomes, (4) contain higher proportions of three or more bedrooms, and (5) are located away from urban centers.

Application priorities are also included in proposed rule changes for the Section 502 Home Ownership program which were published February 14, 1980. The public comment period extends through April 14, 1980. We anticipate utilizing a system that will place heaviest weight on applicants whose incomes are below 50 percent of area median income or who live in substandard housing. Some priority will also be afforded to low-income persons participating in self-help housing projects.

ENERGY CONSERVATION

Conservation is vital in housing development in view of the impact of rising energy costs on a family's ability to pay total housing costs. It is also imperative in order to reduce Federal rental subsidies in FmHA rental projects.

As you know, FmHA's thermal standards established in July, 1978, are the most rigid in the Federal government. I can report that they have covered over 140,000 dwelling units and have accounted for a sizeable reduction in energy consumption as well as reduced the utility bills for our borrowers. Under contract with FmHA, the National Bureau of Standards is testing and evaluating special masonry thermal standards now in use in Arizona and Florida.

FmHA is developing a series of energy-efficient house designs, to be available this spring, incorporating passive solar energy, efficient space planning, the optional use of wood burning stoves, and other energy-saving devices. Regional variations will be included to reflect climatic differences.

In addition, a new "home energy index" will enable users to compare relative advantages of different energy saving measures, and assist FmHA to fairly establish mortgage appraisal values. The index will be in a form that is readily understandable to consumers and technicians alike.

In cooperation with other agencies, we are developing residential solar energy systems. FmHA is testing one low-cost system under contract and reviewing the feasibility of others. The agency will stress locating homes to take advantage of the site and other passive solar measures. FmHA will consider financing other well designed, economical and reasonably marketable alternative design proposals.

FmHA regulations require informal energy audits when financing existing housing and the necessary alterations to limit energy use. The Rural Electrification Administration and FmHA are drafting an agreement for local rural electric cooperatives to provide formal energy audits when an FmHA application for purchase has been made.

PROPOSED LEGISLATION

The Department is submitting to the Congress proposed legislation to extend through September 30, 1981, those authorities which cover the following programs: home ownership, rental and cooperative housing, home ownership assistance, farm

labor housing, low-income home repair, self-help housing, and rural housing technical and supervisory assistance.

The proposed bill would extend these authorizations for a period of two years and set dollar levels consistent with the President's budget request for 1981, which reflects administration policy to target limited public funds to those most in need. As you know, overall reviews are underway for all government programs. Any change in our proposals will be promptly communicated to this Subcommittee.

RURAL RENTAL HOUSING

Under the Administration bill, the section 515(B)(5) authority for the rural rental and cooperative housing program would be extended. Demand for this program has increased steadily over the past 10 years. It provides decent, suitable housing for many rural families who cannot afford home ownership, and for others—including the elderly and handicapped—who need multi-family housing facilities. Interest subsidies [Section 521(a)(1)(B)], rural rental assistance [Section 521(a)(2)] and the HUD Section 8 subsidy are used to assist lower-income households and the elderly. A new FmHA pilot congregate housing program for the elderly and handicapped, with operating assistance from the Administration on Aging, will ensure the delivery of support services such as housekeeping and transportation. One congregate housing project has been funded in each federal region and the pilot program will be extended to two Indian reservations this year.

Holding funding of rural rental housing to \$868 million—the same as in 1979 and 1980—reflects fiscal constraints confronting the nation.

HOME OWNERSHIP

FmHA Section 502 home ownership loans are funded through the Rural Housing Insurance Fund (RHIF) under authority provided in Section 517(A)(1) of Title V of the Housing Act of 1949. We ask for continuation of that authority.

Section 502 loans will account for construction, purchase or improvement of 75,200 homes for low and moderate income households during fiscal year 1981, with a dollar level in excess of \$2.76 billion. Due to budgetary constraints, we do not request authorization for the above-moderate income guaranteed Section 502 program for fiscal 1981. The unsubsidized 502 program level has been reduced from a fiscal year 1980 level of \$820 million to \$467 million in the proposed bill; but there is a slight increase of \$80 million in the subsidized levels. These actions reflect the President's policy of limiting expenditures while targeting available dollars to those most in need. For example, through use of Section 502 mortgages, we expect to finance homes that will utilize the Home Ownership Assistance Program. When funded, HOAP will provide low-income people in sparsely-populated areas with decent, safe, and sanitary housing. Additional comments on HOAP are provided further in the testimony.

The Section 524 Rural Housing Site Development Loan Fund Program is also funded through Section 517, RHIF. FmHA requests an increase in this program from \$1 million to \$7 million in fiscal 1981. We believe increased demand for this unsubsidized, cost of money interest-rate site loan program and planned changes in the regulations warrant an increase in the authorization level. Last year the Department reported on problems leading to reduction in the program. We are pleased that most of these are being overcome. Demand is at an all-time high despite the fact that field staff have not encouraged applications since the spring of 1979.

HOME OWNERSHIP ASSISTANCE PROGRAM

We are requesting a funding authorization level for the Home Ownership Assistance Program (HOAP) in 1981 of \$100 million, one-fifth of that authorized for 1980. This is intended as a pilot demonstration program of 910 units for fiscal 1981, with an annual outlay of approximately \$1 million.

President Carter endorsed funding for HOAP in his Small Community and Rural Development Policy message. Funding for this program is absolutely essential to meet the income targets legislated in the Housing and Community Development Act Amendments of 1979. Section 511 of that law requires that 30 percent of FmHA housing assistance in any area benefit persons with incomes below 50 percent of area median income, to the extent practicable. The Department believes the goals of this provision, which was developed in the Senate, will only be achievable with implementation of HOAP.

Another facet to HOAP is recapture. FmHA has developed a detailed year-by-year budget analysis which includes interest subsidy costs, attrition and recapture. A survey of housing value appreciation, conducted at the request of the Senate Budget

Committee staff, has supported our 1979 projections that over 70 percent of interest credit will be recaptured. Regulations for Section 502 subsidy recapture are in effect for all loans made since October 1, 1979. The Administration remains committed to HOAP as a necessary and workable method for meeting the housing needs of those who cannot afford home ownership, even with maximum interest subsidy, and who live where assisted rental housing is not suitable and available.

SELF-HELP HOUSING

We seek continuation of the authority for Section 523(b) Self-Help Housing loans and grants, but do not request additional technical assistance grant funds. Slightly over \$29 million was carried over into the current fiscal year, of which approximately half will be used in fiscal 1980 and half in 1981. In accordance with last year's housing bill, FmHA is issuing a request for Proposals for six regional contracts to provide training for technical assistance grantees. FmHA is also amending the Self-Help regulations after meeting and receiving suggestions from various public interest groups active in self-help housing. We are working toward a vastly improved program under Administration targeting guidelines.

The Section 523(g) Self-Help Land Development Fund is vital to maintain a workable program of low interest loans to technical assistance grantees to purchase and develop land for self-help building sites. We have requested authorization for a loan level of \$5 million for fiscal year 1981. Development of stronger self-help housing sponsors will further increase the demand for the site loan program, which far exceeds the current \$1 million loan level.

TECHNICAL AND SUPERVISORY ASSISTANCE

The Administration is asking for extension of the Section 525 Technical and Supervisory Assistance (TSA) program through fiscal 1982. The request for Section 525(a) grant authority of \$2 million for fiscal 1981 exceeds the \$1.5 million authorized for fiscal 1980. FmHA's published regulations for this program call for a balanced program of technical assistance, outreach and counseling. The Department believes this approach is consistent with the intent of the legislation and furthers Administration efforts to target programs to those most in need in smaller, more rural communities.

We request that Congress resist restrictive conditions found in Public Law 96-153 virtually limiting Section 525 to a counseling program for this fiscal year. FmHA will guarantee an effective counseling component in every TSA grant.

IMPLEMENTATION OF 1979 AMENDMENTS

FmHA is moving toward full implementation of the 1979 amendments. Due to late passage as well as public participation requirements for changes in regulations we have not yet completed this task. The following is the status for each amendment:

Income limits

Use of 80 percent of area median income, (with necessary adjustments) is the low income definition in Section 502(b). The new definition also fits the FmHA rental assistance program which provides a similar subsidy arrangement.

Analysis of preliminary data for 510 areas indicates that up to 230 adjustments will be necessary to produce income levels permitting affordability for Section 502 loans. Sixty percent of these loans must go to low income applicants.

Though the same definition is used for the HUD Section 8 program, affordability is of no concern there since the subsidy covers the difference (between 25 percent of income and total shelter cost). However, the Section 502 subsidy is linked to ability to pay the cost of the house, and a maximum subsidy of mortgage interest reduction to 1 percent.

Area income figures, even where adjusted, show mixed results. States such as Mississippi have low-income maximums well under the present National figure of \$11,200 resulting in a very narrow range for affordability. For Connecticut, the low income level could be as high as \$16,475. FmHA thus faces the possibility of utilizing restrictive narrow income ranges in many southern States, while broader ranges prevail in some northern States.

Allocation of assistance

Section 511 requires, to the extent practicable, 30 percent of the assistance made available in any area of any state benefit persons with incomes below 50 percent of the area median income. Section 502 is the largest single assistance program availa-

ble. Research on our new low income definition indicates it to be unlikely that persons with less than half the area median income will be able to qualify for 502 loans. As a result, without either expansion of the rental assistance program or implementation of HOAP, FmHA will be unable to meet the requirements of the law.

In order to meet the 30 percent requirement, we must be able to utilize the Section 502 program for those below 50 percent of median income. Our preliminary calculations indicate that a maximum of only 15 percent of the people within this low income level can be served by FmHA programs other than Section 502. The balance of the 30 percent requirement must, therefore, come from Section 502, where this subsidy is presently limited to an interest subsidy, and affordability is directly linked to income and housing costs.

Furthermore, 502 loans to those with incomes below 50 percent of median income is virtually impossible in some areas. In Mississippi, where our housing program traditionally operates at a high level, the 50 percent figures range from \$4,301 to \$6,329. Few, if any, 502 loans can therefore be made to such persons because the borrower must be able to pay the mortgage and other shelter costs. The previously noted loan making priorities will be weighted toward the 30 percent requirement. However, the design of the 502 program and its limited subsidy make it very difficult for rural low income people to participate.

Prepayment of rental housing loans

Section 503 of Public Law 96-153 limits prepayment in the section 514 and 515 programs. Telegram instructions were issued on December 26, 1979. We are completing final regulations for Section 515 which include the prepayment instructions.

Farm labor housing

Section 509 specifically permits the use of farm labor housing funds for migrant farmworkers and allows somewhat reduced standards for seasonal housing. We will implement the required shift in our farm labor housing program to emphasize housing of seasonal farmworkers. Forty percent of our farm labor housing funds has been allocated for seasonal housing projects in the current fiscal year. Beyond this, we are cooperating with a coalition of farmworker housing groups to expand services and develop suitable construction standards for seasonal farmworkers housing. Finally, we have entered into an Interagency Agreement with the Community Services Administration, and Department of Labor, Department of Health, Education, and Welfare, and Department of Housing and Urban Development to coordinate our efforts on seasonal farmworker housing.

Low income repairs

Section 510 increased the maximum Section 504 loan or loan and grant combination limit to \$7,500. A final rule has been issued.

HUD-FmHA interest rate

Section 502(a) requires borrowers able to afford higher interest rates than those of FmHA (related to Treasury borrowing) use the HUD 203(B) interest rate, currently at 13 percent plus ½ percent. Few, if any, persons with our present maximum eligible adjusted moderate income of \$15,600 can afford the HUD rate. A provision including the HUD rate will be promulgated when the revised income limits are announced.

Technical and supervisory assistance (TSA)

States have been asked to begin accepting applications for Section 525 Technical and Supervisory Assistance Grants. This conforms to the legislated requirements. Of the \$1.5 million for TSA grants, \$1.2 million will be used solely for housing counseling. The remainder will be for technical assistance-outreach and counseling.

Self-help housing training

Section 505 of Public Law 96-153 authorized the use of section 523(b) grant funds to provide training and technical assistance to public and non-profit housing sponsors. FmHA has issued requests for proposals to provide such training in each of its six areas.

Sale of inventory property

Section 507 requires property sold from inventory to meet certain standards if it is to be used for habitation. FmHA is revising property disposition regulations, and we have provided State Directors with a copy of the new law to facilitate compliance.

Rental assistance

Family unit limitations for rental assistance were changed by Section 504. These changes will be included in the rural rental housing regulations as published in the final form.

Refinancing section 502 loans

Section 506 of Public Law 96-153 eliminated the five year limitation on refinancing through Section 502 loans and changed eligibility requirements for refinancing. Revised Section 502 regulations on refinancing were issued for public comment on February 14. The refinancing changes will be incorporated in the final regulations.

Compensation for construction defects

To comply with Section 508 of Public Law 96-153, FmHA field staff are notifying existing Section 502 borrowers that their right to file claims for compensation for construction defects has been extended from 18 to 36 months. A comparable change in the regulations has been prepared for publication.

STUDIES IN PROGRESS

I know you are concerned with the status of the studies mandated by the Housing and Community Development Amendments of 1978. The following is the status of each:

The Sanitary Toilet Facilities and Portable Water Study, completed in December 1979, found that little or no data on rural water and sewer needs exists. However, the Environmental Protection Agency (EPA) will complete a major study later this year to answer many of the questions raised.

FmHA contracted with Inter America Research Associates, Inc., a minority-owned small business consulting firm, to conduct a national study of housing for migrant and settled farmworkers. A Phase I preliminary report has been submitted to FmHA. We are considering extension of the final submission date in the contract until January 31, 1981, to permit on-site inspections during periods of farmworker occupancy in all areas of the country. There are major cost considerations involved in the proposed extension.

The remote claims study was awarded to three separate contractors to provide a report and recommendations for remedial action. The contractors and their area of study are as follows:

(1) *Heir title problems in the Southeast.*—Emergency Land Fund, a private non-profit organization established to stem the rate of loss of land owned by Blacks in the Southeast.

(2) *Indian lands claims study.*—Institute for the Development of Indian Law, a non-profit legal research center funded to address a variety of American Indian legal issues.

(3) *Spanish land grants.*—Natural Resource Center of University of New Mexico School of Law, established to perform research into the extent and scope of natural resource problems in the Southwest.

Phase I reports have been received from each contractor. FmHA will soon submit a preliminary report to Congress.

FmHA has under consideration several Amendments to Title V of the Housing Act of 1949. We hope to forward them for your consideration. In concluding, let me stress that we are conscious of our responsibility to assist poorly-housed rural people. It is our hope to continue to work with this Subcommittee and its staff in this effort. Thank you for this opportunity to report on our programs. We will be happy to answer any questions that you may have.

Senator MORGAN. We have decided that we would like to go ahead and hear from Mr. McHenry, we want to get all of you on the record and then we'll have a roundtable discussion.

Mr. MERCURE. Fine, Mr. Chairman.

Senator MORGAN. Mr. McHenry, we will be glad to hear from you now.

STATEMENT OF CLYDE McHENRY, DEPUTY ASSISTANT SECRETARY FOR PUBLIC HOUSING AND INDIAN PROGRAMS, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. McHENRY. Thank you, Mr. Chairman. I have submitted, as you indicated, a statement for the record. I will simply summarize it and then I will be happy to answer any questions you may have.

Although HUD does not have the word "Rural" in its title, the Department has made a significant contribution in rural areas. Total section 8 reservations in fiscal year 1979 for nonmetro areas accounted for 21 percent of the funds, 23 percent of the units and 36 percent of the projects. Many individual States far exceeded these national percentages. For example, in your State of North Carolina, the nonmetro share is 61 percent for both projects and number of units.

In the section 8 new construction category, reservations in nonmetro areas in fiscal year 1979 accounted for 28 percent of the funds, 31 percent of the units and 41 percent of the projects. There is also a trend toward the production of more family housing units. In nonmetro areas the percent of section 8 for families increased from 44 percent in fiscal year 1977 to 60 percent in fiscal year 1979.

In addition to section 8 activity in rural areas, there has been considerable rural activity in HUD/FHA's other housing programs. For example, since the beginning of the program as much as 35 percent of both public housing funds and units have been directed to nonmetropolitan areas. For the single family home insurance program, 12 percent of the units have gone to nonmetro areas, and the nonmetro share of units for section 235 homeownership assistance program was 18 percent. Twelve percent of the multifamily unsubsidized units and 15 percent of the subsidized units have gone to nonmetro areas. Under the title I program the nonmetro share was 24 percent of the total. For nonhousing programs, such as hospitals, nursing homes, group practice facilities, mobile home parks, and land development, the nonmetro share of activity was 26 percent of those funds.

As you know, we are doing a demonstration in the State of North Carolina and in the State of Washington which Mike will go into in some detail. I will skip those.

But in addition to these projects the HUD-USDA four-State demonstration program has recently been extended for an additional 2 years. We have recently made a commitment of some \$2.4 million in section 8 contract authority that will support 500 units in this program in which we are demonstrating some rather innovative ways to assist small rural communities in leveraging local and State funds in order to improve their community development activities and their housing in these communities.

INDIAN PROGRAMS

I would like to talk briefly about our Indian programs, Mr. Chairman. It's an area that I also believe that we have made substantial progress in. Since fiscal year 1975, almost 12,000 Indian units have been made available for occupancy and construction has begun on 19,000 units. Further funds have been reserved for over 32,000 units. For fiscal year 1980, our goal is to start some 5,000

additional units and complete construction on 5,000 more. In addition, we have set aside funds in the 1980 budget for reserving an additional 6,000 units. The Department's request for fiscal year 1981 will support funds sufficient to reserve 4,000 units of Indian housing. We feel this level is a realistic level given the substantial pipeline that we presently have.

As you know, we are in the process of reorganizing our Indian field operations. This should be completed by June where we will organize our staff into six area and regional offices and the staff in those offices will do nothing but work on our Indian housing and Indian community development programs. We think that this will make substantial progress because heretofore with each office devoting only a small part of its resources to the Indian programs oftentimes we have not been able to give the kind of intense staff assistance and technical assistance that these programs require. But we believe by consolidating all of our personnel who will be working on Indian and Alaskan Native programs into six offices that we will in fact be able to give the kind of intense staff support and technical assistance necessary to improve those programs.

Complementing the Indian housing production, the Department's fiscal year 1980 block grant funding level for Indian tribes and Alaskan Natives is \$31 million and the estimate for fiscal year 1981 is \$33 million for these programs. As detailed in the Department's community development block grant regulation for Indian tribes and Alaskan Natives, eligible uses of such block grant funds may include the rehabilitation or modernization of Indian housing authority units. The decision to use CDBG funds for these activities rests with the individual Indian tribes however.

As you know, Mr. Chairman, the Department is also actively involved with other Federal agencies in preparing to implement policies to carry out the President's order announced on December 20, 1979. We are working with Farmers Home presently to revise our minimum property standards which will make it easier to produce housing in rural areas and these standards will be able to adapt more closely to local conditions, and we also believe by putting more flexibility into the minimum property standards that we will be able to reduce cost of our housing programs, particularly our single family programs.

We are working with Farmers Home and VA and I can say we are making a great deal of progress, to develop standardized loan applications and appraisal forms used by the three agencies. Additionally we are expanding the initiative on delegating processing from our Greensboro and Spokane offices into 13 States during this year. We think delegated processing has been very successful in those two States in making our programs much more accessible to rural areas by allowing local savings and loans and thrift institutions to process loans for section 203(b) as well as 235 housing.

Thank you, Mr. Chairman. We will be happy to answer any questions that you may have.

[Complete statement follows:]

STATEMENT OF
CLYDE T. J. MCHENRY
DEPUTY ASSISTANT SECRETARY FOR HOUSING-
DEPUTY FEDERAL HOUSING COMMISSIONER
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

I want to thank you, Senator Morgan, and your Subcommittee for inviting me here today to discuss HUD's efforts to meet the housing needs of rural Americans and those of our Indian and Alaskan native citizens. They represent enormous human resource and we must not fail them. Your leadership in confronting the complicated issues is appreciated and needed.

Mr. Chairman, in my remarks, I would like to discuss first HUD's continuing efforts in rural areas, and then the direction that the Department is taking to improve its Indian and Alaskan native housing programs to increase housing production in these areas.

Although HUD does not have the word "Rural" in its title, the Department has made a significant contribution in rural areas. Total Section 8 reservations in FY 1979 for non-metro areas accounted for 21 percent of the funds, 23 percent of the units and 36 percent of the projects. Many individual states far exceeded these national percentages. For example, in North Carolina the non-metro share is 61 percent for both projects and number of units.

In the Section 8 new construction category, reservations in non-metro areas in FY 1979 accounted for 28 percent of the funds, 31 percent of the units and 41 percent of the projects. There is also a trend toward the production of more family housing units. In non-metro areas the percent of Section 8 for families increased from 44 percent in FY 1977 to 60 percent in FY 1979.

In addition to Section 8 activity in rural areas, there has been considerable rural activity in HUD/FHA's other housing programs. For example, since the beginning of the program as much as 35 percent of both Public Housing funds and units have been directed to non-metropolitan areas. For the single family home insurance program, 12 percent of the units have gone to non-metro areas, and the non-metro share of units for Section 235 Homeownership Assistance Program was 18 percent. Twelve percent (12%) of the multifamily unsubsidized units and 15 percent of the subsidized units have gone to non-metro areas. Under the Title I program the non-metro share was 24 percent of the total. For non-housing programs, such as hospitals, nursing homes, group practice facilities, mobile home parks, and land development, the non-metro share of activity was 26 percent.

While these figures are impressive, HUD has continued to look for ways to do more in rural areas. The Rural Assistance Initiative Demonstration in North Carolina is one of the vehicles the Department has used to find better ways to serve the rural constituency. Michael Stegman, HUD's Deputy Assistant Secretary for Research, will brief the subcommittee in detail on the program, but I would like to highlight some aspects which involve housing. During the first year of the demonstration, housing activity included 350 units of Section 8 new construction and 360 units of low rent public housing. In addition, loan commitments for 450 units of new Section 235 housing were made. We estimate that this activity

will add \$377 million to the State's economy.

The use of Section 235 in North Carolina has been one of the major successes in the Rural Assistance Initiative. The total amount of Section 235 mortgage insurance written in North Carolina in 1979 was 182 units with 45 of these units located in non-metropolitan areas. This is a significant increase over 1977 and 1978 in which 19 homes had Section 235 assistance in each year with only 3 homes in rural areas. Three factors contributed to the success of the program: (1) the efforts and ingenuity of the National Forest Products Association, the North Carolina Home Builders Association and the Carolina Lumber and Building Materials Association; (2) upward adjustments made to the Section 235 mortgage and income limits; and (3) the use of delegated processing, which authorized local savings and loan and other mortgage lenders to initiate most of the steps involved in processing HUD-insured home loans. Anticipating the success of delegated processing, HUD has initiated an "Outreach and Delegated Processing" demonstration involving 40 counties and 43 cities in 13 states.

Other aspects of the North Carolina Rural Initiatives that involve housing are:

- o Development of a "rural track processing" strategy in which one developer works with small, local builders to provide approximately 25 subsidized housing units at each of approximately 15 rural sites. The HUD Greensboro

Area Office has already awarded a contract for rural track processing involving 350 units of Section 8 New Construction.

- o Reopening the Turnkey III program on a demonstration basis to promote homeownership for low-and moderate-income renters. In this program, units are constructed for initial renter occupancy. When the tenant's escrow increases sufficiently to qualify as a down-payment, a prearranged transition is made to homeownership.

Other accomplishments by HUD to date to help rural housing include:

- o The awards of funds for congregate services to Public Housing Authorities and Section 202 projects. Of the 38 awards made, 11 awards went to non-metropolitan areas.
- o Modification of the HUD/FHA Minimum Property Standards for single-family homes to provide for innovative design which would lead toward a reduction in cost. While strict performance standards to assure quality of construction and the warranties to protect the consumers will be retained, there will be a reduction in consumer preference factors. This will permit the construction of lower cost homes needed in many rural areas. We expect to have the new MPS ready for publication in the Federal Register as a proposed rule in two months.

- o Providing for preferences in processing applications for small projects, many of which are in rural areas. This provision is contained in the recently published new Section 8 regulations.
- o Modifying the Title I program to make mortgage insurance available for both a mobile home and the lot upon which the mobile home is placed. We expect that this change will open the program to many families in rural areas.
- o In Washington State, as part of the rural initiatives program, HUD is allowing "over the counter" negotiations to place Section 8 projects of nine units or less in communities of less than 1,000 population. Under this program, HUD is also permitting substitution of single-family processing for Section 221(d)(3) and (4) mortgage insurance processing for projects of four units or less and for Section 8 new construction processing for projects of five to eight units. This procedure should speed-up processing time, thereby reducing housing costs.

In addition to these projects the HUD-USDA four state demonstration program has been extended for an additional two years. During its first two years the four states involved in the program (California, Colorado, Illinois and West Virginia) have been successful in developing additional delivery mechanisms for

community and housing development. The two-year extension for Phase II of the program will make available to the four states \$54.7 million in funds; \$52.2 million contributed by FmHA and \$2.5 million in Title I Community Development Block Grant funds contributed by HUD. The program has helped the states to find improved ways to coordinate Federal and local programs to support community development activities and to provide housing assistance for lower income families living in substandard housing. HUD will be providing in addition to the \$2.5 million, Section 8 assistance on a matching basis to the States to produce 500 units of housing. Additional housing will be produced using delivery resources developed in the first phase. Phase II will enable the intra-State transfer of those models into new targeted areas during the coming two years.

We are also pleased to inform the Subcommittee that real progress is being made on standardizing forms used by FHA, VA, and FmHA. Issues have been resolved at the staff level for a uniform single family loan appraisal form and only the specific format remains to be determined. Also, an agreement on a uniform mortgage credit form is anticipated shortly. Uniform forms will simplify the process for rural lenders, by enabling them to use one form for possible financing by three Federal agencies. We expect that this will encourage housing production in rural areas and small cities by adding to the flow of credit.

To assist in providing housing for farm workers, HUD has entered into a Memorandum of Understanding with FmHA, effective October 1, 1979

for the use of 5 percent of the FmHA Section 515/HUD Section 8 set-aside for farmworker housing (FmHA Section 514). We are presently working with FmHA to iron out some of the incompatible features of the two programs. It appears that a procedure can be worked out for year-round farmworker housing, but extensive regulatory and statutory changes would be necessary to use Section 8 with Section 514 for seasonal migrant workers who spend only a part of each year in any one location.

We have improved the delivery system for HUD's Housing programs in rural areas by a number of means, some of which I have already mentioned. Our most recent action involves a demonstration in the State of Louisiana, which came about when FmHA removed its Section 502 funds from five Parishes because of a shortage of funds, and a policy to place the funds in only the most distressed counties.

In this demonstration, HUD will accept FmHA processing and inspections in five Parishes in northern Louisiana where approximately 40 homes had been completed and 90 more homes were under construction. Also, over 1,200 lots were approved in subdivisions for more homes. HUD will conduct an environmental assessment in each subdivision prior to final approval, since this is the only HUD requirement not previously completed by FmHA. Section 235 interest reduction funds will then be available for these homes, with families with incomes below 95 percent of the median for the area being able to purchase homes with a 3 percent downpayment and a 97 percent mortgage at a 4 percent interest rate.

I believe that HUD has made good progress in helping to meet the housing needs of rural Americans. I would like to discuss now the progress that HUD has made to meet the shelter needs of Indian and Alaskan Native Citizens.

Since Fiscal Year 1975, almost 12,000 units of housing have been made available for occupancy, and construction has begun on 19,000 units. Further, funds have been reserved for over 32,000 units. For Fiscal Year 1980, our goal is to realize starts on some 5,000 units and to complete construction on 5,000 more. In addition, we have set aside funds which are sufficient to reserve 6,000 units of housing. The Department's request for Fiscal Year 1981 will be for funds sufficient to reserve 4,000 units of Indian housing. We feel this level of activity is realistic and sufficient given the number of reservations still in the pipeline. That is, the backlog of Indian housing units that have been reserved, but have not reached construction. Consequently, the Department believes that at this time, the most prudent course of action would be to concentrate our efforts on increasing the number of units reaching construction and completion and thereby reduce the backlog.

In an effort to facilitate production, the Department has attempted to make prototype cost limits more accurately reflect the unique conditions in Indian areas by establishing separate ones for Indian housing. Further, the Department is working on the problems

associated with the delay in the publication of the annual updates and interim revisions to prototype costs. The Office of Indian Housing is granting the Indian Housing agencies some flexibility with the prototype cost limit. Upon evidence of the need for a cost increase, the IHA may request a revision of the prototype cost. HUD will agree to revise the prototype cost if the evidence firmly supports the request and the design cannot be modified to reduce the cost sufficiently.

Complementing housing production, the Department's Fiscal Year 1980 Block Grant funding level for Indian Tribes and Alaskan Natives is \$31 million and the estimate for Fiscal Year 1981 is \$33 million. As detailed in the Department's Community Development Block Grant Regulation for Indian Tribes and Alaskan Natives, eligible uses of such Block Grant funds may include the rehabilitation or modernization of Indian Housing Authority units. The decision to use CDBG funds for such activity, however, rests with individual Indian Tribes.

Emphasis on the production of housing has not been our only focus. We have also taken a number of steps to improve the operation of our Indian Housing Program.

First, we have revised the Indian Housing Regulations. The revised regulations became effective on December 6, 1979, and provided for:

- o Additional procedures to facilitate the establishing and revising of separate prototype costs for Indian areas;

- o Operating subsidies to Indian Housing Authorities for Mutual Help Projects under specified circumstances; strengthening and clarifying the responsibilities of Mutual Help Homebuyer Families and the IHAs in the maintenance of the home;
- o Establishing a means for Indian preference in contracting without the use of price differential; and
- o More Indian Housing Authority input into housing design.

Also, we have expanded the Public Housing Modernization Program to include Indian Housing Homeownership Projects. If a homebuyer family determines that its unit is in need of modernization with respect to eligible modernization work items, and if the homebuyer family agrees to a proportionate extension of its homebuyer agreement with its respective Indian Housing Authority, modernization funds may be expended. Homeownership projects comprise some 70 percent of Indian Housing units. Contract Authority to support approximately \$7.2 million in Indian Housing modernization work was set aside by HUD in FY 79. We expect this same modernization level to be maintained during FY 80.

In addition, in recognition of the need to provide specialized staff attention to Indian programs, a separate Office of Indian Housing has been established. Also, a separate staff is being established by the Assistant Secretary for Community Planning and Development to handle Community Development Block Grants (CDBGs) and technical assistance for Indian tribes. As a next

step, a restructuring of the field staff is under way to combine all Indian programs in six offices in order to aggregate a sufficient workload to warrant a separate staff with each of the various technical and functional areas represented. The restructuring is taking place in Regional Offices in Chicago, Denver, San Francisco and Seattle, and Area Offices in Oklahoma City and Anchorage. We believe that the Field Office restructuring will provide the necessary staff attention to Indian Housing that is essential for expeditious and successful development and management of Indian housing.

Finally, the Inter-departmental Agreement between HUD, HEW and Interior is currently being revised. HUD has submitted a revised draft of the Agreement for Interior and HEW review. A permanent working group consisting of members of the Indian program staff of the three agencies have begun to resolve inter-agency differences in the interpretation of the Agreement. We have nearly completed our work and expect to have the agreement in place this summer.

In addition to the above actions, HUD is currently using other programs to meet special Indian housing needs. For example, two proposals for congregate housing projects are currently in the review process. Some further refining of the proposals may be necessary before final HUD approval is given. Also, the Department has reserved funds for a Demonstration project comprising 24 small group homes for mentally and physically handicapped Indian people,

including elderly and children. These group homes are to be constructed and equipped as part of a joint initiative between HUD and HEW. Another example, is the funding by HUD of three Indian Housing Agencies to develop and implement their own project based budgeting and accounting systems.

Despite our progress, the Department is sensitive to the fact that there are special problems unique to the construction and development of Indian and Alaskan Native housing. Foremost is the problem of cost. A number of the reasons for higher Indian Housing costs go beyond general inflation, and involve matters over which HUD has little or no control. Some of these are:

- (1) Expense of transporting materials and attracting labor to remote locations. These costs are further aggravated in Alaska by reason of the shorter construction season and dependence upon terrain and weather conditions.
- (2) HUD assumption of costs for water and sewer facilities on individual homesites and, for community systems, within the boundaries of the project (rather than the Indian Health Service assuming these costs).
- (3) The primary type of shelter built is scattered site, single family detached units designed to accommodate large families under the Mutual Help Homeownership Opportunity Program. Compared to the rental program, the homeownership program has a shorter term of

Annual Contribution Contract, higher interest rates, and therefore, a higher per unit annual contribution (although run-out costs or total budget authority is less).

- (4) Unique risks associated with construction on Indian land. Access to trust land and inability to secure ownership of sites may cause developers to inflate costs to compensate for these risks. The inability for mechanics liens to be invoked creates higher insurance costs and higher subcontract amounts.
- (5) Contractors for Mutual Help projects must factor into their cost estimates additional expenses for supervising and training of often unskilled Mutual Help participants who elect to contribute their required Mutual Help contribution through working on the project.

In order to address one element of the cost problem, HUD has exempted Indian Housing from the HUD Minimum Property Standards (MPS). We still recommend that the MPS be used as a guide, but it does not have to be strictly followed.

I believe that significant progress has been made by HUD, as an agency and in cooperation with other Federal agencies, to help meet Indian and Alaskan Native housing needs. We have reached out to various groups and organizations in order to solicit their

views and better understand their special needs. We hope, in the future, to further improve upon our current record, and make our Indian Housing Programs even more responsive to the need that exists.

In conclusion, I would like to emphasize that the Carter Administration has an ongoing commitment to afford maximum housing opportunities to our Indian and Alaskan native and rural American citizens. Of course, much remains to be done but we look forward to continued progress. I can assure you, Mr. Chairman, that HUD will continue to meet its responsibilities in designing and executing programs to improve the quality of life for these people.

This concludes my prepared remarks. I will be pleased to answer any questions.

Senator MORGAN. I think we will go ahead and to hear Mr. Stegman's presentation.

STATEMENT OF MICHAEL A. STEGMAN, DEPUTY ASSISTANT SECRETARY FOR OFFICE OF RESEARCH, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. STEGMAN. Thank you, Mr. Chairman.

Senator MORGAN. We are glad to have you with us and we do have your statement.

Mr. STEGMAN. I would like to submit for the record the rather detailed statement that I have prepared and if I might I would like to read a summary statement.

[Complete statement follows:]

STATEMENT OF
MICHAEL A. STEGMAN
DEPUTY ASSISTANT SECRETARY FOR RESEARCH
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Senator Morgan:

It is a pleasure for me to appear before you on behalf of the Department of Housing and Urban Development to report on the progress we have made in serving rural communities with HUD resources and lowering program barriers through our Rural Assistance Initiative (RAI) which is underway in North Carolina and Washington State.

Moreover, as a fourteen year resident of the Tarheel State and as a member of the faculty of the University of North Carolina who has devoted many years to the study of housing problems in small communities in North Carolina, I am particularly pleased to be discussing these matters with you.

My testimony will briefly describe the purpose and scope of the two year RAI and the participants and resources used during the first year. I will also describe the major approaches and activities associated with the RAI in North Carolina during this period and plans for the second year. Additionally, some of the program approaches now being implemented will be presented along with the Department's plans for assessing the outcomes of the RAI. Details concerning the grantees and their plans and accomplishments are included in Attachment I.

Attachment II is a brief analysis of HUD program assistance being provided to non-metropolitan areas compared to metropolitan areas.

Attachment III is a rather detailed review of significant Departmental achievements to meet rural and small community housing and community development needs.

Attachment IV is an exhibit of population trends in North Carolina and the nation between 1970 and 1978. It shows that North Carolina's metropolitan areas have grown more rapidly than those in the nation as a whole (10.4% vs. 6.2%), but less than SMSAs in the South (13.5%) during this period. On the other hand, non-metropolitan areas across the country, in the South as a whole and in North Carolina, grew by about the same amount since 1970; some 9% for North Carolina's small communities and 10% for non-metropolitan areas in the remainder of the nation.

Despite the high incidence of inadequate housing and other community development problems experienced by North Carolina's small and rural communities, it is important to recognize their collective vitality, staunch independence and commitment to improving the life situations of their people.

The RAI was undertaken in response to the recommendations of the Department's Task Force on Rural and Non-metropolitan Areas, initiated by HUD Secretary Patricia Roberts Harris in late 1977, which was charged with: "exploring ways to respond more effectively to the housing and community development needs of rural areas, and recommending concrete steps to improve the delivery of program services to these areas."

One of the recommendations of the Task Force was to conduct an initiative that would address two crucial problems in rural areas: the need to enhance local, public, and private capacity to apply for and implement HUD programs and to lower program and procedural barriers that prevent use of HUD programs.

In order to address these problems, the initiative was designed as a partnership between HUD and local organizations, both public and private, to determine how Departmental resources could be tailored to meet the special needs of the target communities in each state. Nineteen small communities or counties in North Carolina and twenty-one in Washington State participated in the initiative during its first year that began in October 1978.

To accomplish the objectives, HUD committed the following resources to the RAI:

- o Approximately \$175,000 per year in grants were awarded to local government and public agencies in each state to build local capacity to use HUD programs.
- o Six staff persons, plus about \$20,000 in travel funds, were assigned to each state. These persons make up the RAI team and are responsible for conducting field operations. The North Carolina team leader is supported by an assisted housing specialist, an economic development specialist, an insured housing specialist, a rehabilitation specialist and a housing program consultant.
- o A one-time set aside of 1000 units of Section 8 housing and 500 units of low rent public housing was made available to the RAI. This allocation was spread between the two states, with the larger portion going to North Carolina.

Program Approaches and Activities in North Carolina During the First Year

During the first year of the RAI, several innovative modifications of and new uses for existing HUD programs were identified by HUD and local RAI participants. These were seen as potentially beneficial in meeting the objectives of facilitating the use of HUD programs and improving local administrative capacity. Implementation was begun as part of the RAI during the first year and will continue in the second year. The assessment of the RAI activities and results is ongoing and will be completed at the end of the second year. The following approaches used during the first year have a potential for broad application and illustrate the magnitude and diversity of the RAI effort in North Carolina.

1. Single Family Insured Mortgages

The use of Section 235 is one of the major success stories of the RAI in North Carolina. These activities began as a part of the RAI, but have now spread to a total of 13 states. In North Carolina approximately 450 Section 235 loans were authorized between August and December 1979.

The success of this program stems from the following:

- o A delegated processing program was initiated as a joint venture of HUD's Office of Housing, the RAI team, and the Federal Home Loan Bank system. Under the program, local savings and loan associations and other FHA approved mortgagees are authorized to initiate most of the steps involved in processing HUD-insured home loans, including

credit analyses, appraisals, inspections, and closings. By enlarging credit flows and speeding up the FHA mortgage process, the delegated processing program encourages production of moderate-income housing by allowing local contractors and citizens to deal directly and quickly with local lenders with whom they are familiar.

- o A different approach to marketing subsidized housing through normal channels, acceptable to rural areas, was used in the RAI. This involved the National Forest Products Association teamed with the N.C. Home Builders Association and the Carolina Lumber and Building Materials Dealers Association to build several model Section 235 units in the \$30,000 range. This venture is known as the "Rural Homes Program." Eight of these homes were featured in the North Carolina Home Builders "Parade of Homes" exhibition during the week of September 23, 1979.

2. Multifamily Housing

Another innovative approach to housing delivery developed as part of the RAI in North Carolina is called "Rural Track Processing." One large, experienced developer worked with small, local builders to provide approximately 30 units in each of twelve communities designated as target areas. Experience in North Carolina has shown that if a sufficient number of units can be aggregated into one package, many large developers are interested in constructing Section 8 New Construction units on scattered sites over large geographic areas. The approach appears to be an excellent way of getting small builders involved in HUD program activities, and it results in housing construction in areas where it would not otherwise be feasible to develop assisted housing.

3. Home Ownership Activities

On a limited basis, the Turnkey III program is being used to promote homeownership for low and moderate income households. In this program, units are initially constructed as low rent public housing for renters. When the tenant's escrow increases sufficiently, a prearranged transition is made to homeownership. Units are being constructed for the North Wilkesboro City Housing Authority and the Roanoke Rapids Regional Housing Authority. Both agencies have substantial experience in turnkey development and are expected to recommend refinements to the Turnkey III program which will strengthen its general application to broader areas, if and when HUD may elect to reactivate the Turnkey III program.

4. Home Replacement Program

An innovative low-cost housing replacement program was begun in Aurora (a community of 600 people) to assist low income homeowners. Funds were combined from a Community Development Block Grant (CDBG) for a relocation program, planning support from the RAI, labor from a CETA training program and a cost effective modular design housing system, developed by the Carolina Model Home Corp. for this project. This enabled the town to replace dilapidated housing owned by elderly blacks with small, attractive, efficient new housing units in the \$13,000 to \$15,000 price range. Since this is within the allowed "optional coverage" relocation payment range, there was no cost to the homeowners for the replacement houses.

5. Housing Rehabilitation

At the request of the Bladen County RAI grantee, HUD waived its normal procedures and approved, on a one time basis, the use of 10 percent of available Community Development Block Grant (CDBG) rehabilitation funds for scattered sites outside of a designated target area. Current procedures that draw artificial boundaries are not applicable in some rural areas.

The RAI rehabilitation specialist developed a rehabilitation manual that has been adopted by North Carolina area offices for use in all CDBG activities, including those areas outside the RAI target communities. Distribution copies of this manual are expected to be available in the near future.

6. Other RAI Activities

Technical Assistance Center -- The technical assistance center concept to serve local rural areas with a variety of Federal, state and local programs has been successfully implemented by the Neuse River Council of Governments (NRCOG) as a part of the RAI in North Carolina. The NRCOG, operating through one planner with support services, has developed information packets on the various available government programs; has conducted training sessions in which various government agencies, local officials, public agencies, builders, developers, mortgage lenders, etc., have participated; has assisted the various target areas in

successfully applying for all applicable HUD programs; and has developed HUD Small City preapplications (with a value of \$5.8 million) for target areas currently under review. In addition, NRCOG assisted in the preparation of over 20 successful applications to participate in appropriate programs from ten other government agencies. (The total value of non-HUD loans and grants resulting from this assistance was over \$4 million.) Early indications are that a technical assistance center, as operated by the NRCOG, is a cost effective way of matching rural needs with available resources.

Barriers to the use of HUD Programs -- The Neuse River Council of Governments (NRCOG) conducted a survey of builders, lending institutions, local officials, housing authorities, etc., to determine what problems exist in using HUD programs in small towns and rural areas. Approximately 40 organizations representing over 500 individuals provided data for this study. Some of the major findings involved Community Development Block Grants, Areawide Housing Opportunity Plans, on-site septic systems, and administrative procedures for preliminary site approval for HUD financed projects.

Interagency Cooperation -- The RAI team and state representatives met with local representatives of the Department of Agriculture, Environmental Protection Agency, Appalachian Regional Council, Department of Health, Education and Welfare, the Department of Labor, and others to determine how these agencies could best cooperate to promote rural development, including farmworker housing programs.

Economic Development -- All initiative towns were encouraged to participate in North Carolina's "Cities of Excellence" Program. (The completion of a ten-step agenda qualified cities for new industry referrals and assistance from the State's Department of Commerce.) The RAI team worked closely with the State and the three target area cities in this effort.

Technical Assistance by the RAI Team -- Technical assistance in completing preapplications for Urban Development Action Grants (UDAG) was provided to the towns of Aurora, Bridgeton, Burnsville, Greenevers, Mesic, Mt. Olive, Princeville and Yancey County. In addition, technical assistance for full UDAG applications was provided to the towns of Burnsville, Greenevers, Princeville and Aurora. All of these applications are in various stages of preparation or evaluation at this time.

With technical assistance from the RAI team, six out of seven target area communities were able to compete successfully at the preapplication stage for small-city Community Development Block Grants. This compared favorably with the normal success ratio of one out of four for small cities in 1979.

Program findings

Much has been learned through the RAI activities about delivering HUD programs in local areas and about building capacity at the local level to utilize both HUD and other Federal and state resources.

1. There is a strong need to improve HUD's image and the understanding of HUD programs in most rural areas. RAI experience indicates that HUD's image suffers most in those small communities that have not participated in HUD programs. Most of the non-participating communities,

and many that are participating to a limited degree, see HUD programs as much more applicable to the large urban areas. They also think that HUD is less than fully committed to making its programs applicable and available to small rural communities. In almost all areas where the RAI has operated, HUD's image has substantially improved.

2. HUD programs, regulations, practices, and procedures are of the most value if rural needs are explicitly recognized. Experience gained through the RAI indicates that some of the HUD programs must be tailored to typical rural conditions, attitudes and concerns.
3. HUD operating plans have not traditionally addressed the needs of many rural areas. RAI experience has indicated that there is a substantial need for technical assistance and outreach activities in most remote rural areas if they are to receive HUD program benefits. Technical assistance and outreach funded through the RAI have caused the target areas to participate in HUD programs to a much greater degree than they had before.
4. There is an acute need for "front-end" administrative funding for communities desiring to participate for the first time in HUD programs. RAI experience has indicated that "front-end" administrative funding was required if grantees were to be able to perform surveys, prepare Housing Assistance Plans, apply for Community Development Block Grants and Urban Development Action Grants, establish housing authorities, etc. These funds were the key to participation in Washington State (averaging approximately \$5,000 per grantee) and increased HUD program participation in North Carolina (averaging \$18,000 for individual grantees).

Program Approaches Currently Being Implemented

Of the many approaches utilized in the RAI, some have already been recommended and approved for further application outside the RAI areas; the best examples are:

- o Delegated processing has been approved for further testing in selected counties in a total of 13 states. HUD's Office of Housing and the the Federal Home Loan Bank are providing technical assistance and training as required to further refine this program approach before recommending that delegated processing be implemented on a broader basis.
- o The outreach and training activities related to the use of the Section 235 program in rural areas initiated by the National Forest Products Association in North Carolina is another program approach that is being implemented on a wider basis. As a beginning, the Association will conduct the activities in the 13 states that have been approved for delegated processing testing. Current plans are to eventually implement this promotional effort nationally.

Plans for the Second Year

The top priority for the RAI in the second year is to build upon the first year's successful program activities and develop recommendations concerning their potential for broader application. Continuing activities include the following:

- o "Rural track" processing (270 new units scheduled for FY '80);
- o Delegated processing;
- o National Forest Products Association Rural Homes Program;
- o Aurora relocation program;

- o Operation of the NRCOG Rural Technical Assistance Service Center;
- o Technical support and outreach to all target areas;
- o Turnkey III (65 new units scheduled for FY '80);
- o Identification of other possible barriers preventing the use of HUD programs and recommending alternative approaches; and
- o Strengthening local capacity to utilize HUD programs.

Several new approaches will be tried during the second year:

- o The RAI team will initiate a "basic needs" demonstration involving three communities of under 1000 that have no previous HUD program experience. A RAI team member will explore and define the role of a rural housing specialist in working with these communities over the next year. Also, funding has been transferred to Region IV to allow for small discretionary technical assistance grants to these "basic needs" communities utilizing the approach that proved so successful in Washington State during the first year.
- o The RAI economic development specialist will coordinate economic development activities with other Federal and State agencies.
- o The North Carolina Department of Natural Resources and Community Development will expand its target communities to include Selma and Shelby during the second year. In addition, it will:
 - Develop and/or demonstrate a Rural Homesteading Program in a mill village.

- Demonstrate the potential for pre-approved sites to complement the "rural track" processing approach;
- Work with the North Carolina State Housing Finance Agency to increase its potential as a rural secondary mortgage market facility.
- Coordinate the allocation of Federal rural development resources.
- Develop a computer file of housing needs for each county. These needs will be compared with the HUD assisted housing allocation over the past three years. Where appropriate, changes in the HUD allocation system will be proposed.
- Analyze Housing Assistance Plans and, where appropriate, suggest changes that will simplify the format.

The Neuse River Council of Governments will expand its target area to include Onslow and Pamlico Counties. In addition, its second-year program activities will:

- o Develop and implement a private-sector small builders program.
- o Develop a builders' educational program that will match builders' capabilities with specific program needs of the area.
- o Develop a builders' educational program which would keep both "stick builders" and the erectors of manufactured housing aware of the needs, including price ranges, of the various target areas.
- o Implement a Title IV Economic Development Administration (EDA) revolving loan fund.
- o Study the transportation needs of the area.

- o Develop a region-wide, minority, economic development technical assistance program targeted to distressed rural areas (EDA funded).
- o Develop a rural development investment strategy for the NRCOG area that will be used for coordinating Federal resources utilization.

Plans for Implementing or Institutionalizing Findings from the RAI

The most important issue at this time involves HUD's use of the RAI findings and experiences. In addressing this issue, the Department is planning to convene a meeting of members of the RAI teams, key grantee personnel and HUD personnel in both research and program offices to discuss:

- o The principal findings to date in the RAI;
- o Particular approaches that may require further testing, including suggested modifications;
- o Program approaches or procedures that appear to have broader applications; and,
- o The means by which successful program approaches could be implemented or institutionalized on a broader basis.

It is planned that the meeting will take place this Spring. This will allow the Department to obtain the maximum amount of information from the Initiative while the RAI teams and key grantee personnel are still participating in the two year program.

In conclusion, Senator Morgan, I would like to emphasize the importance of such pilot efforts as the RAI to HUD's research and demonstration program and to the Department's sincere interests in expanding its penetration in small communities and rural areas. We are always pleased to discuss our rural development activities with you and pledge to continue our commitment to better serve the people of non-metropolitan America.

Attachment IDescription of the RAI Grantees in North CarolinaCriteria for Selection

In general, the selection criteria for major grantees in the North Carolina RAI were developed by HUD's Area and Regional Offices. They included such requirements as previous experience as a Community Development Block Grant recipient and a population of less than 20,000. In addition, the grantee sites were to be dispersed across the State, have a variety of city or county characteristics, and represent a variety of governmental units (individual small community, rural county, regional Council of Governments, or agency of the State government). In North Carolina, five grantees representing sixteen local governments participated in the RAI during the first year. The following section describes each grantee, defines the amount and purpose of the grant, and lists major accomplishments.

North Carolina Grantees

Aurora. Aurora is a town of approximately 600 persons located adjacent to the Pamlico Sound, approximately 210 miles east of the HUD Area Office in Greensboro. It is a town that expects to triple its population in the next few years because it is the headquarters for the world's largest phosphate mining operation. Aurora was given an \$18,000 RAI grant to plan for the infrastructure and housing needed for their unusual growth. In addition to accomplishing the relocation program previously discussed under program approaches, Aurora:

- o Developed plans for the revitalization of the downtown business district and waterfront areas.

- o Prepared successful grant applications to the State and various Federal agencies in connection with a proposed marina, a fossil museum, a new regional medical center, a new multi-purpose center, and a new human resource center.
- o Prepared a five-year development plan that addresses economic, social, and physical issues.
- o Conducted training sessions for builders interested in Section 235 housing.
- o Obtained site approval for 16 new Section 8 housing units.

Bladen County. Bladen County is located in the Cape Fear River Basin, approximately 150 miles southeast of the HUD Area Office in Greensboro. Approximately 80 percent of its 29,000 population is rural. The county has a housing vacancy rate of less than one percent even though approximately 37 percent of all housing in the county was substandard in 1970. Approximately one-third of the population of the county is eligible to receive housing assistance, with minorities accounting for 64 percent of the figure. Although a few incorporated areas exist within the county, few residents live within any public service area.

Bladen County received an \$18,000 RAI grant to provide staff support for planning its RAI participation. In addition to the previously discussed waiver to use funds outside the target areas, Bladen County:

- o Developed a joint municipal housing cooperative.
- o Used CDBG funding to develop a low and moderate-income subdivision.

- o Initiated a mobile home rehabilitation program.
- o Obtained site approval for 36 Section 8 New Construction housing units and 150 low-rent public housing units.

Watauga County. Watauga County, located in the mountains about 120 miles west of the HUD Area Office in Greensboro, has a population of approximately 28,000. Boone is the only town within the county with a population of over 1,000; including university students, it has a population of 12,000. The county has little industry or infrastructure that would make systematic growth possible. A large percentage of the population of Watauga County is elderly.

A RAI grant for \$19,000 was given to Watauga County to develop planning capability, perform surveys, and undertake other activities necessary to participate in HUD programs. Initially, Watauga County worked through Appalachian State University in all RAI activities. The county's major accomplishments within the RAI include:

- o A county-wide survey from which it compiled a socio-economic profile of the population, determined the numbers and location of housing in need of rehabilitation, and determined the housing needs of the elderly in the area.
- o Established an ongoing planning capability within the county government.
- o Obtained site approval for 32 Section 8 New Construction housing units.

Neuse River Council of Governments (NRCOG)

The NRCOG serves a nine-county area in which there are approximately fifty small towns. This area is approximately 200 miles southeast of the HUD Area Office in Greensboro. During the first year of the Initiative the towns of

Beaufort, Greenevers, and Mount Olive, along with all of Craven County, were selected as target areas. These towns range in population from 450 to 4,625. The percentage of minorities within the target areas vary from approximately 30% to 99%. Overall, 31 percent of the residents in the target area have incomes below the poverty line. The NRCOG was given a grant for \$55,000 to plan, train, and deliver technical assistance to the target areas. In addition to the Technical Assistance Center and the HUD program study previously discussed, the NRCOG:

- o Prepared an areawide Housing Opportunity Plan and conducted a vacant land survey.
- o Established a revolving loan fund for economic development.
- o Tested different organizational arrangements for performing housing rehabilitation.
- o Prepared Urban Development Action Grant preapplications for Bridgeton, Greenevers, Mesic, and Mt. Olive.
- o Developed requests for a total of 441 assisted housing units within the target areas. During the first year, 52 Section 8 units, 52 low rent public housing units, and 85 new Section 8/515 allocations were approved. (Note: - the Section 8/515 was from a Farmers Home Administration allocation.)

North Carolina Department of Natural Resources and Community Development

The Department provides technical assistance relating to State and Federal programs to the following four target areas:

- o Hendersonville, a town of approximately 6,440 persons in the mountains approximately 200 miles west of the HUD Area Office in Greensboro. This is a retirement community with a population more than 20 percent elderly. Approximately 63 percent of its substandard housing is occupied by blacks.
- o Yancey County is located in the mountains approximately 190 miles west of the HUD Area Office in Greensboro. It has a declining population (down from 12,600 in 1970) with 29 percent of its population below the poverty line and 30 percent of its housing substandard.
- o Pender County, a county on the coast, is located approximately 200 miles southeast of the HUD Area Office. The 1970 Census showed a population of 18,149 that was declining. It also showed that 29 percent of the households had incomes below the poverty line and 33 percent of the houses were substandard.

Like the other counties in eastern North Carolina, Pender County has a high minority population.

- o The town of Princeville. Princeville is a rapidly growing black community. As of 1970, approximately 58 percent of Princeville's families had incomes below the poverty line and 89 percent of its housing was substandard. Since 1970 it is estimated that Princeville's population has tripled, with the majority of its residents now being either elderly or below eighteen years of age. The unemployment rate in 1976 was approximately 20 percent.

The North Carolina Department of Natural Resources and Community Development was given an RAI grant of \$60,000 for additional staffing to cover a portion of its RAI expenses. With it, the department:

- o Formed a city housing authority, a county housing authority and a regional housing authority.
- o Conduct workshops on the Community Reinvestment Act, mortgage lending, and housing management.
- o Established an interagency rural coordinating committee.
- o Assisted in the preparation of UDAG applications for Princeville and Yancey County.
- o Assisted in site selection, developer negotiations, etc. for the following assisted housing within the target area:

Hendersonville	29 Section 8 New Construction units
Pender County	34 Section 8 New Construction units
Yancey County	37 Section 8 New Construction units
	35 LRPB units
Princeville	48 Section 8 New Construction units
	50 LRPB units units

Other RAI Participants

In addition to the major grantees, four other communities were chosen to participate in the RAI. These communities received technical assistance from the RAI team and participated in workshops and program reviews, but they received no grants. These four non-grantee participants were:

Gibsonville. This mill town straddles the county line between two SMSA counties: Guilford and Allowance. It is experiencing a slow but steady rate of growth. In 1977, Gibsonville had a population of 2,527, of which 12 percent were black. Despite its location only 15 miles east of the HUD Area Office in Greensboro, it has not been able to participate effectively in HUD programs. Gibsonville was the recipient of 20 Section 8 New Construction units.

Maxton. The town is experiencing rapid growth and industrial development in an area 110 miles southeast of the HUD Area Office in Greensboro. In 1970, Maxton had a population of 1900, and 39 percent of its housing was considered substandard. At that time, 44 percent of the town's population was black, but the county's population is predominantly American Indian. Maxton was approved for 18 Section 8 New Construction units.

North Wilkesboro. Located in the foothills approximately 50 miles west of the HUD Area Office, this town is the home of Holly Farms Chickens Enterprises. Although the town had a substantial population loss during the past two decades, its current population has stabilized at approximately 3,500. Approximately 20 percent of North Wilkesboro's residents have incomes below the poverty line and approximately 17 percent of its housing is substandard. North Wilkesboro has been one of the most successful communities in the nation in using HUD programs effectively. North Wilkesboro was the site of 28 Section 8 New Construction units and 25 Turnkey III low-rent public housing units.

Roanoke Rapids. This rural town is approximately 150 miles northeast of the HUD Area Office. The 1970 Census showed that it had a population of approximately 14,000, 15 percent of whom had incomes below the poverty line. Approximately 15 percent of its housing was substandard. Roanoke Rapids was selected because of its outstanding rural regional housing authority. The town was approved for 50 Turnkey III low-rent public housing units.

ATTACHMENT IIHUD ASSISTANCE TO NON-METROPOLITAN AREAS
(FY'79 -- \$ IN MILLIONS)

	<u>NON-METRO</u>	<u>METRO</u>
<u>COMMUNITY DEVELOPMENT BLOCK GRANTS</u>		
SMALL CITIES PROGRAM:	\$ 641 (20%)	\$ 234
ENTITLEMENT GRANTS:		2,664
		\$2,908 M
<u>SECRETARY'S DISCRETIONARY FUND:</u>		
- INNOVATIVE PROJECTS	.2 (1.3%)	14.8
- TECHNICAL ASSISTANCE	1.5 (7.9%)	17.5
- AREAWIDE PROGRAM	2.5 (53.2%)	2.2
- INDIANS PROGRAM	28.0 (100%)	-
- DISASTER RELIEF	7.5 (50%)	7.5
	<u>39.7</u>	
FINANCIAL SETTLEMENT CATEGORY:	\$ 30. (30% ESTIMATED)	
<u>CDBG TOTAL</u>	\$710.7	
<u>UDAG</u>		
CITIES UNDER 50,000		[\$ 92 *(23%)]
CITIES OVER 50,000		[300 (75%)]
<u>701 PLANNING GRANTS</u>	\$18.9 (35%)	\$35.1

*UDAG ALLOCATIONS ARE STILL BEING MADE, THE FULL 25% (\$100 M) WILL BE ALLOCATED TO SMALL CITIES.

HUD ASSISTANCE TO NON-METROPOLITAN AREAS
(FY 1979 -- \$ IN MILLIONS)

	<u>NON-METRO</u>	<u>METRO</u>
<u>ASSISTED HOUSING UNITS</u> (RESERVATIONS)		
SECTION 8 (NEW, REHAB AND EXISTS)	63,500 UNITS (23%)	276,100 UNITS
LOW-RENT PUBLIC HOUSING SECTION 3L2 REHAB	14,150 UNITS (28%) 5,600 UNITS (28%)	50,550 UNITS 20,000 UNITS
<u>GNMA TARGETED TANDEM</u>		
CITIES UNDER 50,000	[1,274 UNITS (9%)]	
CITIES OVER 50,000	[13,436 UNITS]	
<u>INSURED HOUSING (78)</u>		
SINGLE FAMILY NEW	3,100 UNITS (6%)	46,300 UNITS (94%)
EXISTING	30,700 UNITS (10%)	303,500 UNITS (90%)
<u>NEIGHBORHOODS, VOLUNTARY ASSOCIATIONS AND CONSUMER PROTECTION (NVACP)</u>		
SELF HELP DEVELOPMENT FUNDS (ANTICIPATED FOR FY'80)	\$3 (UP TO 20%)	\$12
HOUSING COUNSELING	(NO DATA YET AVAILABLE)	

ATTACHMENT IIIHUD ACCOMPLISHMENTS TO ASSIST RURAL AND SMALL COMMUNITIESADMINISTRATIVE ACTION

THE PRINCIPLE UNDERLYING HUD'S RURAL AND SMALL COMMUNITY ACCOMPLISHMENTS IS THE SIMPLIFICATION OF PROGRAM PROCEDURES AND TAILORING OF PROGRAM REQUIREMENTS TO THE SPECIAL NEEDS OF RURAL AND SMALL COMMUNITIES. TO MAXIMIZE THIS EFFORT, THE DEPARTMENT HAS INSTITUTED A RURAL COORDINATING GROUP TO TRACK THE PROGRESS ON RURAL INITIATIVES AND TO INSURE THAT POLICY-MAKERS IN EACH OFFICE ARE AWARE OF AND INVOLVED IN DISCUSSIONS OF RURAL NEEDS AS THEY RELATE TO THEIR RESPECTIVE PROGRAMS. THE RURAL COORDINATING GROUP, CONVENED BY THE OFFICE OF POLICY DEVELOPMENT AND RESEARCH, IS SIMILAR TO THE "RESPONSIBILITY CENTER" TO BE ESTABLISHED UNDER THE PRESIDENT'S NEW RURAL POLICY.

ANOTHER FOCUS FOR HUD'S EFFORTS TO IMPROVE SERVICE TO RURAL AREAS IS THE RURAL ASSISTANCE INITIATIVE (RAI), UNDERTAKEN IN RESPONSE TO THE FOLLOWING FINDINGS OF THE DEPARTMENT'S TASK FORCE ON RURAL AND NON-METROPOLITAN AREAS: (1) THE NEED TO ENHANCE LOCAL, PUBLIC, AND PRIVATE CAPACITY TO APPLY FOR AND IMPLEMENT HUD PROGRAMS AND (2) THE NEED TO REDUCE PROGRAM AND PROCEDURAL BARRIERS TO THE USE OF HUD PROGRAMS IN REMOTE, RURAL COMMUNITIES.

THE RAI AIMS TO FACILITATE THE USE OF HUD HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS IN RURAL AREAS AND TO TEST ALTERNATIVE METHODS FOR IMPROVING LOCAL ADMINISTRATIVE CAPACITY. HUD BEGAN THIS TWO-YEAR DEMONSTRATION PROGRAM IN THE STATES OF NORTH CAROLINA AND WASHINGTON IN OCTOBER 1978. IT DESIGNED A PARTNERSHIP BETWEEN THE HUD AREA OFFICES AND LOCAL ORGANIZATIONS TO DETERMINE HOW DEPARTMENTAL RESOURCES CAN BE MOST EFFECTIVELY TAILORED TO MEET THE SPECIAL NEEDS OF THE SELECTED COMMUNITIES IN EACH STATE. ACHIEVEMENTS OF THE RAI WILL BE HIGHLIGHTED UNDER VARIOUS CATEGORIES BELOW.

RURAL CAPACITY BUILDING

1. SMALL CITIES BLOCK GRANT PROGRAM

A. INCREASED FUNDING:

SMALL CITIES ARE ASSISTED THROUGH THIS PROGRAM IN INCREASING AMOUNTS: \$770 MILLION IN 1979 VERSUS \$707 MILLION IN 1978 AND \$259 MILLION IN 1975.

B. PROGRAM SIMPLIFICATION AND PROGRAM STABILITY

WE HAVE TRIED TO DESIGN THE PREAPPLICATION AND APPLICATION FORMS SO THAT A COMMUNITY WITH A SMALL, INEXPERIENCED STAFF IS NOT PROHIBITED FROM APPLYING. WE ENCOURAGE APPLICANTS TO BE BRIEF AND CONCISE. IN VIEW OF THE STIFF COMPETITION CAUSED BY THE

DEMAND FOR FUNDS, HOWEVER, MANY SMALL CITIES STILL USE CONSULTANTS. ONE WAY TO ACCOMMODATE SMALL STAFFS IS TO AVOID MAKING MAJOR CHANGES IN THE PROGRAM. CITIES THEN BECOME FAMILIAR WITH THE SYSTEM AND REDUCE THEIR DEPENDENCE ON CONSULTANTS.

THE SMALL CITIES PROGRAM HAS NOW BEEN STABILIZED. NO MAJOR REGULATIONS ON FORMS HAVE BEEN CHANGED AND THE SELECTION PROCESS HAS REMAINED CONSTANT. AS A RESULT OF THE PROGRAM STABILITY, HUD FIELD STAFF ARE BETTER ABLE TO PROVIDE ASSISTANCE TO SMALL COMMUNITIES.

THE FOLLOWING IMPROVEMENTS HAVE BEEN MADE TO THE BENEFIT OF SMALL COMMUNITIES:

WE HAVE DEVELOPED SIMPLIFIED HOUSING ASSISTANCE PLAN REQUIREMENTS FOR SINGLE PURPOSE GRANTEES IN RECOGNITION OF THE FACT THAT SUCH GRANTEES ARE TYPICALLY SMALLER, LESS EXPERIENCED AND POSSESS LESS ADMINISTRATIVE CAPACITIES.

FOR FY'80, WE HAVE CHANGED THE SELECTION CRITERIA SLIGHTLY TO ELIMINATE A PERCEIVED BIAS TOWARDS CERTAIN KINDS OF PROJECTS SO THAT COMMUNITIES COULD TRULY SELECT THOSE ACTIVITIES WHICH ADDRESS THE MOST CRITICAL LOCALLY-IDENTIFIED COMMUNITY DEVELOPMENT NEEDS.

WE PROPOSED LEGISLATION, ADOPTED BY THE CONGRESS, TO REDUCE THE APPLICATION REQUIREMENTS FOR ALL SINGLE PURPOSE GRANTEES. THE REQUIREMENT TO PREPARE A 3 YEAR COMMUNITY DEVELOPMENT STRATEGY WILL BE REMOVED FROM ALL SUCH GRANTEES TO SIMPLY THE APPLICATION PROCESS AND REDUCE ADMINISTRATIVE BURDENS.

IN ADDITION, HUD'S RURAL ASSISTANCE INITIATIVE IS EXPLORING POSSIBLE PROGRAM, PROCEDURAL, OR ADMINISTRATIVE MODIFICATIONS WHICH WOULD MAKE THE PROGRAM MORE ACCESSIBLE TO THE SMALLER COMMUNITIES.

OTHER EFFORTS TO ASSIST COMMUNITIES USE THE SMALL CITIES PROGRAM INCLUDE:

- O ENCOURAGING COUNTIES AND STATES TO APPLY "IN-BEHALF" OF SMALLER COMMUNITIES THAT LACK THE EXPERTISE OR ADMINISTRATIVE SKILL TO APPLY ON THEIR OWN.
- O FUNDING GRANTS OF SUFFICIENT SIZE TO PERMIT COMMUNITIES TO DEAL WITH AND RESOLVE THE CAUSE OF THEIR BASIC COMMUNITY DEVELOPMENT NEEDS.
- O MAKING MULTI-YEAR COMMITMENTS TO APPROXIMATELY 800 SMALL CITIES WHICH PERMITS THEM TO DESIGN AND EXECUTE MAJOR COMPREHENSIVE PROGRAMS.

II. TECHNICAL ASSISTANCE

TO ASSIST SMALL COMMUNITIES TO APPLY FOR AND IMPLEMENT FEDERAL PROGRAMS, HUD PROVIDED IN ^{FY'78} FY'79 CONSIDERABLE TECHNICAL ASSISTANCE (T.A.) AS FOLLOWS:

- A. \$3.5 MILLION TO SIXTEEN STATES FOR T.A. PROJECTS AIMED AT BUILDING CAPACITY IN SMALL CITIES.
- B. \$3 MILLION TO TEN REGIONAL OFFICES FOR T.A. ADDRESSING THE SPECIAL SMALL CITY NEEDS OF EACH REGION.
- C. \$600,000 TO SIX REGIONAL OFFICES FOR T.A. TO SMALL COMMUNITIES HAVING DIFFICULTY ADMINISTERING SMALL CITIES GRANTS.
- D. \$425,000 TO THE JOINT CENTER FOR POLITICAL STUDIES TO ASSIST DISADVANTAGED CITIES (20,000 POP. OR LESS) WITH LARGE MINORITY POPULATIONS AND MINORITY LOCAL

OFFICIALS, WHICH HAVE NOT BEEN FUNDED OR HAVE POOR PERFORMANCE RECORDS DUE TO LACK OF CAPACITY.

- E. \$130,000 TO DEVELOP A FINANCIAL MANAGEMENT GUIDE FOR SMALL CITIES.
- F. \$81,000 TO THE LEAGUE OF CITIES TO DEVELOP A RURAL REHABILITATION GUIDE AND HOLD REHABILITATION WORKSHOPS.
- G. \$55,000 TO THE HOUSING ASSISTANCE COUNCIL TO PREPARE GUIDES FOR SMALL CITIES ON CITIZEN PARTICIPATION, RESOURCE MOBILIZATION, DATA COLLECTION AND NEEDS ASSESSMENT, AND GENERAL ADMINISTRATION.

III. DEVELOPMENT OF COMMUNITY DEVELOPMENT DELIVERY MECHANISMS

A. USDA-HUD DEMONSTRATION

FOR TWO YEARS, THE USDA-HUD 4-STATE (CALIFORNIA, COLORADO, ILLINOIS AND W. VA.) DEMONSTRATION HAS WORKED TO DEVELOP ADDITIONAL STATE AND SUB-STATE DELIVERY MECHANISMS FOR COMMUNITY AND HOUSING DEVELOPMENT AND BETTER COORDINATE FEDERAL AND LOCAL PROGRAMS. THE RESULT HAS BEEN INCREASED PRIVATE, STATE, REGIONAL, AND COUNTY INVOLVEMENT IN THE DELIVERY OF FEDERAL, STATE AND LOCAL

RESOURCES. THE SECOND PHASE OF THE DEMONSTRATION, NOW GETTING UNDERWAY, WILL TRANSFER THE NEWLY DEVELOPED MODELS OF DELIVERY TO OTHER PARTS OF THE SAME STATES. THESE MODELS MIGHT THEN BE REPLICATED IN OTHER STATES TO IMPROVE THE DELIVERY OF SERVICE TO RURAL POOR.

B. SELF-HELP DEVELOPMENT GRANTS

IN IMPLEMENTING THIS \$15 MILLION PROGRAM, HUD WILL ASSURE THAT NON-METRO AREAS GET A SUBSTANTIAL PORTION OF THE FUNDS.

NEIGHBORHOOD SELF-HELP DEVELOPMENT GRANTS WILL PROVIDE FUNDING TO NEIGHBORHOOD AND COMMUNITY DEVELOPMENT ORGANIZATIONS TO PREPARE AND IMPLEMENT NEIGHBORHOOD REVITALIZATION STRATEGIES IN LOW- AND MODERATE-INCOME NEIGHBORHOODS THROUGH HOUSING, COMMUNITY AND ECONOMIC DEVELOPMENT PROJECTS. SEPARATE GRANT PROCEDURES HAVE BEEN DEVELOPED THAT TAKE INTO CONSIDERATION SPECIAL RURAL NEEDS AND WHICH WILL RESULT IN A SUBSTANTIAL PORTION OF THE \$15 MILLION IN SELF-HELP FUNDS BEING COMMITTED TO RURAL COMMUNITIES.

\$25,000 HAS ALREADY BEEN AWARDED IN FY'80 TO THE MEXICAN AMERICAN RESEARCH CENTER TO IDENTIFY RURAL ORGANIZATIONS IN SOUTH AND WEST TEXAS THAT WOULD BE ELIGIBLE APPLICANTS UNDER SELF-HELP AND TO PROVIDE TECHNICAL ASSISTANCE TO RURAL ORGANIZATIONS IN APPLYING FOR SELF-HELP GRANTS.

C. DELIVERY OF HOUSING REHABILITATION

A \$200,000 COMMUNITY DEVELOPMENT INNOVATIVE PROJECT GRANT WAS AWARDED IN 1979 TO THE STATE OF MAINE FOR A REHABILITATION OUTREACH PROGRAM ADMINISTERED THROUGH MAINE'S THIRTEEN COMMUNITY ACTION AGENCIES. USING HOUSING REHABILITATION TECHNICIANS AS LIAISONS BETWEEN RURAL, LOWER INCOME HOMEOWNERS AND VARIOUS FUNDING SOURCES, THE NETWORK HELPS THE RURAL POOR FIND FEDERAL, STATE, LOCAL AND PRIVATE RESOURCES TO REHABILITATE THEIR HOMES. THESE FAMILIES COULD NOT OTHERWISE AFFORD EVEN THE MOST ESSENTIAL HOME REPAIRS, AND WOULD BE UNLIKELY TO SEEK OUT THE ASSISTANCE FOR WHICH THEY ARE ELIGIBLE.

UNDER THE FIRST PHASE OF THE PROJECT, 675 HOMEOWNERS HAVE BEEN ASSISTED IN OBTAINING OVER \$1.3 MILLION IN REHAB LOANS. FOR EVERY FEDERAL

DOLLAR SPENT, MORE THAN \$9.60 IN HOME REPAIR OR PURCHASE FUNDING WAS GENERATED.

IV. ECONOMIC DEVELOPMENT AND PUBLIC/PRIVATE COOPERATION

A. UDAG

A TOTAL OF \$171.1 MILLION IN SMALL CITIES URBAN DEVELOPMENT ACTION GRANTS (UDAG) HAVE BEEN MADE SINCE AUGUST 1978. THIS IS 25% OF THE TOTAL UDAG FUNDING.

B. THE FIRST RURAL NEIGHBORHOOD HOUSING SERVICES (NHS) PROGRAM

HUD'S RURAL ASSISTANCE INITIATIVE IN WASHINGTON STATE HAS DEVELOPED THE FIRST RURAL NHS PROGRAM. THE TOWN OF COLFAX (POPULATION 2500) IN WHITMAN COUNTY WILL RECEIVE SEED MONEY FROM THE NEIGHBORHOOD REINVESTMENT CORPORATION, ESTABLISH A REVOLVING LOAN FUND OF \$300,000 BASED ON PUBLIC AND FOUNDATION SOURCES, AND TARGET A VARIETY OF FEDERAL AND LOCAL RESOURCES TO REVITALIZE THE TOWN OF COLFAX AND SURROUNDING COMMUNITIES IN WHITMAN COUNTY.

V. PROGRAM EVALUATION

TO BETTER UNDERSTAND THE NATURE AND IMPACT OF PROGRAMS IN SMALL COMMUNITIES IN ORDER TO IMPROVE THEM, HUD HAS UNDERTAKEN:

A. A COMPREHENSIVE SMALL CITIES DEVELOPMENT NEEDS STUDY.

COMPLETED IN EARLY 1979, THE STUDY EXAMINED THE NEEDS OF SMALL CITIES AND THE DUPLICATION AND OVERLAP OF FEDERAL PROGRAMS. IN COOPERATION WITH THE FMHA, OTHER FEDERAL AGENCIES, AND ORGANIZATIONS REPRESENTING SMALL CITIES, HUD SOLICITED THE VIEWS OF 1200 SMALL CITY ELECTED OFFICIALS, PUBLIC AGENCIES AND INTEREST GROUPS.

B. EVALUATION OF SMALL CITIES PROGRAM.

NOW UNDERWAY, THIS EVALUATION WILL EXAMINE THE EXISTING PROJECT SELECTION SYSTEM, HOUSING ASSISTANCE PLANS, PROGRAM BENEFITS, IMPLEMENTATION OF PROJECTS AND COMPREHENSIVE STRATEGIES.

THE OBJECTIVE IS TO DETERMINE HOW CERTAIN ELEMENTS OF THE PROGRAM DESIGN AFFECT HOW SMALL CITIES ADDRESS THEIR COMMUNITY DEVELOPMENT NEEDS.

HOUSINGVI. ASSISTANCE TO LOW-INCOME RURAL HOUSEHOLDS

THE CUMMULATIVE TOTAL OF HUD'S HOUSING ASSISTANCE TO NON-METROPOLITAN AREAS THROUGH 1978 IS SUMMARIZED AS FOLLOWS: 281,000 UNITS OF SECTION 8 RENTAL ASSISTANCE (1975-1980); 457,000 LOW RENT PUBLIC HOUSING UNITS (1934-1978); AND 181,000 UNITS OF SECTION 235 AND 236 (1968-1978).

TO MAXIMIZE THE BENEFITS AND APPLICATION OF HUD ASSISTANCE TO LOW INCOME HOUSEHOLDS IN NON-METRO AREAS, THE DEPARTMENT HAS UNDERTAKEN THE FOLLOWING:

- A. THE DEPARTMENT'S RURAL ASSISTANCE INITIATIVE WHICH HAS RESULTED IN SEVERAL INNOVATIVE PROGRAM DELIVERY STRATEGIES, E.G.,
- O A "RURAL TRACK PROCESSING" STRATEGY IN WHICH ONE DEVELOPER WORKS WITH SMALL, LOCAL BUILDERS TO CONSTRUCT SMALL PROJECTS, SCATTERED IN RURAL COMMUNITIES OVER A LARGE GEOGRAPHICAL AREA; AND
 - O A RURAL 1000 PROGRAM TO PLACE 8 UNITS OR LESS OF SECTION 8 ASSISTED HOUSING IN COMMUNITIES OF UNDER 1000 POPULATION.
- B. INCREASED COORDINATION BETWEEN FMHA AND HUD IN THE JOINT DELIVERY OF ASSISTED HOUSING (E.G., THE SECTION 8/515 SET-ASIDE) BY APPOINTING A COORDINATOR IN EACH AGENCY TO RESOLVE ANY ADMINISTRATIVE PROBLEMS.

- C. NEW SECTION 8 REGULATIONS WHICH PROVIDE FOR PREFERENCES IN PROCESSING APPLICATIONS FOR SMALL PROJECTS. MOST SMALL PROJECTS ARE IN RURAL AREAS AND HUD WILL THEREBY BE ABLE TO RESPOND MORE QUICKLY TO THE NEEDS OF RURAL AREAS.
- D. EVALUATION OF THE SECTION 8 HOUSING ASSISTANCE PAYMENTS PROGRAM IN NON-METRO AND RURAL AREAS. THIS EVALUATION WILL ASSESS AND COMPARE THE VARIOUS ADMINISTRATIVE STRUCTURES, PROGRAM IMPLEMENTATION STRATEGIES AND PROGRAM RECIPIENTS OF THE SECTION 8 PROGRAM IN RURAL AND NON-METROPOLITAN AREAS.
- E. AS ASSESSMENT OF RURAL HOUSING NEEDS, AVAILABLE FEDERAL RESOURCES TO ADDRESS THEM AND THE GAPS IN EXISTING ASSISTANCE.

VII. RURAL HOMEOWNERSHIP OPPORTUNITIES

- A. HUD'S RURAL ASSISTANCE INITIATIVE HAS EXAMINED BETTER WAYS TO INCREASE HOMEOWNERSHIP OPPORTUNITIES. FOR EXAMPLE, THE TURNKEY III LOW-RENT PUBLIC HOUSING PROGRAM WILL BE USED TO PROMOTE HOMEOWNERSHIP FOR LOW- AND MODERATE-INCOME RENTERS. IN THIS PROGRAM, UNITS ARE CONSTRUCTED FOR INITIAL RENTER OCCUPANCY. WHEN

THE TENANT'S ESCROW INCREASES SUFFICIENTLY TO QUALIFY AS A DOWN-PAYMENT, A PREARRANGED TRANSITION IS MADE TO HOMEOWNERSHIP.

- B. AS A PRODUCT OF THE RURAL ASSISTANCE INITIATIVE, HUD HAS JUST PUT INTO EFFECT A PROGRAM OF OUTREACH AND DELEGATED PROCESSING FOR FHA MORTGAGE INSURANCE. THIS DEMONSTRATION IS NOW BEING TESTED IN MANY COUNTIES THROUGHOUT THE COUNTRY. LOCAL LENDERS WILL PROCESS THE MORTGAGE LOANS WITHOUT TRAVELING MANY MILES TO THE HUD OFFICE.
- C. A UNIFORM APPRAISAL AND APPLICATION FORM HAD BEEN PREPARED BY FHA, VA AND FMHA. THIS WILL ASSIST IN EXTENDING MORTGAGE CREDIT TO RURAL AREAS BECAUSE ONCE A FORM HAS BEEN COMPLETED MANY TYPES OF FINANCING WILL BE AVAILABLE TO A PROSPECTIVE HOME BUYER.
- D. HUD HAS ELIMINATED REQUIREMENTS FOR DETAILED MARKET ANALYSIS IN RURAL AREAS BEFORE FHA MORTGAGE INSURANCE CAN BE MADE AVAILABLE. THIS WILL PROVIDE A GREATER USE OF FHA MORTGAGE INSURANCE IN RURAL AREAS BECAUSE OF THE REDUCED TIME FOR APPROVALS.

- E. THE TITLE I PROGRAM HAS BEEN CHANGED SO THAT MORTGAGE INSURANCE IS NOW AVAILABLE FOR BOTH A MOBILE HOME AND THE LOT UPON WHICH THE MOBILE HOME IS PLACED. THIS WILL HAVE A DIRECT BENEFIT IN MANY RURAL AREAS.
- F. A RURAL HOMEOWNER COUNSELING CAPACITY IS BEING PROMOTED THROUGH A CONTRACT WITH RURAL AMERICA TO GENERATE HUD-APPROVED COUNSELING AGENCIES.

FAIR HOUSING AND EQUAL OPPORTUNITY

VIII. HUD FUNDING OF STATE AND LOCAL HUMAN RIGHTS COMMISSIONS.

THE INCREASED FUNDING TO BE MADE AVAILABLE BY HUD WILL ALLOW STATE AND LOCAL GROUPS TO IMPROVE FAIR HOUSING ENFORCEMENT IN RURAL AND SMALL COMMUNITIES. HERETOFORE, LIMITED RESOURCES HAVE TENDED TO RESULT IN AN EMPHASIS ON ACTIVITY IN URBAN AREAS.

Attachment IV

POPULATION TRENDS IN THE UNITED STATES AND NORTH CAROLINA

	1978 Estimate	1970 Census	Percent Change 1970 - 1978	Net Migration Percent Change 1970 - 1978
Nonmetropolitan				
United States	58,022,600	52,617,574	10.3	5.1
South	25,207,600	22,781,467	10.6	5.1
North Carolina	3,054,300	2,799,445	9.1	2.8
Metropolitan				
United States	160,040,100	150,684,457	6.2	0.5
South	45,419,000	40,031,513	13.5	6.4
North Carolina	2,522,800	2,284,966	10.4	3.5
North Carolina SMSAs				
Asheville	171,600	161,059	6.6	4.0
Burlington	98,000	96,502	1.6	-2.5
Charlotte - Gastonia	605,900	557,785	8.6	1.2
Fayetteville	223,200	212,042	10.0	-5.4
Greensboro - Winston Salem - High Point	779,300	724,129	7.6	2.0
Norfolk - Virginia Beach (Currituck County)	10,600	3,600	51.8	48.9
Raleigh - Durham	493,600	419,254	17.7	11.2
Wilmington	130,400	107,219	21.7	14.2

SOURCE: Population estimates and projections, series P-25, No. 873, February 1980, U.S. Department of Commerce Bureau of the Census.

Senator MORGAN. Thank you very much.

I might say that I have followed the rural initiative program in North Carolina fairly closely and I have been very much impressed with the results. I think the people in the State and in Washington State believe it's been very successful.

We have a number of questions for each of you.

SUBSTANTIAL BUDGET INCREASE

Let me start off by asking Mr. Mercure: Can you explain the reason for the very substantial boost in the section 504 rehab program budget request?

Mr. MERCURE. Yes, sir. Let me go back a little bit. The 504 program is both the grant and the loan program. The grant program has quadrupled in the past 3 years. We believe the low income 504 loan program, particularly with the increase up to \$7,500 as the amount we can—

Senator MORGAN. Up to how much?

Mr. MERCURE. Up to \$7,500 per unit that we now can allow for rehab, is probably at this point one of the more useful tools to help people in substandard housing improve the quality of housing. We think its potential could be a very important tool in helping people improve the energy efficiency of their homes so we can help them cut the cost of their utilities. So recognizing that that program has operated somewhat slowly, we believe that over the next 2 years, for the period of 1981, we can assist a larger number of low income families improve and rehabilitate their homes using that initiative which permits us to lend money at as low as 1 percent.

Senator MORGAN. How much increase are you proposing?

Mr. MERCURE. We are just about doubling the amount. I believe we are recommending to Congress \$50 million.

Senator MORGAN. We had about half of that last year?

Mr. MERCURE. We had about half of that last year.

Senator MORGAN. How many did you do last year? Do you know? Do you have those records available?

Mr. MERCURE. We did about 15 million out of 24—\$15 million out of the \$24 million.

Senator MORGAN. In other words, you turned back \$9 million?

Mr. MERCURE. Unfortunately, yes, sir.

Senator MORGAN. Why? Was the request not there? Was it a lack of knowledge on the part of people that the program was available or do you have any—I'm sure the need was there.

Mr. MERCURE. I wish I could give you a really good excuse. I think I've got a number of them. No. 1, we had an unprecedented amount of loan activity with our farm loan program because of the disasters that we are still having to cover. Our volume there has quadrupled in the past 2 years. That obviously took a great deal of attention from the promotion of housing rehabilitation which has to be done. I think that probably is the major contributor, if you will, of some lack of attention in some States.

I should point out that a number of States fully use their total allocation and would have used more if we had been able to respond to that need. But we believe that by targeting our resources we can get that money out even at the higher level.

Senator MORGAN. One of the problems Farmers Home has had ever since I have been here has been the lack of staff. I think Farmers Home has been noted through the years as having really a good delivery system, if not the best. Are you planning any additional staff for this program which has been traditionally plagued by having too little outreach to succeed?

Mr. MERCURE. With the support of Congress and the administration, last year we added 469 people to our staffing. I'm afraid, Senator, that the current year does not look very favorable in terms of increasing the total number of staff.

Senator MORGAN. Were you able to add those staff people early on enough to really be effective in carrying out the program or are they now just beginning to—

Mr. MERCURE. What we have done, Senator, is that we have attempted to do two things—anticipate the retirement and release of people. So early in the year we actually do some overemployment, very small, in anticipation of people who are going to be retiring, the turnover rate. It's not very great in Farmers Home but, nevertheless, one of the problems that we are attempting to improve in terms of management personnel, if we wait for a person to leave the organization—and we can anticipate some of those retirements—until we hire the replacement, we really have a person who on the early part of his career is not fully productive. So what we are trying to do is do some overlapping so when the retired person leaves we leave in place somebody who's accumulated some experience. In effect, I think we have generally been up to our ceiling most of the year. From time to time we are a little below.

Mr. Cavanaugh tells me we were more than 400 overstaffed in January which now gives me worry.

Senator MORGAN. Let me hurry on and get one more question for the record. What was the average cost per unit and how many units do you plan for next year?

Mr. CAVANAUGH. Senator, the new unit average cost during 1979 was \$31,603.

Senator MORGAN. I'm thinking now of rehabilitation, Gordon.

Mr. CAVANAUGH. The 504 repair units?

Senator MORGAN. Right.

Mr. CAVANAUGH. I'd have to get that figure.

Senator MORGAN. That's all right, if you will supply it for the record, it's something I think we will need.

Mr. McHenry, let me move on to you for most of these questions are questions that the staff—

Mr. CAVANAUGH. May I just interrupt, Senator? I thought the figure might emerge a little more quickly. I would say just over \$2,700 was the average 504 repair loan in 1979.

Senator MORGAN. You don't know how many you plan for next year?

Mr. CAVANAUGH. Well, if we were to use the entire \$50 million, we have estimated we would do 16,000 units.

Senator MORGAN. Mr. McHenry, let me digress for a moment from the question that we need for the record and ask you, don't you have a similar program for rehabilitation?

Mr. McHENRY. We have the section 312 program.

Senator MORGAN. For the record, what does that program do?

Mr. McHENRY. Section 312 is a rehabilitation loan program. We also have the section 8 substantial rehab and the section 8 moderate rehabilitation program.

Senator MORGAN. Where do the grants for rehab come from? There have been some grants made down in my State which have created some problems.

Mr. McHENRY. Senator, we don't have a grant rehab program.

Senator MORGAN. You don't know where these grants would have come from?

Mr. McHENRY. We also have, of course, the title I loan programs for rehabilitation of homes. Senator, it may very well be that some communities in your state under the community development block grant program have developed their local grant programs.

That is permissible and is going on in a number of places.

Senator MORGAN. Who administers those grants?

Mr. McHENRY. These are HUD-funded programs, where we make the community development block grant funds available to local communities. These communities carry out their programs, which are approved by HUD.

Senator MORGAN. I think that's the program I was thinking about. Let me say, I appreciate what HUD is doing in this area to help some of the communities in our area. There are, however, a number of communities which do not follow through properly.

The Greensboro HUD office has done a good job, but I want to talk to you more about that.

Mr. McHENRY. Mr. Stegman has some statistics on that subject, if you would like.

Senator MORGAN. What do you have?

Mr. STEGMAN. Mr. Chairman, I believe that under the block grant program both the discretionary part and the entitlement part for the larger cities, a reasonable percentage of those funds are allocated to rehab according to local planners.

In the nonmetropolitan areas, for example, for last year, fiscal year 1979, approximately 29 percent of all small city block grant funds that went to North Carolina small communities were allocated by those communities to rehab.

In the entitlement cities, the larger cities, about 31 percent were, so in each case they're sizable. But those programs could vary substantially across communities because they're locally designed.

DEFICIENCIES IN HOUSING SUPPORT

Senator MORGAN. I think that those are the programs I was talking about. Mr. McHenry, you say on page 2 that the figures you cite on HUD activities are impressive. GAO, on the other hand, along with others, has cited deficiencies in Federal housing support for rural areas.

They're saying that it's not consistent with need and decreases as you move away from urban facilities. They point out that only 5 percent of HUD's public housing program is in towns of less than 2,500 people, that use of FHA mortgage insurance has declined to only 8 percent of the total HUD insurance.

Recent data indicate that CD assistance is found to be decreasing in very small communities. I'm led to believe that a large number of the section 8 housing in nonmetropolitan areas is more suburban than rural.

Do you find any of these comments incorrect? You may not have had time to see all of the report.

Mr. MCHENRY. Senator, I think that we could get a breakout within the nonmetro areas in terms of what would be rural communities and what would be suburban. My view is that GAO's views with respect to suburban areas are incorrect.

I will be happy to get that information for you and submit it for the record.

Senator MORGAN. If you would, we would appreciate it. If they are incorrect, we'd like to know where. And if you find that they are substantially correct, then it would appear to me that we really need to continue the rural assistance initiative that has been described here.

[The following tables were received for the record:]

HUD Data Index

1. Explanation of SMSA data. Note: Some data inside an SMSA is in Rural areas and nearly all data outside SMSAs is in Rural areas.
2. Public Housing and Indian Housing - a series of Tables for Fiscal Years 1976, 1977, 1978, and 1979.
3. Section 8 - a series of Tables on New Construction, Substantial Rehabilitation, and Existing Cumulative through 1979.
4. Insured Housing - Sections 221-BMIR, and 236 Cumulative through 1978.

An SMSA is a Bureau of Census definition. The Standard Metropolitan Statistical Area includes usually a city of 50,000 population and its surrounding area. It may have a city with a population less than 50,000.

Some SMSAs are very large. For example: Salt Lake City SMSA is 130 miles by 50 miles; Tucson SMSA is 160 miles by 50 miles; Phoenix SMSA is 140 miles by 100 miles; and Seattle SMSA is 80 miles by 60 miles.

Other SMSAs are not so large but contain rural non-farm counties. For example: Washington, D.C. SMSA is only 70 miles by 70 miles but it includes two rural counties in Loudon and Prince William.

Other SMSAs are small but have very rural counties. Roanoke SMSA has three counties: Roanoke, with a population of 62,967 with 262 square miles; Botetourt, with a population of 20,602 with 548 square miles; and Craig, with a population of 3,822 with 336 square miles.

F96BNCB U.S. TOTAL	PUBLIC AND INDIAN HOUSING DISTRIBUTION BY SIZE OF COMMUNITY FY 76											
	NON-METRO AREAS					METRO AREAS					TOTAL	
	LESS THAN 2,500	2,500 TO 5,000	5,000 TO 10,000	10,000 TO 25,000	25,000 OR MORE	LESS THAN 2,500	2,500 TO 5,000	5,000 TO 10,000	10,000 TO 25,000	25,000 OR MORE	NON- METRO	METRO
UNDER CONTRACT	2,500	4,999	9,999	24,999	49,999	2,500	4,999	9,999	24,999	49,999	TOTAL	TOTAL
PROJECTS	26	8	9	43	24	13	9	17	19	20	102	43
UNITS	912	467	544	1,923	879	670	438	1,217	1,032	1,849	6,085	1,923
PERCENT OF UNITS	47.42	24.28	28.28	100.00	14.44	11.01	7.19	20.00	16.95	30.38	100.00	100.00

F96BNCB U.S. TOTAL	PUBLIC AND INDIAN HOUSING DISTRIBUTION BY METRO AND NON-METRO AREA FY 76									
	CONSTRUCTION STARTS					UNDER CONSTRUCTION				
	METRO	NON-METRO	ALL AREAS	METRO	NON-METRO	ALL AREAS	METRO	NON-METRO	ALL AREAS	ALL AREAS
PROJECTS	69	51	120	1,180	1,017	2,197				
UNITS	4,354	2,184	6,538	72,393	37,939	110,332				
PERCENT OF UNITS	66.59	33.40	100.00	65.61	34.38	100.00				

F96BNCB U.S. TOTAL	PUBLIC AND INDIAN HOUSING DISTRIBUTION BY FAMILY AND ELDERLY UNITS FY 76											
	METRO AREAS					NON-METRO AREAS					ALL AREAS	
	FAMILY	ELDERLY	TOTAL	FAMILY	ELDERLY	TOTAL	FAMILY	ELDERLY	TOTAL	FAMILY	ELDERLY	TOTAL
CONSTRUCTION STARTS			69			51			51			120
PROJECTS	1,892	2,462	4,354	1,452	732	2,184	3,344	3,194	6,538			
UNITS	43.45	56.54	100.00	66.48	33.51	100.00	51.14	48.85	100.00			
UNDER CONTRACT			86			59			145			
PROJECTS	2,652	2,579	5,225	1,784	999	2,783	4,436	3,572	8,008			
UNITS	50.75	49.24	100.00	64.10	35.89	100.00	55.39	44.60	100.00			

F968CA
U.S. TOTAL

PUBLIC AND INDIAN HOUSING
DISTRIBUTION BY
SIZE OF COMMUNITY
FY 77

	NON-METRO AREAS				METRO AREAS				TOTAL			
	LESS THAN 2,500	2,500 TO 4,999	5,000 TO 9,999	10,000 TO 24,999	2,500 TO 4,999	5,000 TO 9,999	10,000 TO 24,999	25,000 TO 49,999	50,000 TO 99,999	100,000 AND MORE	NON-METRO	METRO
UNDER CONTRACT PROJECTS	22	4	4	30	5	7	2	11	8	19	52	30
UNITS	715	289	676	1,880	178	210	27	890	670	2,042	4,017	1,880
PERCENT OF UNITS	42.55	17.20	40.23	100.00	4.43	5.22	.67	22.15	16.67	50.83	100.00	100.00

F968CB
U.S. TOTAL

PUBLIC AND INDIAN HOUSING
DISTRIBUTION BY
METRO AND NON-METRO AREA
FY 77

	CONSTRUCTION STARTS		UNDER CONSTRUCTION	
	METRO	NON-METRO	METRO	NON-METRO
PROJECTS	51	36	1,181	1,006
UNITS	3,039	2,117	72,516	38,350
PERCENT OF UNITS	58.94	41.05	65.40	34.59

F968CC
U.S. TOTAL

PUBLIC AND INDIAN HOUSING
DISTRIBUTION BY
FAMILY AND ELDERLY UNITS
FY 77

	METRO AREAS		NON-METRO AREAS		ALL AREAS	
	FAMILY	ELDERLY	FAMILY	ELDERLY	FAMILY	ELDERLY
CONSTRUCTION STARTS						
PROJECTS	1,645	51	1,338	779	2,983	87
UNITS	54.12	45.87	63.20	36.79	57.85	42.14
PERCENT OF UNITS	2,177	1,074	2,221	225	4,398	1,299
UNDER CONTRACT PROJECTS	66.96	33.03	90.80	9.19	77.19	22.80
UNITS						
PERCENT OF UNITS						

FBRBNC U.S. TOTAL	PUBLIC AND INDIAN HOUSING DISTRIBUTION BY SIZE OF COMMUNITY FY 78										TOTAL	
	NON-METRO AREAS					METRO AREAS					NON-METRO	METRO
	LESS THAN 2,500	2,500 TO 4,999	5,000 TO 9,999	10,000 TO 24,999	25,000 OR MORE	LESS THAN 2,500	2,500 TO 4,999	5,000 TO 9,999	10,000 TO 24,999	25,000 OR MORE		
UNDER CONTRACT	19	1	3	23	7	1	3	6	7	7	31	23
PROJECTS	474	69	149	692	163	14	116	291	571	417	1,572	692
UNITS	68.49	9.97	21.53	100.00	10.36	.89	7.37	18.51	36.32	26.52	100.00	100.00
PERCENT OF UNITS												

FBRBNCB
U.S. TOTAL

PUBLIC AND INDIAN HOUSING
DISTRIBUTION BY
METRO AND NON-METRO AREA
FY 78

	CONSTRUCTION STARTS			UNDER CONSTRUCTION		
	METRO	NON-METRO	ALL AREAS	METRO	NON-METRO	ALL AREAS
PROJECTS	26	34	60	1,174	997	2,171
UNITS	2,223	1,444	3,667	72,085	37,995	110,080
PERCENT OF UNITS	60.62	39.37	100.00	65.47	34.52	100.00

FBRBNC
U.S. TOTAL

PUBLIC AND INDIAN HOUSING
DISTRIBUTION BY
FAMILY AND ELDERLY UNITS
FY 78

	METRO AREAS			NON-METRO AREAS			ALL AREAS		
	FAMILY	ELDERLY	TOTAL	FAMILY	ELDERLY	TOTAL	FAMILY	ELDERLY	TOTAL
CONSTRUCTION STARTS									
PROJECTS			26			34			60
UNITS	1,300	923	2,223	1,243	201	1,444	2,543	1,124	3,667
PERCENT OF UNITS	58.47	41.52	100.00	86.08	13.91	100.00	69.34	30.65	100.00
UNDER CONTRACT									
PROJECTS			27			27			54
UNITS	786	558	1,344	831	89	920	1,617	647	2,264
PERCENT OF UNITS	58.48	41.51	100.00	90.32	9.67	100.00	71.42	28.57	100.00

F96BNC4 U.S. TOTAL
 REPORT 1 PUBLIC AND INDIAN HOUSING DISTRIBUTION BY SIZE OF COMMUNITY
 FY 79 AS OF (QTR. ENDING) 09/30/79

	NON-METRO AREAS			METRO AREAS			TOTAL		
	LESS THAN 10 UNITS	10 TO 250 UNITS	2500 TO 10,000 UNITS	200 TO 1,000 UNITS	1,000 TO 25,000 UNITS	25,000 UNITS AND MORE	NON-METRO	METRO	TOTAL
UNDER CONTRACT	2,500	4,999	9,999	24,999	49,999	99,999	24,999	49,999	74,998
PERCENT OF UNITS	47.18	17.79	11.10	21.95	2.36	100.00	13.53	6.36	19.91
PERCENT OF UNITS	47.18	17.79	11.10	21.95	2.36	100.00	13.53	6.36	19.91

F96BNC5 U.S. TOTAL
 REPORT 2 PUBLIC AND INDIAN HOUSING DISTRIBUTION BY METRO AND NON-METRO AREA
 FY 79 AS OF (QTR. ENDING) 09/30/79

	CONSTRUCTION STARTS		UNDER CONSTRUCTION		TOTAL
	METRO	NON-METRO	METRO	NON-METRO	
PROJECTS	91	87	1,182	1,012	2,194
UNITS	4,711	3,136	72,866	37,267	110,133
PERCENT OF UNITS	60.81	39.19	66.16	33.83	100.00

F96BNC6 U.S. TOTAL
 REPORT 3 PUBLIC AND INDIAN HOUSING DISTRIBUTION BY FAMILY AND ELDERLY UNITS
 FY 79 AS OF (QTR. ENDING) 12/31/78

	METRO AREAS		NON-METRO AREAS		TOTAL
	FAMILY	ELDERLY	FAMILY	ELDERLY	
CONSTRUCTION STARTS	93	88	88	181	181
PROJECTS	3,109	1,776	4,785	3,057	7,842
UNITS	62,88	37,11	100.00	58.23	31.76
PERCENT OF UNITS	62.88	37.11	100.00	58.23	31.76

F96BNC7 U.S. TOTAL
 REPORT 4 PUBLIC AND INDIAN HOUSING DISTRIBUTION BY FAMILY AND ELDERLY UNITS
 FY 79 AS OF (QTR. ENDING) 12/31/78

	METRO AREAS		NON-METRO AREAS		TOTAL
	FAMILY	ELDERLY	FAMILY	ELDERLY	
CONSTRUCTION STARTS	100	89	89	189	189
PROJECTS	3,100	1,471	5,071	1,899	6,970
UNITS	70.99	29.00	100.00	67.36	32.63
PERCENT OF UNITS	70.99	29.00	100.00	67.36	32.63

^{1/} Due to data coding omissions by population size Table 1. totals do not reflect complete data. See Table 3. for actual totals.

TABLE 1. ASSISTED HOUSING PROGRAMS
DISTRIBUTION BY SIZE OF COMMUNITY
(CUMULATIVE ENDING FY 1979)

U. S. TOTAL	SECTION 8 NEW CONSTRUCTION						PROJECTS STARTED
	AMT RESERVED (\$THOUSANDS)	PERCENT OF AMT RESERVED	UNITS RESERVED	PERCENT OF UNITS RESERVED	UNITS STARTED	PERCENT OF UNITS STARTED	
NON-METRO AREAS							
UNDER 2,499	119,905	18	32,193	18	20,319	18	747
2,500 - 4,999	103,166	15	28,118	16	18,486	16	462
5,000 - 9,999	129,927	19	34,245	19	22,328	20	428
10,000 - 19,999	157,500	23	41,505	23	25,921	23	429
20,000 - 49,999	163,993	24	41,657	23	25,668	23	321
TOTAL ^{1/}	674,491	100	177,718	100	112,722	100	2,387
METRO AREAS							
UNDER 2,499	53,392	3	12,866	3	7,227	3	166
2,500 - 4,999	59,236	3	13,977	3	8,922	3	139
5,000 - 9,999	132,177	7	30,686	7	21,140	8	284
10,000 - 19,999	193,265	10	44,415	10	28,292	10	304
20,000 - 49,999	309,822	16	69,058	16	47,552	17	468
50,000 & UP	1,200,098	62	257,024	60	167,491	60	1,481
TOTAL ^{1/}	1,947,990	100	428,026	100	280,624	100	2,842
NON-METRO TOTAL ^{1/}	674,491	26	177,718	29	112,722	29	2,387
METRO TOTAL ^{1/}	1,947,990	74	428,026	71	280,624	71	2,842
GRAND TOTAL ^{1/}	2,622,481	100	605,744	100	393,346	100	5,229

TABLE 3. ASSISTED HOUSING PROGRAMS
ELDERLY/FAMILY DISTRIBUTION
(CUMULATIVE ENDING FY 1979)

U. S. TOTAL	SECTION 8 NEW CONSTRUCTION						PERCENT OF UNITS STARTED	PROJECTS STARTED
	AMT RESERVED (\$THOUSANDS)	PERCENT OF AMT RESERVED	UNITS RESERVED	PERCENT OF UNITS RESERVED	UNITS STARTED	PERCENT OF UNITS STARTED		
NON-METRO AREAS								
ELDERLY	N.A.	--	98,729	55	70,955	62	N.A.	
FAMILY	N.A.	--	80,774	45	42,932	38	N.A.	
TOTAL	681,618	100	179,503	100	113,887	100	2,418	
METRO AREAS								
ELDERLY	N.A.	--	271,220	63	200,156	71	N.A.	
FAMILY	N.A.	--	162,456	37	83,409	29	N.A.	
TOTAL	1,970,933	100	433,676	100	283,565	100	2,873	
ELDERLY TOTAL								
FAMILY TOTAL	N.A.	--	369,949	60	271,111	68	N.A.	
GRAND TOTAL	2,652,551	100	613,179	100	397,452	100	5,291	

1/ Due to data coding omissions by population size Table 1, totals do not reflect complete data. See Table 3, for actual totals.

TABLE 1. ASSISTED HOUSING PROGRAMS DISTRIBUTION BY SIZE OF COMMUNITY (CUMULATIVE ENDING FY 1979)

U. S. TOTAL		SECTION 8 SUBSTANTIAL REHABILITATION					
	AMT RESERVED (\$ THOUSANDS)	PERCENT OF AMT RESERVED	UNITS RESERVED	PERCENT OF UNITS RESERVED	UNITS STARTED	PERCENT OF UNITS STARTED	PROJECTS STARTED
NON-METRO AREAS							
UNDER 2,499	2,243	6	568	6	346	6	15
2,500 - 4,999	3,837	10	984	10	665	11	19
5,000 - 9,999	6,453	17	1,528	16	640	11	20
10,000 - 19,999	8,402	22	2,133	22	1,235	21	27
20,000 - 49,999	18,109	46	4,497	46	2,922	50	41
TOTAL <u>1/</u>	39,044	100	9,710	100	5,808	100	122
METRO AREAS							
UNDER 2,499	3,242	1	829	1	590	1	6
2,500 - 4,999	1,694	0	438	0	156	0	5
5,000 - 9,999	8,019	2	1,849	2	768	1	10
10,000 - 19,999	11,160	2	2,628	3	1,270	2	18
20,000 - 49,999	40,876	8	8,581	8	4,990	9	55
50,000 & UP	454,239	87	89,241	86	48,066	86	483
TOTAL <u>1/</u>	519,231	100	103,566	100	55,840	100	577
NON-METRO TOTAL <u>1/</u>	39,044	7	9,710	9	5,808	9	122
METRO TOTAL <u>1/</u>	519,231	93	103,566	91	55,840	91	577
GRAND TOTAL <u>1/</u>	558,875	100	113,276	100	61,648	100	699

TABLE 3. ASSISTED HOUSING PROGRAMS
ELDERLY/FAMILY DISTRIBUTION
(CUMULATIVE ENDING FY 1979)

U. S. TOTAL	SECTION 8 SUBSTANTIAL REHABILITATION						
	AMT RESERVED (\$THOUSANDS)	PERCENT OF AMT RESERVED	UNITS RESERVED	PERCENT OF UNITS RESERVED	UNITS STARTED	PERCENT OF UNITS STARTED	PROJECTS STARTED
NON-METRO AREAS							
ELDERLY	N.A.	--	7,637	78	4,427	76	N.A.
FAMILY	N.A.	--	2,136	22	1,411	24	N.A.
TOTAL	39,378	100	9,773	100	5,838	100	123
METRO AREAS							
ELDERLY	N.A.	--	36,020	34	20,759	37	N.A.
FAMILY	N.A.	--	68,580	66	35,543	63	N.A.
TOTAL	523,785	100	104,600	100	56,302	100	580
ELDERLY TOTAL							
ELDERLY TOTAL	N.A.	--	43,657	38	25,186	41	N.A.
FAMILY TOTAL							
FAMILY TOTAL	N.A.	--	70,716	62	36,954	59	N.A.
GRAND TOTAL							
GRAND TOTAL	563,163	100	114,373	100	62,140	100	703

$\frac{1}{2}$ Due to data coding omissions by population size Table 1, totals do not reflect complete data. See Table 2, or 3, for actual totals.

TABLE 1. ASSISTED HOUSING PROGRAMS
DISTRIBUTION BY SIZE OF COMMUNITY
(CUMULATIVE ENDING FY 1979)

U. S. TOTAL	SECTION 8 NEW CONSTRUCTION & SUBSTANTIAL REHABILITATION						PROJECTS STARTED
	AMT RESERVED (\$THOUSANDS)	PERCENT OF AMT RESERVED	UNITS RESERVED	PERCENT OF UNITS RESERVED	UNITS STARTED	PERCENT OF UNITS STARTED	
NON-METRO AREAS							
UNDER 2,499	122,148	17	32,761	17	20,665	17	762
2,500 - 4,999	107,003	15	29,102	16	19,151	16	481
5,000 - 9,999	136,380	19	35,773	19	22,968	19	448
10,000 - 19,999	165,902	23	43,638	23	27,156	23	456
20,000 - 49,999	182,102	26	46,154	25	28,590	24	362
TOTAL $\frac{1}{2}$	713,535	100	187,428	100	118,530	100	2,509
METRO AREAS							
UNDER 2,499	56,634	2	13,695	3	7,817	2	172
2,500 - 4,999	60,931	2	14,415	3	9,078	3	144
5,000 - 9,999	140,196	6	32,535	6	21,908	7	294
10,000 - 19,999	204,425	8	47,043	9	29,562	9	322
20,000 - 49,999	350,698	14	77,639	15	52,542	16	523
50,000 & UP	1,654,337	67	346,265	65	215,557	64	1,964
TOTAL $\frac{1}{2}$	2,467,221	100	531,592	100	336,464	100	3,419
NON-METRO TOTAL $\frac{1}{2}$	713,535	22	187,428	26	118,530	26	2,509
METRO TOTAL $\frac{1}{2}$	2,467,221	78	531,592	74	336,464	74	3,419
GRAND TOTAL $\frac{1}{2}$	3,180,756	100	719,020	100	454,994	100	5,928

TABLE 2. ASSISTED HOUSING PROGRAMS
DISTRIBUTION BY PROGRAM CATEGORIES
(CUMULATIVE ENDING FY 1979)

U. S. TOTAL	SECTION 8 NEW CONSTRUCTION & SUBSTANTIAL REHABILITATION						PERCENT OF UNITS STARTED	PROJECTS STARTED
	AMT RESERVED (\$THOUSANDS)	PERCENT OF AMT RESERVED	UNITS RESERVED	PERCENT OF UNITS RESERVED	UNITS STARTED	PERCENT OF UNITS STARTED		
NON-METRO AREAS								
NEW CONSTRUCTION	681,618	95	179,503	95	113,887	95	2,418	
REHABILITATION	39,378	5	9,773	5	5,838	5	123	
TOTAL	720,996	100	189,276	100	119,725	100	2,541	
METRO AREAS								
NEW CONSTRUCTION	1,970,933	79	433,676	81	283,565	83	2,873	
REHABILITATION	523,785	21	104,600	19	56,302	17	580	
TOTAL	2,494,718	100	538,276	100	339,867	100	3,453	
NEW CONST. TOTAL	2,652,551	82	613,179	84	397,452	86	5,291	
REHAB. TOTAL	563,163	8	114,373	6	62,140	14	703	
GRAND TOTAL	3,215,714	100	727,552	100	459,592	100	5,994	

TABLE 3. ASSISTED HOUSING PROGRAMS
ELDERLY/FAMILY DISTRIBUTION
(CUMULATIVE ENDING FY 1979)

U. S. TOTAL	SECTION 8 NEW CONSTRUCTION & SUBSTANTIAL REHABILITATION						PROJECTS STARTED
	AMT RESERVED (\$THOUSANDS)	PERCENT OF AMT RESERVED	UNITS RESERVED	PERCENT OF UNITS RESERVED	UNITS STARTED	PERCENT OF UNITS STARTED	
NON-METRO AREAS							
ELDERLY	N.A.	--	106,366	56	75,382	63	N.A.
FAMILY	N.A.	--	82,910	44	44,343	37	N.A.
TOTAL	720,996	100	189,276	100	119,725	100	2,541
METRO AREAS							
ELDERLY	N.A.	--	307,240	57	220,915	65	N.A.
FAMILY	N.A.	--	231,036	43	118,952	35	N.A.
TOTAL	2,494,718	100	538,276	100	339,867	100	3,453
ELDERLY TOTAL	N.A.	--	413,606	57	296,297	64	N.A.
FAMILY TOTAL	N.A.	--	313,946	43	163,295	36	N.A.
GRAND TOTAL	3,215,714	100	727,552	100	459,592	100	5,994

1/ Due to data coding omissions by population size Table 1. totals do not reflect complete data. See Tables 2. or 3. for actual totals.

TABLE 1. ASSISTED HOUSING PROGRAMS
DISTRIBUTION BY SIZE OF COMMUNITY
(CUMULATIVE ENDING FY 1979)

U. S. TOTAL	SECTION 8 EXISTING				PERCENT CONTRACT DOLLARS
	UNITS UNDER CONTRACT	PERCENT ^{1/} UNITS UNDER CONTRACT	CONTRACT DOLLARS (\$THOUSANDS)	PERCENT CONTRACT DOLLARS	
-----NON-METRO AREAS-----					
UNDER 2,499	9,476	9	19,803	10	
2,500 - 4,999	8,682	8	15,879	8	
5,000 - 9,999	16,167	15	27,769	14	
10,000 - 19,999	29,558	27	53,074	26	
20,000 - 49,999	46,354	42	84,404	42	
TOTAL 1/	110,237	100	200,929	100	
-----METRO AREAS-----					
UNDER 2,499	8,071	1	16,715	1	
2,500 - 4,999	7,941	1	16,374	1	
5,000 - 9,999	13,711	2	28,746	2	
10,000 - 19,999	25,223	4	53,741	4	
20,000 - 49,999	54,984	9	117,022	9	
50,000 & UP	480,376	81	1,108,723	83	
TOTAL 1/	590,306	100	1,341,322	100	
-----NON-METRO TOTAL 1/-----					
NON-METRO TOTAL 1/	110,237	16	200,929	13	
-----METRO TOTAL 1/-----					
METRO TOTAL 1/	590,306	84	1,341,322	87	
GRAND TOTAL 1/	700,543	100	1,542,251	100	

TABLE 2. ASSISTED HOUSING PROGRAMS
 DISTRIBUTION BY PROGRAM CATEGORIES
 (CUMULATIVE ENDING FY 1979)

U. S. TOTAL	SECTION 8			PERCENT CONTRACT DOLLARS
	UNITS UNDER CONTRACT	PERCENT UNITS UNDER CONTRACT	CONTRACT DOLLARS (\$THOUSANDS)	
EXISTING				
NON-METRO AREAS	111,829	16	204,279	13
METRO AREAS	599,023	84	1,361,831	87
TOTAL	710,852	100	1,566,110	100

TABLE 3. ASSISTED HOUSING PROGRAMS
ELDERLY/FAMILY DISTRIBUTION
(CUMULATIVE ENDING FY 1979)

U. S. TOTAL	SECTION 8 EXISTING			CONTRACT DOLLARS (\$THOUSANDS)	PERCENT CONTRACT DOLLARS
	UNITS UNDER CONTRACT	PERCENT UNITS UNDER CONTRACT	CONTRACT DOLLARS (\$THOUSANDS)		
NON-METRO AREAS					
ELDERLY	32,124	29	N.A.	--	
FAMILY	79,705	71	N.A.	--	
TOTAL	111,829	100	204,279	--	
METRO AREAS					
ELDERLY	180,245	30	N.A.	--	
FAMILY	418,778	70	N.A.	--	
TOTAL	599,023	100	1,361,831	--	
ELDERLY TOTAL	212,369	30	N.A.	--	
FAMILY TOTAL	498,483	70	N.A.	--	
GRAND TOTAL	710,852	100	1,566,110	--	

INSURANCE WRITTEN AND MORTGAGE ASSIGNMENTS
MULTIFAMILY UNITS - CUMULATIVE THROUGH FISCAL YEAR 1978

METRO AND NON-METRO AREAS

METRO AREA

	0		2,5000		5,000		10,000		25,000		50,000		Total	
	Units	%	Units	%	Units	%	Units	%	Units	%	Units	%	Units	%
Insurance Written	2,499		4,999		9,999		24,999		49,999					
Sec. 221-BMIR & Rent Sup	8,289	2.81	6,274	2.13	13,942	4.73	26,430	8.97	29,305	9.95	210,150	71.38	294,390	100.00
Sec. 236 Elderly Family	17,292	3.73	12,475	2.69	24,881	5.37	68,077	14.70	61,964	13.38	278,280	60.10	462,969	100.00
HUD-Held	1,150	2.48	396	.85	1,147	2.47	2,037	4.39	2,904	6.26	38,720	83.53	46,354	100.00
Sec. 221-BMIR & Rent Sup	1,796	3.89	1,461	3.17	1,584	3.43	4,318	9.36	3,746	8.12	33,231	72.02	46,136	100.00
Sec. 236 Elderly Family													3,169	6.87
													42,967	93.13
													380,584	82.21

INSURANCE WRITTEN AND MORTGAGE ASSIGNMENTS
MULTIFAMILY UNITS - CUMULATIVE THROUGH FISCAL YEAR 1978

METRO AND NON-METRO AREAS

NON-METRO AREAS

	0	2,5000	5,000	10,000	25,000	Total
	Units %	Units %	Units %	Units %	Units %	Units %
Insurance Written	--	--	--	--	--	--
Sec. 221-BMIR & Rent Sup	--	--	--	--	--	--
Sec. 236	101	43.91	--	--	129	230
Elderly	--	--	--	--	--	230
Family	--	--	--	--	--	100.00
HUD-Held	--	--	--	--	--	--
Sec. 221-BMIR & Rent Sup	--	--	--	--	--	--
Sec. 236	--	--	--	--	--	--
Elderly	--	--	--	--	--	--
Family	--	--	--	--	--	--

INSURANCE WRITTEN AND MORTGAGE ASSIGNMENTS
MULTIFAMILY UNITS - CUMULATIVE THROUGH FISCAL YEAR 1978

METRO AND NON-METRO AREAS

TOTAL METRO AND NON METRO

Insurance Written	METRO		NON METRO		TOTAL	
	Units	%	Units	%	Units	%
Sec. 221-BMIR & Rent Sup	294,390	100.00	--	--	294,390	100.00
Sec. 236 Elderly Family	462,969	99.95	230	.05	463,199	100.00
	82,385	99.72	230	.28	82,615	100.00
	380,584	100.00	--	--	380,584	100.00
HUD-Held						
Sec. 221-BMIR & Rent Sup	46,354	100.00	--	--	46,354	100.00
Sec. 236 Elderly Family	46,136	100.00	--	--	46,136	100.00
	3,169	100.00	--	--	3,169	100.00
	42,967	100.00	--	--	42,967	100.00

Mr. STEGMAN. Again, Mr. Chairman, looking at some figures for fiscal year 1979, 28 percent of all low-rent public housing units went to nonmetropolitan areas last year.

The average size of programs in the smaller communities is very small. But the majority, the vast majority of housing authorities are in places that are very small. And the distortion really comes from the few programs that are extraordinarily large in the larger cities.

In North Carolina, there are 93 public housing authorities, managing nearly 40,000 units. And two-thirds of the local housing authorities have a total inventory of less than 250 units.

Clearly, there's a demand for more, but that demand is large all over.

Senator MORGAN. Let me go back to Mr. McHenry. On page 3, you report, section 235 is successful because, one, you said of efforts by—you said it was successful because of a number of reasons: One, because of efforts of the homebuilders in North Carolina, the Carolina Home Building Materials Association and the Forest Products Association; and second, there have been adjustments in the use of delegated processing.

Can you tell us what adjustments were made to section 235?

Mr. McHENRY. What we're talking about here, Senator, is delegated processing. As you know, HUD field offices generally are not located near the smaller rural communities. We have people who try to service these communities, but they are rather remote from our offices.

Under delegated processing we allow the local thrift institutions to, in effect, do most of the processing for HUD, beginning with the origination of the loans.

Now, initially, delegated processing functioned out of our Greensboro office and not in Washington. We are in the process now of expanding delegated processing to 13 States.

We think doing this will expand the accessibility to our programs that had not been made available to rural areas in the past.

Senator STEWART. Would the Senator yield at that point? Were you through with your answer? I apologize.

Mr. McHENRY. No, sir.

Senator STEWART. You just said something that also was contained in the GAO study which concerns me.

When did you begin your emphasis on rural areas?

Mr. McHENRY. I beg your pardon?

EMPHASIS ON RURAL AREAS

Senator STEWART. When did you begin your emphasis on the program in rural areas?

Mr. McHENRY. The demonstration began in 1978, I believe. Is that correct?

Mr. STEGMAN. The initiatives, Senator.

Senator STEWART. How many areas were affected?

Mr. McHENRY. The initial demonstration was in North Carolina and Washington. There was also a four-State demonstration that is being done in conjunction with Farmers Home. That is in Illinois, California, West Virginia, and Colorado.

Senator STEWART. So six States benefited from your demonstration program, which began in 1978.

Mr. STEGMAN. The section 515 agreement goes back to 1976.

Mr. MERCURE. Yes; we've got a 10,000-unit set-aside in section 8-515 that goes back to 1976. We'd be very happy to increase it. [Laughter.]

Aside from being facetious, I think it's important that based on the President's statement on December 20, Farmers Home, HUD—

Senator STEWART. December 20 of what year?

Mr. MERCURE. 1979. The agencies have been instructed to intensify their efforts to make certain that the basic programs are more effectively delivered in rural places.

Senator STEWART. All right. Now in line with this, since the administration has indicated its intention to achieve more effective delivery in rural areas, why does the 1981 budget propose making up to a 16-percent cutback for the Farmers Home Administration, and only a 9-percent cutback in the HUD budget?

How can we be intensifying our efforts in rural areas on the face of these cuts?

Mr. MERCURE. I think you're asking if I can define the logic for the OMB process.

Senator STEWART. I'm not asking about the OMB process; I'm asking about this administration's intentions in the area of rural housing. Those intentions are reflected in the way the budget has been presented, and the fact that the decline in the number of HUD units is only 9 percent. I assume this decline is a result of holding HUD's budget at its present level. On the other hand, not only was the budget for the Farmer's Home Administration held to its present level, but there was an additional cut in the programs of Farmer's Home.

How are we to assume, on the basis of these cuts, and I think the facts would bear out the claim that they are more rural oriented, that you have any intention of intensifying your efforts to meet the needs of rural housing?

Mr. MERCURE. Let me try to defend the point a minute.

We have increased by \$100 million the amount of money available for the basic 502 housing program. Inflation has clearly affected the number of units that we can finance even with that increase of \$100 million.

The President's more recent budget reduction effort will not decrease the budgetary commitments to that program. It remains intact.

Senator STEWART. That's just not a satisfactory answer to this, and I want a satisfactory answer for the record from the administration. I think it's wrong to make a commitment like this and then fail to follow through on it through the budgetary process.

The administration's 1981 budget proposes significant reductions in our Federal housing programs. In overall terms, HUD's budget fails to keep pace with inflation, basically because the levels proposed are the same as last year's levels. Farmers Home housing programs, in contrast, have suffered both an inflationary and a program cutback.

Now, according to the figures provided to me by staff, the decline in units would represent about a 9-percent cut in HUD's programs, and a decline of almost 16 percent in the units supported by the Farmers Home.

These figures have been worked out in consultation with the CBO.

Now either the administration means what it says or it doesn't and I simply want to know where you stand on this. I know you're a team player, and I know this is putting you in a hard position. But the administration sent you up here to testify, and you should be able to defend the administration's proposals.

Mr. MERCURE. Let me take you back to 1977.

Senator STEWART. I don't want to go back to 1977.

Mr. MERCURE. I think we have to if we're going to defend the administration's commitment.

Senator STEWART. I understand the administration's commitment. I understand what the President said. But we're talking about housing now. And I want to know about what the administration intends to do about the housing needs of this country.

What we're talking about is a basic bias that exists against rural areas. We're not going to alleviate this by making the cuts proposed by the president.

Mr. MCHENRY. Senator Stewart, may I comment because the Congress of the United States mandates in the HUD programs between 20 and 25 percent of that assistance going to nonmetro areas.

Senator STEWART. What's a nonmetro area? How about defining that for me.

Mr. MCHENRY. Much of that goes into rural areas. Senator, when this administration came into office, the housing programs had been in a significant moratorium. There was very little more than the HUD section 8 program in terms of housing.

The administration has revived the housing programs and said, yes, our levels are down in terms of HUD in fiscal year 1977 when we did almost 400,000 units of housing for low-income people in this country, which is roughly 25 percent to our fiscal year 1980, which is 260,000 units.

But the administration has submitted \$33 million in budget authority for 1981, which will increase that level, according to our calculations 300,000. The CBO figure I believe, is 282,000.

So I think that when we look at that—and the HUD programs are not only programs for people in the inner city but also programs for people in rural America—we see a substantial increase in the total level of support by this administration over what we were getting from the prior administration.

Senator STEWART. Let me ask you a question.

Mr. MCHENRY. May I finish, sir?

Senator STEWART. Before you finish, I have a question I want to ask. I think it's important that it be asked at this point.

NONMETRO AREAS

What specifically do you mean by nonmetro areas? The GAO study indicates that a large percentage of the moneys that are

spent in so-called nonmetro areas actually go to areas that are located right next to urban centers. The more remote rural communities do not get this assistance.

Mr. MCHENRY. Senator, the definition of nonmetro is outside of a standard metropolitan statistical area. So it would not be in the suburbs of Washington, D.C.

Now I'm not prepared today, but I will get you the numbers in terms of how much goes into what we would normally call rural communities and how much of that is in suburban communities.

I'll do my best to get them and get you an answer quickly on that.

But I do also want to point out that with the President's announcement of the small community and rural development policy on December 20, he has launched a very beneficial program for rural America, which I think everybody will admit has been a very successful program for every American.

The President has said, within the resources which you have available, Federal Government, make better use of them through Federal agencies working together to bring to bear the full weight of our programs—HUD, Farmers Home, DOL, the other Federal agencies, we're all working to do that.

I would certainly not stand here and say to you that HUD's programs have been geared to rural America as much as they have been to urban America. But I will say to you that with the President's Executive order, we're all working just as feverishly today to carry out target programs for rural America as we did to carry out those programs—and I think very successfully—in urban America.

And I think that you'll see a lot of improvement, Senator.

Senator STEWART. Well, the thing that still concerns me about your statement, is that the GAO study indicates that when HUD talks about providing assistance to rural areas, many times this aid goes to areas close to the agency's offices in urban areas.

These are areas that would normally be considered suburban-type communities, bedroom communities for large metropolitan centers.

So I think it's something that you need to clear up, at least for this one Senator from Alabama, because we've got some real rural communities in our State that have substandard housing.

Now you also indicate that you are delegating some of your responsibilities to thrift institutions and to other financial institutions.

How will that help folks in communities which do not have these kinds of institutions, or where the thrifts are unwilling to participate in housing programs?

Mr. MCHENRY. I think it's been very successful in rural communities in North Carolina, Senator, and in the State of Washington.

Senator STEWART. I'm talking about a really remote area, an area where the financial institutions are short of cash right now due to the administration's restrictive monetary policies.

Farmers can't even get loans in some of these rural areas that you're talking about.

So I wish that you would provide us with information as to how your goals are going to be achieved. Credit availability is some-

thing which is essential for these rural programs, and it's one of the things that is in short supply right now.

Senator MORGAN. I might add, Senator, that you point up some problems that we've been concerned about, really, ever since this committee was established.

I think the questions that have been raised by Mr. Cavanaugh and others since this rural committee has been established probably help us to do this rural program.

We've got some pretty remote areas in North Carolina and I feel pretty strongly in the last 2 years that HUD and Farmers Home have moved very strongly in this direction.

I think that we are making some progress. We're simply caught up in some budget constraints that we're going to have to deal with.

I think one of my concerns is that we are asking Farmers Home rural housing to carry a bigger constraint than others.

If I can just have another couple of questions, we've got two other panels to go. Let me ask Mr. Stegman, sometime ago I wrote to the Secretary and I told him that I'd heard praise for the HUD's rural assistance initiative staff in North Carolina. I talked to a number of them in the State myself. But I've also heard concern that the staff might dissolve if there were no steps taken to assure continuation of these positions.

The Secretary responded to me that he would look into the matter and have some answers shortly.

I wonder if HUD is in a position to respond today?

Mr. STEGMAN. Yes, Senator. You will be getting a response very shortly from the Secretary on this. Let me just give you a little background.

When the rural assistance initiative was begun for a 2-year demonstration period, Secretary Harris approved five 2-year temporary positions for the special rural assistance team in HUD's Greensboro area office.

As things now stand, there are three members left on that team. Two of them have recently left. One, who came from the city of Raleigh and went back to work in the private sector was not a member of the HUD staff to begin with.

The three remaining members of the team in the Greensboro area office are HUD employees and may, indeed, return to regular HUD employment.

They left positions that were already in HUD. And we would hope that those positions will remain filled.

Let me say that staff positions are on a fiscal year basis; that is, those temporary positions will expire at the end of this fiscal year. But the program itself, because of the startup period, will go through December 31 of the calendar year.

With respect to the two vacancies, the strategic decision is, in the second year of the Demonstration, do you try to fill temporarily these vacancies or do you try to fill on an as-needed basis with full-time professional people who are in the program offices and who will really be expected to carry on for the special team when that team dissolves? That is to say, do we try to call upon the assisting housing folks in the area office and bring them into the initiative

right now, or do you fill a vacancy for a few months and then throw it back to the professionals?

What we are doing right now is trying to bring in the program offices, CD, community planning and development, the block grant folks, the assisted housing folks, who are really the ones that are processing and the ones that are packaging the loans, to back up that special team.

So that's basically where we stand. The team is not dissolved. The special team, if you will, is not working in isolation and when they go out and work with the community to package a project, actually, the guts of that packaging is done back in the assisted housing division of the area office.

So that there's no isolation here whatsoever, but we recognize your concern.

ADDITIONAL MODELS BEING TESTED

Let me just put it even a little more broadly. The RAI team in the Greensboro office is really one model for the delivery of HUD resources for rural and small communities, and the rural assistance initiative is really testing three additional models. As you might know, we've provided grants to the State of North Carolina Department of Natural Resources and Community Development. We are providing direct support to a few small communities in North Carolina, and we're providing support to a COG—council of governments.

In each case, the technical assistance that is being provided to small communities by these organizations with the special support from our demonstration will be drying up at the end of the demonstration period. It is our hope that through our evaluation and our meetings with the State and communities that we can institutionalize the delivery of this kind of support.

So what you ask me is part of a larger question that we are certainly very, very closely in touch with.

Senator MORGAN. Excuse me.

[Pause.]

Mr. STEGMAN. Senator Stewart, if I might mention something about the credit situation. In North Carolina, the Housing Finance Agency is providing some direct support to rural communities through various mortgage purchasing and other kinds of programs, the future of which is still in doubt because of the whole question of single-family mortgage bonds and so on. But in a number of States, the housing finance agencies have proven to increase the availability of credit in communities which don't have a good representation of the established lenders.

Senator STEWART. Thank you.

Senator MORGAN. Gentlemen, we've got an awful lot of questions. We're running short of time. I wonder if we could do this—if we could let you step aside and let us do one of two things—after conferring amongst ourselves, try to reduce all of our questions to writing and let you respond for the record. I would prefer, if we could find the time to come back, because often questions proposed by staff will generate another.

But let us work that out with the staff and with you, and maybe if all of you can't come back or if we can't find a day, then we'll just ask you to respond in writing.

Mr. McHENRY. We'd be very happy, Senator. Let me say that the Department looks forward to continuing to work with you and the committee on trying to improve our programs in rural America and our programs to Indians and Alaskan Natives.

Senator MORGAN. Thank you very much.

Mr. MERCURE. I'd like to make one final statement. Getting back to the original question, up to 1977 Farmers Home had loaned \$17.5 billion since 1949—almost 30 years. Since 1977, we've loaned \$9.4 billion. We've done 50 percent as much, almost as much business during the past 3 years than we did in the first 30.

Senator STEWART. Mr. Chairman, I'd like to make a recommendation. Before the witnesses leave, I would like to request that they do come back. I'd like to also request that we provide them with questions that they can answer prior to the time they return. These questions should center on the things that are being done by the administration, to get more housing assistance to the more rural areas of this country. And I'd also like to suggest, Mr. Chairman, that we continue this dialog beyond that next hearing, because I think it's important, as we move through the budgetary process, to have the administration's support in putting its resources where its commitment is.

I've got to leave right now, but I assure you that my staff will work with these witnesses. And I'm confident they can find the time to come back up here to work with us, since they have the same goals that we do.

Senator MORGAN. We'll try out best to work it out. I do think your last statement bears special note. I know the Department, HUD, has made probably more progress in the last 2 years toward rural housing than it has made in a long, long time. But we're probing for more and more information. I don't think progress should be lost sight of.

Thank you very much.

Mr. MERCURE. Thank you, Senator.

[The following questions and answers were subsequently received:]



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D. C. 20410

OFFICE OF THE ASSISTANT SECRETARY
FOR POLICY DEVELOPMENT AND RESEARCH

April 23, 1980

IN REPLY REFER TO:

Honorable Robert Morgan
Chairman, Subcommittee on Rural
Housing and Development
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Senator Morgan:

This is in response to the series of questions that you prepared for me following my testimony to your committee on April 1, 1980 about the Rural Assistance Initiative.

We appreciate your interest in our rural research program and we will continue to keep you informed of major activities/issues in this area. If the Office of Policy Development and Research can be of any further assistance, please let us know.

Sincerely,

A handwritten signature in cursive script that reads "Michael A. Stegman".

Michael A. Stegman
Deputy Assistant Secretary
for Research

Enclosure

Response to Senator Morgan's Questions for Mr. Stegman

1. "I recently wrote Secretary Landrieu that I had heard praise for the HUD RAI staff in North Carolina, but concern that the staff might dissolve if there were no steps to assure them of a continuation of their positions. Secretary Landrieu responded that he would have an answer shortly. Are either of you able to respond to my inquiry?"

On April 16, 1980, Secretary Landrieu responded to this question. An additional copy is enclosed.

2. "What lack of success, or lesser successes have you experienced with the RAI? I have the sense that there is still room for work in developing greater coordination among local, regional, State and Federal agencies--as well as promoting rehabilitation programs in smaller communities and rural areas. Do you agree?"

The RAI was designed as a partnership between HUD and local agencies. Interagency coordination and the focusing of Federal Resources was not a primary objective. However, there have been three different efforts associated with the RAI involving interagency activities. These are as follows:

- (a) In response to the President's rural policy, the state, working with the South East Regional Council established a Rural Development Coordinating Committee which included state and local officials and the state Directors of HUD, FmHA, EDA and DOC. This committee meets once each month. A further discussion about the Rural Development Coordinating Committee is presented under issue #6.
- (b) The Economic Development Specialist from the RAI team organized joint meetings with representatives from FmHA, EDA, SBA, and the State Department of Commerce and local officials in the RAI target area. This was done on a one-time basis and is not an ongoing program.
- (c) The Neuse River Council of Government (NRCOG) has been able to include essentially all Federal agencies with rural and economic development responsibilities in their training programs. The NRCOG representative maintains a close working relationship with all of these agencies and has been able to effectively utilize their resources in their rural and economic development activities.

I agree that there is a need for better interagency coordination of rural housing rehabilitation activities. At the present time there are many Federal agencies that are involved with some type of housing rehabilitation activities including FmHA, DOE, HUD, HEW, CSA, ARC, DOL and some state activities. Some of these organizations are not active in the State Rural Development Coordinating Committee.

3. "I note in Mr. McHenry's testimony that the four State Demonstration Program has been extended for two additional years. He indicated that extension of that demonstration will enable HUD to 'transfer' the models 'into new targeted areas'. I'm wondering what plans HUD has for extending the RAI demonstration? What plans it has for similarly transferring the lessons learned from RAI to new areas in North Carolina and Washington and to rural areas in other States. I also wonder whether, with trained staff in place, there aren't lessons from the four State Demonstration that should be tested in rural North Carolina and Washington?"

At the present time there are no plans for extending the RAI beyond the end of 1980. The issue of whether there is a need to extend the RAI beyond 1980 in some form may be discussed further as we examine the approaches that have been tested in the RAI and determine which have a high potential for broader application, which can be institutionalized in the near future, and which may require further testing.

Many of the approaches developed in the Four State Demonstration were shared with the RAI team and grantees. Several of the technical assistance approaches used in the RAI were originally developed in the Four State Demonstrations.

Phase I of the Four State Demonstration and the RAI were alike in some respects. In both demonstrations PD&R provided funds to the grantees to build capacity at the local level. There was a significant difference in the way that other HUD resources were applied to these two demonstrations.

In the Four State Demonstration, HUD provided \$500,000 in flexible funding (Title I) to each grantee to be used for "seed money" and "glue money". There were no housing unit set asides.

In the RAI, there were no Title I funds provided to the grantees, but there was a one time set aside of 1500 units of assisted housing that was divided between the two states.

The main emphasis included in the Four State Demonstration that is not present in the RAI is the active partnership between HUD and FmHA.

Another significant difference between the two approaches taken in the RAI and the Four State Demonstration involves the role of the state. In the Four State Demonstration the States had the lead role. The States work closely with the local, state and national offices of the USDA in providing outreach and delivering technical assistance to various rural target areas. (None of the states had an active Council of Governments in their target areas.)

The HUD Area and Regional Offices had a very minor role if any. In the RAI the HUD teams worked directly or through grantees to provide outreach and deliver technical assistance.

Since the basic differences between these two demonstrations involve how technical assistance and outreach services are delivered, I do not consider it necessary to try to duplicate the four state approach in the RAI environment. Both approaches work. It is less significant who delivers technical assistance and outreach than assuring services are delivered by competent and dedicated organizations. There is probably no one best way for all circumstances.

4. "Is there any relationship between the RAI and the 'four state demo' and the Administration's Rural Development Initiative?"

There has been some cross fertilization between the Four State Demonstration and the RAI. Two of the Four State Demonstration team leaders participated in the two day training sessions for the RAI team and grantees. In addition, the Four State Demonstration team leaders have been briefed and introduced to the RAI team and grantees. There has been an ongoing dialogue between some of the team leaders from the RAI and the demonstration. Many of the approaches tested in the RAI parallel those approaches tested in the Four State Demonstration. The Administration's Rural Development Initiative is a significant element of HUD's rural agenda and is being monitored by the interagency Rural Housing Task Force.

5. "On page 8 you suggest that a technical assistance center, such as operated by the Neusse River OCG is a cost effective way to match rural needs with available resources. Is HUD planning to expand the Neusse River model? Also on page 8, you report on some of the Neusse River survey findings about barriers to the use of HUD program. What has been done with these findings?"

The study done by the NRCOG on "Barriers to the use of HUD Programs" has been used to identify major issues that will be discussed at our planned June meeting between key RAI participants and HUD Central Office persons responsible for operations and policy development. At that time recommendations for future actions will be developed.

6. "I do not get a sense from the RAI description that a close relationship was developed with the Farmers Home Administration working at the local level, or with other Federal agencies. Isn't there a particular need, if outreach is a problem for HUD, and for the Department of Agriculture even with its county system to build on this year's demonstration to secure the needed outreach?"

Based on RAI experience, there appears to be a strong need for a person whose primary responsibilities involve rural development and interagency coordination, to be assigned to each Federal area office that has a primary role in rural and economic development.

The Rural Development Coordinating Committee, which is a group of Federal Area Office managers, meets for 2-3 hours (plus some subcommittee activities) once each month. There is no one person designated at the Area Office level whose primary responsibility is for rural development and interagency coordination. This is one of the issues that HUD will be addressing over the next few weeks as we examine the findings from the RAI.

- 7-2(a) "What cooperative programs does PD&R have with FmHA at present or during the past two years?"

The following are jointly funded projects with FmHA:

- a. The Rural Cooperative Housing Demonstration
- b. Providing support to the National Rural Center
- c. Agricultural Land Retention Study
- d. HUD/USDA Four State Demonstration. PD&R participated in the initial phase of this demonstration. We are in the process of completing the evaluation of this initial phase at this time.
- e. Memo of understanding between HUD, DOL, CSA, and FmHA providing Technical Assistance and program support to improve migrant and seasonal farmworkers housing.

- 7-2(b) What part of PD&R budget over the last three years has gone to rural research? (Note: Donna Shalala had provided a rural budget to Senator Morgan that went through FY-79. Senator Morgan would like to see this chart updated to include FY-80).

An update of this rural research budget is shown on the next page.

HUD RURAL RESEARCH AND DEMONSTRATION EXPENDITURES
(\$ in 1000's)

<u>Direct</u>	FY '78	FY '79	FY '80 (Est.)
Housing Assistance Council	775	860	1000
Section 8 Rural Evaluation		800	925
Land Title Recording Demo.	930	180	50
Mobile Homes	900	600	500
Small City Study Evaluation	300	300	330
Rural Assistance Initiative	350	350	
Rural Cooperative Demonstration			100
Severless Devices	60	250	150
HUD/USDA 4 State Demo.	125		
Rural Needs Coverage (8A)	120		350
National Rural Center			45
Rural America Women			15
Total Direct	<u>3560</u>	<u>3340</u>	<u>3465</u>
<u>Indirect</u>			
Annual Housing Survey	2000	2100	2200
Energy	500	500	500
Capacity Building	320	320	320
How Well Are We Housed	50		
Total Indirect	<u>2870</u>	<u>2920</u>	<u>3020</u>
Total Direct & Indirect	<u><u>6430</u></u>	<u><u>6260</u></u>	<u><u>6485</u></u>

8. "What can you tell us about PD&R's role in the Administration's rural policies and program authorities?"

Response:

HUD has taken steps to organize itself to deal with rural and small community problems; our concern with these issues predates the development of the Administration's Small Community and Rural Development Policy.

HUD was one of the first agencies to undertake a comprehensive review of its policies and programs to determine how well they serve rural and small community needs (January to July 1978). In that review, which was published as the "Task Force Report on Rural and Non-Metropolitan Areas", HUD identified a number of possible administrative and policy modifications which are now being implemented or further tested in the Department's Rural Assistance Initiative (RAI) in North Carolina and Washington State.

At the recommendation of the Task Force, Secretary Patricia Roberts Harris established the HUD Rural Coordinating Group to support HUD rural activities. Assistant Secretary for Policy Development and Research Donna E. Shalala was designated to convene and chair the group.

This intradepartmental Rural Coordinating Group is also the primary implementing device with respect to the Small Community and Rural Development Policy. Assistant Secretary Shalala has been named by Secretary Moon Landrieu as the Senior Official within the Department responsible for rural policy implementation and monitoring. She is staffed by the Rural Coordinating Group.

Each appropriate Office within HUD has staff assigned to the Group.

The Group serves as a forum for analyzing special rural needs, determining ways to make HUD programs more accessible, and disseminating program results. It has had several beneficial impacts:

- o it has facilitated the internal review process where program or legislative modifications are involved;
- o it has produced increased attention to rural concerns in every office of HUD;
- o it has increased the Department's responsiveness to our small community and rural constituency.

Other implementing actions are continuing:

- o a draft Field Notice is in circulation which clarifies the responsibilities of HUD Regional Administrators and Area Managers in implementing the policy, and outlines for them the goals and principles which will guide their management of program resources.
- o a draft Field Notice is being circulated within the Department for comment which will clarify CDBG policy on migrant workers and give specific examples of where and how the needs of migrant workers can be addressed in Entitlement and Small Cities Program applications;
- o a Field Notice is being drafted jointly by HUD and FmHA which will insure maximum successful cooperation between the two agencies as they implement the housing aspects of the Small Community and Rural Development Policy.

As you know, HUD has another role as the lead agency for the Housing Task Force of the Administration's Working Group on Small Community and Rural Development. HUD has responsibility for marshalling its own resources to implement the policy and will have responsibility for developing an interagency housing implementation plan to address the major housing needs in rural areas. (Assistant Secretary Shalala has added additional staff to work full time on this effort.)

The first step in this process has already taken place: HUD has met with staff of other appropriate Federal agencies to identify the most significant housing needs and specific cross-cutting actions to address them. (Task Force members include: Agriculture, Labor, Interior, Health and Human Services, ACTION, the Veterans Administration, the Community Services Administration and the Appalachian Regional Commission.)

Early Task Force efforts indicate some areas of need and opportunities for innovative action which closely parallel the observations of HUD's internal Coordinating Group:

- o the need for better interagency coordination in the allocation of resources and in program implementation, and the need to institutionalize successful interagency innovations;
- o the need to enhance the delivery of Federal housing resources to rural areas thru more effective intergovernmental and interagency efforts;
- o the need to fully assess the adequacy of Federal resources in meeting the rural needs of the nation.

As a lead agency in the implementation of the President's policy, we at HUD will keep uppermost in our minds the need to enhance local public and private capacity to apply for and implement Federal programs and to reduce program and procedural barriers to the effective use of Federal resources in rural areas and small communities.

Honorable Robert Morgan
 Chairman, Subcommittee on Rural
 Housing and Development
 Committee on Banking, Housing
 and Urban Affairs
 United States Senate
 Washington, D. C. 20510

APR 16 1980

Dear Senator Morgan:

This is in further response to your letter of March 19, 1980 concerning the Rural Assistance Initiative (RAI) in North Carolina. We appreciate your favorable comments about the RAI and are equally concerned about the RAI and its staff.

The RAI is a two-year effort that began on October 26, 1978, that will continue until December 31, 1980. An approximate two-month period was required for initial RAI team and grantee staffing.

In establishing the RAI team in North Carolina we authorized five temporary two-year professional positions, all of which were filled during the first year. Currently three of these five positions are filled. The three remaining team members are assured of a position within HUD after their services are no longer required for the RAI. Of the two members of the team who left, one transferred to a permanent position within the HUD Greensboro Area Office several months ago, but has been available on a part-time basis, as needed, for the program. A second member resigned March 22, 1980 and his work has been picked up by a permanent member of the Housing Division of the Area Office.

We do not feel that the RAI operations have been adversely affected by the vacant positions. You may be assured that the full range of staff expertise needed for the successful completion of the RAI will be readily available.

We appreciate your expression of concern regarding the future of the Rural Assistance Initiative. If the Department can be of any further assistance, please let us know.

Sincerely,

/s/ Moon Landrieu
 Moon Landrieu

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UNITED STATES DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION
WASHINGTON, D.C. 20250

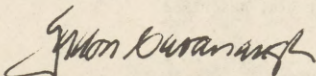
JUN 23 1960

Honorable Robert Morgan
Chairman
Subcommittee on Rural Housing
and Development
Washington, D.C. 20510

Dear Senator Morgan:

Enclosed please find answers to the questions you raised this past month, which were associated with the recent subcommittee hearings.

Sincerely,



GORDON CAVANAUGH
Administrator

Enclosure

I. TARGET1. What Factors and Weights are used by FmHA to Determine the Areas of Greatest Need?

The Farmers Home Administration (FmHA), in some instances, may not have used its funds to assist those with the greatest need. Recognizing this fact, the Administration has placed increasing emphasis on allocating Section 502 and Section 515 funds to those areas with the most rural families having the lowest incomes and living in substandard housing.

The formula used for distributing Section 502 and 515 funds to the States is based on criteria that seemed to most clearly identify an area's need. They are as follows:

- 30 percent --- State's percentage of national rural population.
- 30 percent --- State's percentage of national rural population living in dwellings which lack complete plumbing and/or are crowded (substandard).
- 30 percent --- State's percentage of national rural population below poverty level.
- 10 percent --- Cost indicator (average cost of new dwelling and sit, factored by population).

Section 504 loans and grants have a different formula, described separately.

2. How Does FmHA Distribute Funds under its Home Ownership and Rental Programs?

Funds are distributed to the States on the basis of factors from the formula identified in the answer to the first question. We used a 1977-78 actual use base and transitioned to full formula funding over 3 years for Section 504 and 515, and 4 years for Section 502. The purpose of the transition period is to permit adjustment by both FmHA staff and the industry to work load, demand and current investment.

During 1981 we will be at the formula level in the 504 and 515 programs, and in the third of four years with the Section 502 formula.

The Section 504 low income repair program funds are allocated by the following formula(s).

	<u>Loans</u>	<u>Grants</u>
State's percentage of national rural population living in substandard housing -----	50%	33.3%
State's percentage of national rural population below poverty level -----	50%	33.3%
State's percentage of national rural population 62 years of age and over -----		33.3%

3. Is Each Program Distributed in Accordance with Need?

Yes and no. State allocations are only used with the 502, 504, and 515 programs. The other housing programs are handled as follows:

- (a) 514/516 Farm Labor Housing - States submit information on preapplications for competition in the National Office. Attention farmworker housing is in short supply in all areas. 60 percent of grant funds are allocated for year around occupancy and 40 percent for seasonal occupancy (migrant labor).
- (b) Section 523 Self-Help Technical Assistance Grants - Are available on a first come first served basis. Demand has not exceeded supply.
- (c) Section 525 Technical and Supervisory Assistance - National competition for limited funds, judged on basis of area need.

4. Is the Criticism that FmHA is not Adequately Targeting to Communities of Under 2,500 People Well Founded? If so, What are You Doing to Improve This?

No. As a policy matter we have urged field staff to give major program priority to the smallest and most rural towns, as well as the smaller projects. FmHA efforts to reinforce this policy are found in the formula which allocates housing funds to the States, our directives to State Directors for substate allocations and in the current development of State Management Plans. We have advised them that the funding changes should be phased in over a 3-4 year period to avoid production problems.

A large percentage (75 percent) of the rural substandard housing is located in open areas and communities of less than 2,500 population. The use of substandard housing and poverty income, in the formula thus assists FmHA in targeting funds to smaller communities. There has been criticism of the formula and we are studying ways to improve it. The GAO assumptions that the formula does not move funds away from proximity to urban centers seems premature in light of the transition for substate allocations. Builders and developers, on the other hand, complain that our present policies are moving funds too rapidly away from urban center proximity.

We are in the process of contracting with Economics, Statistics, and Cooperatives Service (ESCS) to test possible changes to our formula. We anticipate some changes will be made and that they will be published for public comment.

In addition to reviewing the allocation formula, we are processing regulation changes that will tend to assist proper distribution of services. We will be utilizing a weighted application priority system in both the 502 and 515 programs. A direct weight will be given to 502 applicants who live in substandard housing. In the 515 application process priority weighting will be given to projects in communities with a higher proportion of substandard housing and to those that are more distant from urban centers.

II. TARGET

1. What Alternatives to HOAP are There for Aiding Low-Income Home Owners?

The income group that the HOAP program is designed to serve has little or no hope of being provided the opportunity for adequate housing by any means. Some may be able to move to other areas and obtain a subsidized rental unit. However, for the most part, they will remain in substandard housing. Some of those that own substandard housing may receive some assistance with an Agency 504 loan or grant to remove health or safety hazards.

The cold hard fact is that there are no inexpensive ways to provide decent housing for low-income people. FmHA recognized the expense involved and included subsidy recapture as a mechanism for defraying costs. Most opponents of HOAP tend to recommend assisted rental housing as an alternative. It is an assumptive error in that HOAP may only be used where assisted rental housing is not suitable (feasible or available). Further, HOAP with recapture is considerably less costly on a net basis.

We have provided you with a HOAP Handbook, which contains appendices on costs, recapture and a rental housing/HOAP cost comparison survey.

2. Will the Absence of HOAP Affect the Ability of FmHA to Achieve the Target of 30 Percent of Assistance to Very Low-Income (50 percent of Area Median) Families?

Yes, because the use of Section 502 is essential in meeting the 30 percent requirement. Section 502 funds comprise 72.5 percent of our total housing programs which provide direct help to applicant households. It is obvious from the statistical exhibits we have provided today that only a limited number of those with less than 50 percent of area median income will be able to afford a 502 loan.

Additionally, the law specifies the 30 percent requirement in every area in every State. Since most areas (we will have 510) will not receive farm labor housing assistance, and many will have limited 515 assistance, which program comprises 21.8 percent of the total dollars, the use of 502 is imperative if we are to reach our goal. Without HOAP there is little hope of meeting the 30 percent requirement.

Initially there will be little impact since the 910 unit demonstration is a small fraction of the total 502 units produced. However, if ultimately implemented at the 15,000 unit level for 502 loans it would be significant.

III. TARGET

What Problems is FmHA Encountering in Issuing Low-Income Definition Regulations as Required by the 1979 Amendments?

First we have had to make a significant number of adjustments, due to the relationship of the legislative definition to FmHA programs with varying levels of subsidy and the existing requirement that 60 percent of 502 and 515 funds serve those with low income.

Early studies show that little direct relationship exists between 80 percent of area median income and need, cost, or ability of people to afford shelter, particularly as median incomes rise. If the Agency elected to set low-income at 80 percent of median without considering other factors, more loans would likely be made in higher income areas while loans in areas with lower incomes would likely decrease. This action would have undone most of the Agency's recent initiative of serving people and areas of greatest need. Thus, adjustments to low-income are being considered in accordance with provisions of the law. To assure that any adjustment made is fair and equitable, a full study and impact analysis was developed and will be published for public comment. The Agency wishes to implement the change as soon as possible.

80 percent of median income is presently used by HUD as an eligibility criteria for the Section 8 subsidy program. It is very applicable to our 515 rental housing program when coupled with either FmHA rental assistance or Section 8 subsidies. We have, however, identified a substantial number of areas where the income needed to afford a 502 loan is in excess of the 80 percent level. Since 502 comprises 72 percent of our programs, we have taken the time to develop uniform adjustments that will weather critical review. The first of two large charts, before you, illustrates what has evolved to date. We have given Mr. Malakoff a set of computer printouts showing the anticipated low-income levels for each of the 510 designated areas. Additionally, we have provided each of you with the area data for your State.

IV. TARGET

1. How Does FmHA Target its Homeowner Loans?

Applications for homeownership loans under present regulations, are processed in order of the date on which applications are received in the count office. The second phase of targeting (following fund allocation by formula) is the use of application priorities. We published a proposed change on February 14, 1980, for comment that would provide such priorities. If present thinking prevails we will utilize a weighted system that will include priorities for less than 50 percent of area median income, living in substandard housing, and participation in mutual self-help projects.

2. What Priority for a Section 502 Loan Does a Person Living in a Substandard Housing Unit Have Over Another Person Now Renting a Standard Unit?

None, presently, However, FmHA published proposed regulations that will provide for a priority for persons living in substandard housing. We are preparing a final rule for publication which will provide a weighted priority system. The weight for occupants of substandard housing will be second only to that for persons with less than 50 percent of area median income.

3. How Many Loans Last Year Went to Persons Living in Substandard Housing?

We do not know. FmHA has no data base containing this factor and no estimate can be made in regard to the number of loans that have been made to persons living in substandard housing.

4. The Housing Assistance Council has Suggested that FmHA Adopt a New Targeting Formula for Ranking Projects in Order to Assure that Projects Meet the Needs of Those Least Served. What is Your Policy?

FmHA is revising its regulations to provide for a priority ranking for selection of projects. The weighted factors will be as follows:

- A. Projects using rental assistance or Section 8.
- B. Projects in communities with more substandard housing.
- C. Projects in communities with lower per capita per income per household.
- D. Projects having a higher percentage of 3 - or more bedroom units.
- E. Projects located in rural communities most distant from urban centers.

The above priorities will be weighted and instructions will require each application to be reviewed on a quarterly or semi-annual basis for consideration of funding. These priorities should put our funds in areas that have the greatest need.

6. How do you Feel About the HAC Suggestion that Public Participation Procedures Should be Adopted in the Development of FmHA State Management Plan?

The Housing Assistance Council's suggestion that FmHA State Management Plans be developed through public participation procedures would seem to reflect a misunderstanding of the nature and purpose of FmHA State Management Plans. They are basically a staff management tool not a funding allocation mechanism as HAC presumably assumes. Broad FmHA program fund allocations are made by the Congress through the legislative and appropriation process. Implementation policy is established by the FmHA National Office in accordance with administration policy. For example, the President's Small Community and Rural Development Policy directs all Federal agencies to target their resources to the most needy. In compliance with this policy the Administrator of Farmers Home Administration directed the States to target 25 percent of their farmer program funds to limited resources farmers. Given this directive the FmHA State Director uses the management planning process to get his staff to describe what steps they will take and say when they will take them to ensure that 25 percent of the States farmer program funds will in fact go to limited resource farmers. Each FmHA State management Plan documents the actions that are to be taken, the dates by which they are to be taken, and names the individual who will be responsible for taking the actions.

Given this kind of a management plan it is difficult to see how employing public participation procedures would serve a useful purpose. However, if and when the State Management Plans are directly used for allocation purposes, we will utilize public comment.

V. SECTION 502

1. What is the Backlog of Unfunded Applications for the Section 502 Program?

There were 127,175 Section 502 (insured) loan applications on hand as of December 31, 1979. We receive approximately 220,000 loan applications per year. Budget estimates indicate that we will obligate approximately 111,000 Section 502 loans in FY 1980 and 91,800 in FY 1981. If we assume that only 50 percent of those applying are determined eligible, it is clear that there will continue to be a substantial backlog of applications on hand.

2. How Many Months Does the Average Applicant Have to Wait?

We do not have good data on the length of time experience in the application process. If a family applies for a rural housing loan and has a house ready to buy, has a totally completed loan docket, are funds are readily available, the loan can be processed in from 60 to 90 days. There is, however, presently a large backlog of applications in most of our local county offices and loan processing time is considerably longer. In fact, some offices have more loan requests than they can serve during the next year. Many potential applicants are thus discouraged from applying because of the delays.

5. What is Your Reaction to the HAC Suggestion that FmHA Require Tenant Admission Preference to Poor Persons Living in Substandard Housing?

FmHA presently requires all RRH owners, at the time their loan is being processed, to prepare an affirmative fair marketing plan. This plan ensures that all persons in the market area have an equal opportunity to rent one of the units. FmHA has not, however, required that priority be given to renting units to persons of low income who live in substandard housing. We believe that this is not necessary and that an affirmative fair market plan for the community can help those families who have the greatest needs to acquire housing.

VI. SECTION 5021. Do you Expect Significant Problems Involving Unused Loan Funds to Result From the Reallocation Process?

We do anticipate some minor problems. All change is usually accompanied by some inconvenience. The reallocation of Section 502 loan funds has resulted in the placement of funds in some areas where past loan activity has been slow. Such allocation of funds does not generate immediate loan activity and time must be allowed for the housing industry to respond. There is already evidence that individual States are responding with positive action. We are monitoring the loan activity for each State and do not anticipate a significant problem in using all loan funds available. In the event any loan funds should remain unused as of August 8, such funds will be pooled and made available to other areas. This is the second fiscal year in which the new allocation formula has been used. FmHA did an outstanding job of obligating available loan funds in fiscal year 1979.

VII. SECTION 502 MODERATE INCOME

1. Do You Believe Existing FmHA Moderate Income Ceilings Need to be Changed?

The income ceilings for the moderate income program need to be changed. In fact, we are presently reviewing all of the FmHA income levels and hope to soon have a final decision on the new limits. In addition to the need for changes in limits from a program standpoint, changes are necessary to comply with the requirements of the Housing and Community Development Amendments of 1979.

Moderate income levels will be established on an area basis to provide conformity to that required by law for low income. The new low-income level in some areas will exceed the present \$15,600 national limit. A new level or levels is also mandated by inflated housing costs and interest rates.

2. Is There a Need for Changing Our Legislation Which Limits Eligibility for Interest Credit?

The existing legislation permissively authorizes interest credits for both low and moderate income households. Since enactment in 1968 each Administration has decided not to provide this subsidy to moderate income 502 borrowers, although interest credit is available to tenants with moderate income through the Section 515 program.

Inflation, over the past 10 years, has produced gaps of people who go unserved. The gaps are those with incomes higher than our low income ceilings but too low to afford carrying a home at the market rate of interest. Your staff requested, and we provided, data in chart form which illustrates this effect. Rapidly escalating housing costs and interest rates have contributed to wider bands of unserved people. In the chart before you, the Alabama example:

- (a) 18 percent of the population can be served with interest subsidy.
- (b) 42 percent of the low-income population cannot be served due to affordability.
- (c) 36 percent of the population are in the income gap unserveable category.

FmHA has requested authority to provide interest subsidy to moderate income borrowers. However, we should point out that it is expensive and has a budget impact.

VIII. SECTION 502 - GPM

1. Are You Studying the Use of Alternate Mortgage Instruments Such As GPM's to Assist First Time Home Buyers?

The FmHA has considered but has not yet permitted lenders to use alternative mortgage instruments, such as the graduated payment mortgage (GPM), in the guaranteed loan program for persons with above-moderate incomes. Families with low incomes can be served with the interest credit subsidy program, making the use of a GPM unnecessary. We are concerned that little is really known about the long range effects of GPM. What will happen if incomes do not keep pace with the factors leading to increased payments? We understand that legislation would be required before we could use a GPM on other than the guaranteed loans.

IX. RESALE OF HOUSES

1. What is the Policy of FmHA with Respect to Resale of Houses from Inventory?

Property suitable for resale within the program is offered only to eligible loan applicants for the first 15 days after it is placed in decent, safe, and sanitary condition and ready for sale. If the property is not sold during that period, it is then offered for sale to anyone who wishes to buy for its market value.

2. In What Condition Should They be Turned Over to Borrowers?

If the property is to be used for residential purpose, it must meet decent, safe, and sanitary standards of the Agency before sale, or be placed in such condition before it can be occupied. This is in accordance with Section 507 of the Housing and Community Development Amendments of 1979.

X. SECTION 504How do you Proposed to Ensure that the \$50 Million Budgeted for 1981 will, in Fact, Be Spent?

It is true that Section 504 RH loan funds have not been totally used in the past fiscal years; however, there was growth in the program in FY 79. Furthermore, the use of these funds significantly increased during the first half of fiscal year 1980. The reasons for this increase are the emphasis that have been placed on helping those most in need, and the increased outreach at county office level. We expect to use the \$24 million available in FY 1980.

Demand is increasing for Section 504 funds. Several States have asked for additional funds by the mid-year point. We plan to enlist the help of interest groups to increase the outreach effort at county office level, publicize the program and inform those needing assistance of its benefits, and thereby make the program available to more families occupying substandard housing.

We realize that contractors often are not available or do not wish to perform 504 type home repairs. However, the number is probably increasing as new housing starts decline due to the lack of mortgage credit and the increase in interest rates.

Units to be repaired with Section 504 loans and grants are estimated as follows:

FY-79 (actual) ---- 11,620

FY-80 (estimate) -- 16,500

FY-81 (estimate) -- 23,535

XI. Section 514

1. What is the Status of the Agreement Regarding the Use of Section 8 Assistance with the Section 514 Farm Labor Housing Program?

We are proceeding to work out the details with HUD and have tentative agreement that this can be worked out. It will require an amendment to the Memorandum of Understanding and revision of the regulation. FmHA staff have developed draft changes to instructions and to the Memorandum of Understanding. The Section 8 assistance will be used to assist domestic farmworkers to acquire housing and priority will continue to be given to occupancy in Section 514 labor housing by farmworkers.

2. Is There a Question About Exclusive Use of the Combined Program
for Farmworkers?

There are legal issues involved, which are not completely resolved.

3. When Will the Agreement be Published?

The agreement was published in the President's Small Community and Rural Development Policy paper of December 20, 1979. We are not sure when the revised Memorandum of Understanding will be executed, but expect to have a draft delivered to HUD within a few weeks. Publication of revised instructions will involve both the USDA Office of General Counsel and the Office of Management and Budget so we can make no time predictions.

XII. COOP HOUSING

1. What Efforts are FmHA making to Implement the FmHA Housing
Program?

This program has been "implemented" for a great many years although admittedly has been largely unworkable. In recognition of this we are presently involved in two courses of action:

- (a) A staff member has been assigned to rewrite the present cooperative instructions. We admit that the present instructions are somewhat useless.
- (b) FmHA is participating, with HUD, in funding a Small Cooperative Housing Demonstrating Project. It is designed to test the use of technical service organizations which provide some assistance to otherwise self-managed cooperatives. The demonstration is being performed by rural America, National Council of LaRaza, Federation of Southern Cooperatives, and Rural Community Assistance Corporation.

2. Is There a Need for Legislative Amendments to Make the Program
Work Better?

We do not believe there is a need for legislation.

XIII. DISPLACEMENT

1. Are you Aware of the Criticism by Senator Sasser that Rural Displacement is Often Caused by Farmers Home Administration?

We were not, and subsequently checked with the Senator's staff. They advised us that on investigation no confirmation of FmHA displacement had surfaced. His staff indicated the cause for displacement seemed to be the other two Agencies cited.

2. Do you Think Legislation, Similiar to that Calling for HUD to Minimize Displacement is Necessary?

No. If FmHA has or seems to be guilty of causing displacement we would prefer that it be brought to our attention for administrative remedy. Should the practice actually occur and reoccur, then we would agree to the need for legislation.

XIV. INDIAN

What Steps Have you Taken to Give Greater Emphasis to Indian Housing and Develop More Outreach, and What is the Role of the Indian Desk?

FmHA established a position of coordinator of Indian services to act as an ombudsman for Indian tribes and groups and to mobilize FmHA efforts to provide more effective service. The history of FmHA housing assistance to Indians has been and remains appalling.

Several years ago we established Indian coordinators positions in most States. It is a part-time activity for the incumbents. Over the past year and a half we have established full-time Indian coordinator positions in Arizona and South Dakota. In North Dakota, during our district reorganization process we established one district comprised solely of Indian reservations. It is too early to tell from the activity, of lack of activity, what the success rate will be, or exactly what problems are surfacing. We do expect better insight on bringing our housing services to Indians.

The National FmHA Indian Coordinator chaired a task force this past year which identified barriers to Indian participation in FmHA programs, some are in housing. We developed remedial legislation, in one instance, which has not surfaced officially, but is reflected in the draft committee bill of the House Subcommittee on Housing and Community Development.

The percentage of 502 and 504 loans to Indians has not dramatically increased but is up from .4 percent in FY 1978 to .6 percent in FY 1980.

In 1978, FmHA made 467 loans and 316 have been made in the first half of 1980. While it remains a trival portion it is movement in the right direction.

FmHA has made several Indian initiatives aimed at improving our housing outreach capacity:

- (a) Section 111 rural planning grants of 247,000 have been approved to 8 Indian tribes in 8 States.
- (b) A grant was extended to the American Indian Law Center, Inc., in Albuquerque, New Mexico to stimulate training of Indian tribes in the use of FmHA housing programs.
- (c) A Section 525 T.S.A. grant in the amount of \$100,000 was extended to the Chippewa tribe in Minnesota.
- (d) We anticipate doing two demonstration congregate projects on Indian reservations this year, in conjunction with Administration on Aging operating funds. They will probably be only congregate demonstrations done this year.

While there are number of problems to be resolved including those of legal definition of land ownership and tenure, we believe FmHA is making gradual progress. We are able to produce housing at somewhat lower cost than that financed elsewhere. A quick survey of the few North Dakota 502 units produced in 1980 to date indicates:

Cost New Units (Subsidized)	- \$43,110
Cost Existing Units (Subsidized)	- \$25,210
Average Cost All Units	- \$30,427

This is in line with other FmHA housing costs produced within North Dakota.

XV. MINORITIES

1. How Well is FmHA Serving Minorities?

Not well enough. We are not at all satisfied with the Agency's record in this regard, and have multiplied our efforts to improve. We have developed a quarterly report which provides us with data on accomplishment, by State, in relation to enumerated goals. Our Area Coordinators are required to place emphasis on intensification of effort by State Directors.

We have provided you with a chart that indicates the level of 502 and 504 loans made to minorities. Minorities participation had plummeted from a high of 27,065 in 1972 to a low of 14,468 in 1977. The level rose slightly in 1978 and again in 1979 to 16,107. We will continue to push for improvement.

The tenant situation in the Section 515 Rural Rental Housing Program is just even more deplorable. We have not had data available, but have just received preliminary data from a study ordered and begun two years ago. This data indicates that 92 percent of all Section 515 tenants are white, that blacks comprise 4 percent, hispanics 2.2 percent, Amercian Indians 1.1 percent and Asians .2 percent.

FmHA will drastically improve service to minorities, with particular attention to the rental program. The rental programs, provide FmHA with the best opportunity to serve very low income people and minority incomes tend to lag behind those for whites. We did attempt to use racial characteristics in our proposed new Section 515 application priorities, but this was ruled illegal by our Office of General Counsel.

2. Can you Provide Data Showing How the Programs have Responded to Minority Needs in Recent Years?

We have provided you with the following:

- (1) Percent and number of housing loans to minorities - in 1969 - FY 1979.
- (2) Copies of summary pages on specific loans, types by race or ethnic group, FY 1977-1979 and first half of FY 1980.

XVI. REPAIR OF EXISTING HOUSING

1. What Steps are you Taking to Enable Utilization of the Greatly Proposed Level of 504 Repair Loans?

As mentioned in an earlier answer, demand is increasing for the program, which has been on the upswing during the past three years. Rising energy costs have played an important role in the increased Section 504 activity. A large percentage of 504 loans will be made for weatherization purposes.

Local and State (non FmHA rehabilitation and weatherization activity is accountable for a large measure of the increase in Section 504 demand. 504 loans are being used to supplement community block grant and weatherization funds as well as in conjunction with repairs being performed through CETA programs.

2. How Many 504 Loans Did You Make Last Year?

5,213 loans - \$14,710,000

The number made should be looked at in a historical perspective. It shows a gradual increase.

	<u>Number</u>	<u>Dollars</u>
1963	132	\$ 65,750
1969	5,514	5,799,110
1974	2,635	4,429,729
1977	3,505	7,885,690
1978	4,823	11,941,510
1979	5,213	\$14,710,250

3. How Much Money Did You Turn Back in FY 1979?

\$9,239,705

XVII. STUDIES

1. Listing of Housing Studies and Demonstrations Related to Housing Now Being Conducted with FmHA Support.

(a) Studies being performed through E.S.C.S.-U.S.D.A.

(i) Energy Conservation in Non-Metro Housing

Studies to evaluate costs and returns of energy saving measures are being undertaken in Massachusetts, Michigan, and Wisconsin. A preliminary report has been received from the University of Massachusetts, the Michigan State study should be completed by September of this year and a preliminary report is due in May for the Wisconsin effort.

(ii) Mobile Home Financing in Non-Metro Areas

In Missouri and Illinois an analysis of financial institutions and dealers with respect to mobile home financing is underway. It covers terms under which mobile homes are financed and problems in mobile home financing. The report is expected in June.

- (b) Small Cooperative Housing Demonstration (described in response to question XII-1).
- (c) Remote Claims Study.
- (d) Migrant Farmworker Housing Study.

2. What is the Status of the Studies Being Carried Out Pursuant to the Housing and Community Development Act of 1978?

(a) Sanitation, Toilet and Potable Water:

The study on rural sanitation, toilet,, and potable water called for in the Housing and Community Development Act of 1978 has been completed and was transmitted to the Majority Leader of the House and President of the Senate on December 28, 1979. It was pointed out in the study that data adequate to provide an accurate statement of the needs and estimates of the costs of meeting them would not be available until EPA completed its \$2 million study on the same subject in the spring of 1980.

Based on the fragmentary data that was available the study found:

- (i) The combined cost for meeting rural water and waste disposal needs may approach \$38 million.
- (ii) EPA estimates \$23.2 billion is required to bring rural sewer systems into compliance.
- (iii) More than 800,000 rural households use privies, chemical toilets, or other systems for disposal of household wastes. Nearly 80 percent of these households are in the South.
- (iv) According to EPA figures, as many as 2.5 million rural households may be obtaining nonpotable water from central water systems.

- (v) Another 2.6 million households obtain their water from dug wells or "other" sources. FmHA considers dug wells and "other" sources to be unacceptable sources of potable water. Replacing all such sources could cost \$5-6 billion.

(b) Migratory and Settled Farmworker Housing:

The preliminary report on the first stage of the study of Farmworker Housing called for in the Housing and Community Development Act of 1978 has been received and is now reviewed by FmHA technical staff. The final report for the study is due October, 1980.

Stage one of the study called for the contractor to conduct a literature review and telephone interviews with a wide range of Federal, State, and local officials, public interest organizations, as well as with farmworker and grower organizations.

The purpose of the literature search and telephone interviews was to obtain better information on the location, quantity, and availability of farmworker housing as well as the major issues of current concern. This information will provide the foundation for focusing the concluding phases of the study on the most critical farmworker housing locations and issues.

(c) Remote Claims:

In March of this year, an interim report detailing the results of the literature search, scope, and potential remedies for dealing with problems of clear property title was delivered to Members of Congress. Mandated by the Housing and Community Development Act of 1978, the project examines Indian Claims, Spanish Land Grants in the Southwestern U.S. and Heir Title problems experienced by black landowners in the Southwestern U.S. Collectively, these represent a nearly complete picture of the clouded title problem.

The contractors are:

- (i) Heir Title Problems in the Southeast - Emergency Land Fund.
- (ii) Indian Land Claims Study - Institute for the Development of Indian Law.

- (iii) Spanish Land Grants - National Resource Center;
University of New Mexico School of Law.

Each contractor is now working on the field research element of the project, collecting local information about the extent and institutional framework of the problem from the points of view of owners, lawyers, public officials, lending agents, and others. Results of this work are expected in draft by late summer of this year and the final report is due to be delivered in October.

VIII. MANAGEMENT

1. What is FmHA Doing to Correct Deficiencies in Management as Pointed Out By GAO and USDA's Inspector General?

The office of Inspector General made a report to the Congress, which outlined a number of potential abuses in the rural rental program. We have taken administrative action to correct these problems. A detailed Exhibit is being provided you but the basic corrections are as follows:

<u>ISSUE</u>	<u>ISSUE TITLE</u>	<u>STATUS</u>
#1	Use of Fee Appraisers	Study completed. Decision made to use fee appraisers on a pilot basis but continue with FmHA appraisers for multi-housing program. To improve quality of appraisals (1) an appraiser-trainer would be named at State level, (2) State Director would select a limited number of District personnel to do appraisals, (3) training would be given to personnel involved in appraisals. Training held January 14-17 at Tallahassee and January 28-31 at Kansas City. State Trainers to follow with training to District personnel.

#2	Certifications of Market Survey	FmHA Instruction 1944-E published for comment on November 30, 1979. Being finalized at present time. Instruction requires OMB clearance. Estimate <u>final date within 90 days.</u>
#3	Multi-State Borrowers	Decision made to include RRH projects in the Rural Community Tracing system. Moving to implement <u>as soon as possible.</u> <u>No target date set.</u>
#4	Requiring Project Cost Certifications	Instruction 1924-A has been sent to OMB for final clearance. Estimate <u>final date within 30 days.</u>
#5	Verification of Tenant Income	Instruction 1930-C has been published for comment on December 5, 1979. It is being finalized at this time. Requires OMB clearance. Estimate final date <u>within 90 days.</u>
#6	Common Identify of Applicants and Use of Funds for Land Purchase	Same at item 2 above.
#7	Review Teams	Review Teams First review team went to Florida week of January 25. Second team to Indiana week of March 17 and third team to Virginia week of March 31. Twelve reviews are scheduled for FY 1980.

2. What is your Progress and lack of Progress in Improving the Collection and Reporting of Program Information?

- (a) Work on the Unified Management Information System (UMIS) has been revamped under new project leadership. This will lead to long-term improvement.
- (b) We are currently developing a separate Multiple Family Housing computer tracking system. It will be operational by the end of the year and FmHA will have its first current, full year reporting data by the end of the following year.

- (c) Efforts are underway with HUD to jointly simply and produce uniform reporting criteria.
- (d) Lack of Progress: We are still unable to provide certain types of information short of polling all individual offices.

XIX. PREPAYMENT

1. What Has Been Done to Implement the 1979 Prepayment Amendment?

FmHA Reply: On December 26, 1979, we sent out a telegram, which implemented the provisions of the 1979 law. We have also sent out a replacement for this telegram, which contains several modifications. We are attaching copies of both the December 27 and the replacement. Notice to the field. We are proceeding to incorporate the contents of this telegram into our regulations within the next 90 days.

2. Have you Called Upon to Make Any Determinations Under the New Provision?

At this point in time we have only had a few inquiries.

XX. SEASONAL LABOR HOUSING

What is Being Done to Strengthening Housing for Seasonal Farmworkers in Accordance with the 1979 Law?

FmHA Reply: We have divided our Section 516 grant money between seasonal and permanent farmworker housing needs. We are also in the process to developing new standards for the construction of seasonal housing which would permit defeating from the Minimum Property Standards (MPS) in order to accomplish cost saving and the same time obtain housing that is adequate for that specific need. A revised FmHA development instruction, now under review by OMB will specify three types of standards for farm labor housing:

- (1) Minimum Property Standards for year around use, (2) special standards for dormitory type housing and (3) new and more flexible standards for less than 6 months occupancy. FmHA has been meeting with National non-profit farmworker housing advocates, the Department of Labor, HUD, CSA and HEW in developing seasonal housing guidelines.

Seasonal housing needs are great in several States and in particular, in California where some housing is operated only for a 6 month period. In California, we will be able to meet part of these needs within our present program.

XXII. TECHNICAL ASSISTANCE

1. What Have you Done with Regard to the 1979 Amendment on Technical Assistance?

Applications for technical and supervisory assistance were limited primarily to counseling. We advertised for three combination technical assistance/counseling contracts for the \$300,000 available. 16 contracts are available to utilize the \$1.2 million appropriated solely for counseling. We are currently reviewing and rating those applications that have been recommended by the FmHA State Directors, as part of a national competition for the available funds. The overwhelming limitation of funds for counseling only is a modification from our previous year where most of the Section 525 grantees are carrying out a combined program of counseling and outreach. We would prefer to see more flexibility in the use of the Section 525 program since there is a tremendous need to reach families both at the application stage and later in a counseling role and Section 525 could provide this assistance.

2. Did Last Year's Provision Requiring One-Half Expenditure For Counseling Change Your Program from What it Would have Been?

Yes.

Actually we were required by law to use 80 percent of the funds for counseling only.

Many Members of Congress prefer that we use the Section 525 program only for counseling, rather than for a dual purpose, including counseling, as was originally legislated. We think the dual purpose makes sense, particularly since the amount of funds is so small as to make impractical any massive scale sole-purpose attack on rural housing.

XXIII. NON-PROFIT HOUSING

1. What is the FmHA Record with Respect to Housing Sponsored by Non-Profit Groups?

FmHA's record with non-profits has been reasonably good from the standpoint of their being able to deliver rental housing to low and moderate income people and to provide continued management. The FmHA approach has been to require a broadly based non-profit which represents the leadership of the community. This, however, has not always been the easiest method of bringing housing to a community since it involves such a large number of people. Non-profit sponsors are usually well motivated to serving low and moderate income people, but not always the most technically competent in either housing development or management. As a result non-profit applications are usually more time consuming to develop and process.

Because non-profit groups do have the motivation to assist groups in need it is FmHA policy to encourage their applications.

2. Is the Rural America Statement that FmHA is Giving Priority to Limited Dividend Sponsorship Correct?

No, it is not correct. FmHA did a survey in August of 1969 which showed that limited profit sponsors were making rapid in-roads into the program. We advised Rural America and HAC that if they did not want their constituency (public and non-profit sponsors) to lose out, work on their part was needed, particularly in the development of technical expertise and packaging.

Not only is this statement incorrect, but FmHA's proposed regulations for the 515 program, published for prior comment included a priority for public bodies and non-profit organizations.

In past years FmHA has found its application coming from limited dividend sponsorship who may be motivated by the fact that these do provide tax shelters. We believe, however, that loss of this housing has been prevented by the passage of the 1979 Act, which prevents prepayment both retroactive and prospective regardless of the type of legal entity obtaining the loan.

Private applicants, including limited partnership, may not be motivated in the same way as non-profits, but they do have the professional ability, or they buy it, to develop efficient, well managed projects. This technical capacity has enabled them to move in and take over the largest share of the 515 market.

3. Is Rucker Correct when he Says Limited Dividend Housing, Which Benefits from Sale to Tax Shelters, Necessarily Results in Higher Rents?

Not that we are aware of. Generally, our State Directors report that limited profit sponsors usually produce somewhat lower cost projects than non-profits. He probably is accurate in that the overall costs are greater. However, a large portion of this is the tax shelter and is borne by the taxpayers at large rather than through higher rents.

4. Are you Taking any Action to Implement George Rucker's (Rural America) Suggestion that FmHA Initiate a National Program of Non-Profit Rural Rental Sponsorship in Area of Greatest Need?

No. This would entail a great deal of funds. FmHA's salary and expense funding is being reduced in fiscal year 1981 budget revisions and the only logical means of doing what Rucker suggests is through the Section 525 Technical and Supervisory Assistance Program. The TSA Program, funded at anywhere near current levels, is impotent for such purposes. Additionally, the earlier mentioned congressional limitations to counseling make that program impractical as a means of producing a non-profit delivery system. (History does yield the fact that this was the original intent of the Section 525 legislation.)

We believe that our efforts in outlining priorities for ranking applications will enable us to reach those areas having the greatest need. We will continue to emphasize and urge the non-profit and public body sponsorship of rental housing through prioritizing their applications. The new Section 515 regulation (1944-E) should be implemented in time for the field staff to determine the guidelines that will be used for FY 81. These will require the following:

- (a) Allocation of funds to the District.
- (b) Prioritizing applications and funding on this basis as per the new regulations.

- (c) Giving priority to public and non-profit applicants in instances where applications are otherwise equal in priority ranking.

XXIV. WATER AND SEWER

What Effect will The Proposed Sharp Cutback in 1981 in FmHA Assisted
Water and Sewer Programs have on Housing and Economic Development
Activity in Smaller Communities?

The proposed cutback in water and waste disposal funding from \$700 million and \$284 million to \$400 million and \$100 million loan and grant respectively is part of the Administration's effort to reduce the inflationary impact of Federal spending on the general economy and to provide for a balanced budget.

Additional emphasis placed on the White House Water and Sewer initiatives will result in more funds being available from other Federal agencies to assist communities in construction of needed water and sewer projects. These initiatives require Federal agencies to do more leveraging of the available Federal funds to assist these rural communities. We believe this leveraging will have an effect of lessening the impact of the proposed budget cuts.

While it is recognized that the availability of adequate water and waste disposal systems is an essential part of any housing development program, the benefits that are derived from such services must be foregone in order to combat the high rate of inflation. Construction is one of the major items affecting inflation and therefore reductions in direct construction and related loan and grant programs are vital parts of our efforts to control this problem.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
Washington, D.C., May 7, 1980.

Hon. ROBERT B. MORGAN,
U.S. Senate,
Washington, D.C.

DEAR SENATOR MORGAN: Enclosed are responses to questions you submitted after the Hearings on Rural and Indian Housing.

If additional information is necessary, we will be happy to provide it.

Sincerely,

CLYDE T. J. MCHENRY,
Deputy Assistant Secretary.

Enclosure.

Question 2. "Has HUD organized itself to deal with rural and small community problems? How?"

Answer. HUD has taken steps to organize itself to deal with rural and small community problems. Our concern with these issues predates the development of the Administration's Small Community and Rural Development Policy.

HUD was one of the first agencies to undertake a comprehensive review of its policies and programs to determine how well they serve rural and small community needs (January to July 1978). In that review, which was published as the "Task Force Report on Rural and Non-Metropolitan Areas," HUD identified a number of possible administrative and policy modifications which are now being implemented or further tested in the Department's Rural Assistance Initiative (RAI) in North Carolina and Washington State.

At the recommendation of the Task Force, HUD established the HUD Rural Coordinating Group to support HUD rural activities. This intradepartmental Rural Coordinating group is also the primary implementing device with respect to the Small Community and Rural Development Policy. Each Assistant Secretary within HUD has a staff assignment to the Group.

The Group works directly with the Secretary's office through a Special Assistant to the Secretary designated to handle rural issues. It serves as a forum for analyzing special rural needs, determining ways to make HUD programs more accessible, and disseminating program results. It has facilitated the internal review process where program or legislative modifications are involved; produced increased attention to rural concerns in every office of HUD; and increased the Department's responsiveness to our small community and rural constituency.

Other implementing actions are continuing:

A draft Field Notice is in circulation which clarifies the responsibilities of HUD Regional Administrators and Area Managers in implementing the policy, and outlines for them the goals and principles which will guide their management of program resources.

A draft Field Office Notice is being circulated within the Department for comment which will clarify CDBG policy on migrant workers and give specific examples of where and how the needs of migrant workers can be addressed in Entitlement and Small Cities Program applications;

A Field Notice is being drafted jointly by HUD and FmHA which will insure maximum successful cooperation between the two agencies as they implement the housing aspects of the Small Community and Rural Development Policy;

Question 3. The GAO reports that small, remote rural communities contain three-fourths of the almost 2 million occupied substandard housing units.

Is this consistent with your information? Is HUD or FmHA giving this any special attention.

Answer. The GAO information is not inconsistent with HUD's data (Annual Housing Survey Data) although we do not know how they have defined "remote" rural and what is meant by "dilapidated" housing. In terms of lacking plumbing, 900,000 of the 1.9 million homes which lack plumbing are in non-metropolitan communities of less than 2,500 population. GAO is reporting that 750,000 of these are both rural and "more remote and difficult to reach."

HUD is giving this special attention through various efforts to increase the rural capacity to use the array of HUD housing tools. These efforts include the Rural Assistance Initiative, the 4-State Demonstration and the evaluations of how HUD Programs operate in and impact rural America.

In addition, HUD is targeting greater amounts of discretionary technical assistance, housing counseling funds and self-help development funds to rural areas to assist small communities address their particular needs.

Further, the Interagency Rural Housing Task Force has selected three work priorities which directly address substandard housing. They are:

To assess and compare rural housing needs with existing Federal assistance to rural areas;

To improve the delivery of rural housing; and

To coordinate the resource allocation and delivery of Federal resources.

FmHA is working closely with us in this effort in addition to their own extensive effort to target housing assistance to the areas and population groups in greatest need.

Question 4. GAO reports that a substantial part of the rural housing problem is the result of a shortage of rental units and an excess of substantial rental units—particularly for elderly persons.

When we think of the rental problem, we tend to think of our big cities. What do we know about rental needs in smaller communities? Have HUD and FmHA worked out any plans for dealing with the rental problem?

Answer. The GAO reports that in 1976, 52 percent of the rural substandard (i.e., lacks complete plumbing) housing is rental stock—a sharp increase over the 1950 figure of 44 percent. This may actually underestimate the problem since according to the 1977 Annual Housing Survey 10 percent of all of the rural rental stock lacks complete plumbing compared to 3 percent of the rural homeowner stock.

HUD and FmHA will be examining this problem as a major element of the Interagency Rural Housing Task Force.

Question 5. HUD's public housing program has had great success in smaller communities. What has happened to the program in smaller communities in recent years? GAO found that little effort was being made to provide public housing sponsorship in remote areas. Is there a future for public housing in rural areas?

Answer. The public housing program provides a significant number of units in small communities. The attached table showing ACC executions for the past four fiscal years (76-79) clearly indicates that nearly half of the non-metropolitan public housing units went to communities of less than 2,500 population.

The provision of assisted housing to non-metropolitan areas is a tripartate effort involving public housing, Section 8 and FmHA housing. Section 213 of the 1974 HCD Act specifies that contract authority for this purpose be at least 20 percent, but not more than 25 percent of the amount available. There has been an annual "set-aside" of 10,000 units to be used in conjunction with Section 515 FmHA BMIR financing; thus, the amount of "assisted" housing going to non-metro areas is considerably greater than the amount of public housing alone and is subject to a statutory ceiling.

Public housing can be developed only by PHA's unlike Section 8 units, and only in response to a locally generated application. In smaller communities, such development is usually undertaken by a county or regional housing authority because most small communities cannot independently operate public housing projects.

The Committee's reference to "remote" areas along with "rural" and "smaller communities" is not entirely clear. However, the Indian housing program (which is an "off-shoot" of public housing) does provide units to remote tribal villages in both the continental United States and in Alaska.

We believe that rural public housing has a positive future, given the constraints of the program noted above.

PUBLIC HOUSING UNITS HAVING EXECUTED ACC'S

	Fiscal year—			
	1976	1977	1978	1979
Total units.....	8,008	5,697	2,264	7,458
Number of nonmetro.....	1,923	1,680	692	2,450
Percent of nonmetro.....	24.01	29.49	30.57	32.85
Number of nonmetro units in areas of less than 2,500 population.....	912	715	474	1,156
Percent of nonmetro.....	47.43	42.56	68.50	47.18

Question 6. What is HUD doing to expand use of its mortgage insurance programs in rural areas? Has it taken steps to encourage FNMA participation in improving credit flows to rural areas?

Answer. HUD has initiated a delegated processing program for FHA-insured single family mortgage loans under Section 235 and Section 203(b), thereby increas-

ing the access to these FHA-insured loans in areas which are some distance from HUD offices. The program is open to approved mortgages who qualify to solicit insured financing proposals in areas not non-active in HUD programs. At the present time there are no plans to expand the uses of delegated processing beyond the 13 states presently involved. The program will be assessed and fine tuned before broader implementation.

HUD has taken steps to encourage FNMA participation in improving credit flow to rural areas. HUD recently has approved the initiation by FNMA of a rural loan participation program under which FNMA will seek out lenders in rural areas and offer to purchase participations in their portfolios of mortgages.

Question 7. GAO found that State housing agencies were not very active in rural areas. Why is this? Has HUD made a point of raising this problem with State agencies which use HUD's insurance and mortgage insurance programs?

Answer. A constraint on state housing agency activity in rural areas has been the statutory limitation on the amount of subsidized housing funds that can be allocated to rural areas (i.e., non-metropolitan areas). No more than 25 percent of the funds may be non-metro. This constraint affects all parts of the non-metro funds available flow through the Farmers Home Administration (HUD sets-aside 10,000 units annually). Because state agencies have generally produced their proportionate share of units in rural areas, HUD has not had a reason to question their activity in rural areas.

Question 8. GAO recommended that HUD, as part of its rural initiatives, devise and test incentives to expand urban financial institution operations in rural areas and the use of HUD mortgage insurance by rural lenders. What specifically is HUD doing with regard to these recommendations? What progress can HUD cite as fulfilling these recommendations?

Answer. HUD has implemented a rural initiative delegated processing program in two test offices, Greensboro and Spokane. The program is open to all approved mortgages (no prerequisite qualifications) originating loans in areas identified as rural initiative areas using the FmHA definition of rural. In addition to the rural initiative delegated processing program, HUD has initiated a demonstration program of Outreach and Delegated Processing. The program has been implemented in 15 offices in addition to the two offices above. The program requires approved mortgages who qualify to solicit insured financing proposals in areas not now active in HUD programs.

The delegated mortgage processing program authorizes local savings and loan associations and other mortgage lenders to process FHA-insured single family mortgage loans under Section 235 and 203(b), thereby increasing the access to these FHA-insured loans in area which are some distance from HUD offices.

At the present time there are no plans to expand the use of the Delegated Processing Program beyond the 13 states presently involved until the usefulness of the program has been assessed and necessary changes made.

Question 9. On page 4 of your testimony, you mention that new minimum property standards will soon be published and that these will help lower costs by reducing "consumer preference factors." What are these factors? Will rural housing be less desirable housing?

Answer. Consumer preference factors are used in my testimony, refers to criteria designed to provide the more refined and less essential aspects of livability. The revision of HUD/FHA Minimum Property Standards, used also by FmHA and VA will conform more to local standards of acceptability. It will provide flexibility in design and construction of homes, reduce paperwork, and reduce costs, while providing for better workmanship, energy conservation, and warranties to protect consumers. We expect that revision of the MPS will result in more housing being built in rural areas without any reduction in quality.

Question 1. On page 7, you report that HUD has agreed to use 5 percent of the Sec. 8 central office set-aside for farmworker housing in cooperation with FmHA. How many units is 5 percent? Are there incompatible features in using Section 8 for year-round farmworker housing? What are the problems in using Sec. 8 assistance for seasonal migrant workers?

Answer. HUD has a Memorandum of Understanding with FmHA, for the use of approximately 10,000 of Section 8 units annually with the FmHA's Section 515 Rural Rental Housing Projects. FmHA does the processing for its Section 515 projects with Section 8.

HUD's legislation for housing is not well suited to providing housing units for farmworkers. However, HUD has entered into another Memorandum of Understanding with FmHA, effective October 1, 1979, for the use of 5 percent (500 units) of the FmHA Section 515/ HUD Section 8 set-aside for farmworker housing (FmHA

Section 514. We are presently working with FmHA to iron out some of the incompatible features of the two programs. It appears that a procedure can be worked out for year-round farmworker housing, but extensive regulatory and statutory changes would be necessary to use Section 8 with Section 514 for seasonal migrant workers who spend only a part of each year in any one location.

Question 11. (A) When was the Office of Indian Housing established? (B) Who is the Director? (C) How many staff positions are there? (D) How many staff positions will there be in the six field offices? (E) Will HUD staff be specifically chosen and trained to work with Indians?

Answers:

(A) The Office of Indian Housing was created in November, 1978.

(B) Thomas Sherman has served as the Acting Director of the Office since it was established. Mr. Sherman was subsequently appointed as Director, Office of Public Housing and has continued as Acting Director of the Office of Indian Housing. The selection of a Director of the Office of Indian Housing is currently being processed through the Department's merit staffing program.

(C) There are currently nine staff positions in the Office of Indian Housing of which eight are filled—the vacancy being the Director's position.

(D) There are scheduled to be 268 positions in the six field offices assigned to housing activities and 31 positions for CPD activities for a total of 299 staff positions.

(E) The staffing of the three new Offices (Seattle, Oklahoma City and Chicago) plus the positions transferred to the Denver Office of Indian Programs from Region VII will be filled through the merit staffing procedures of the Department. The basic consideration will be to fill the positions with technically trained and experienced personnel so that the quality of HUD's technical assistance to IHAs and consequently, the quality of Indian housing is substantially improved. An additional consideration will be the selection of personnel who can work effectively in the Indian programs. When the Offices are fully staffed, training will be conducted in all aspects of the program.

Question 12. The Indian Housing Handbook has not been issued—when will it be—what is the delay?

Answer. The original Indian Housing regulations were effective March 9, 1976 and an Interim Indian Housing Handbook was issued at that time. The revised Indian Housing regulations were effective December 6, 1979 at which time work was begun to revise the Interim Indian Housing Handbook to reflect the finally approved changes in the regulations and to incorporate other changes or additions which operating experience indicated were desirable. This process involved the submission of recommended changes from field office staffs which have now been received. The final draft is now being prepared. There is no intentional delay, however; the final Handbook will represent the composite views of the various HUD staff members, as well as BIA, IHS and IHA staff, and such process requires many sequential and time consuming clearances. In the meantime, the field staffs and IHAs continue to operate from the Interim Indian Housing Handbook.

Question 13. You report that you expect to have an Interagency Agreement between HUD, HEW, and Interior in place this summer. Can you tell us what some of the outstanding differences are—and what will be achieved when final agreement is reached? Have any specific program or legislative changes been recommended by the Interagency working groups?

Answer. The Interdepartmental Agreement of Indian Housing that is presently being developed by members of the Interdepartmental Working Group constitutes a revision of the existing Agreement which was signed by the Secretaries of Interior, HEW, and HUD on February 7, 1976. The changes are designed to update, to streamline, and, where necessary, to make more explicit the agency responsibilities and coordination delineated in the Agreement. To date the Working Group has developed mutually acceptable language for all of the revised Agreement with the exception of a small part of the environmental clearances section. It is expected that this obstacle will soon be overcome and that a draft version of the Agreement will be ready shortly for internal preliminary clearance within the three Departments.

No specific programmatic or legislative changes have thus far been developed for recommendation by the Interdepartmental Working Group.

Question 14. (A) How many Indian reservations get HUD housing allocations? (b) Why is there so much production still in the pipeline?

Answers:

(A) The HUD Indian housing program is available to Indian Housing Authorities established on the basis of the tribe's powers of self-government or under State law authorizing their formation. Indian housing units are allocated to field offices and

thence to IHAs based upon need and on the IHA's capability to properly administer the program. There are currently approximately 150 IHAs, all but a few of these have applied for and received allocations of housing units.

(B) The reason for the number of units in the Indian housing pipeline is multifaceted. Many IHAs have a backlog of units for which HUD has reserved funds but which have not yet reached the construction stage because of the need to resolve problems relating to planning and design, site selection and acquisition, water and sewage treatment facilities, access roads, and securing acceptable bids within cost limits while observing Indian preference requirements. The development of off-site sewer and water facilities are the responsibility of IHS, site leases and public access roads are provided by BIA, and private access roads, if needed, are provided by the homebuyer, the tribe or other appropriate agency.

Question 15. (A) Does Indian public housing serve the lowest income Indians? (B) Do you have statistical profiles of who does get served? (C) How do Indian Housing Authorities determine who gets served? (D) Is there a difference between those served by Mutual Help and rental housing?

Answers:

(A) Indian public housing (including Mutual Help Homeownership Opportunities housing) is subject to Section 6(c)(4)(A) of the Housing Act of 1937 as amended by the HCD Act of 1974. This section requires that the IHAs shall comply with such procedures and requirements as the Secretary may prescribe to assure that sound management practices will be followed in the operation of the projects including requirements pertaining to "the establishment of tenant selection criteria designed to assure that, within a reasonable period of time, the project will include families with a broad range of incomes and will avoid concentrations of low income and deprived families with serious social problems, but shall not permit maintenance of vacancies to await higher income tenants where lower income tenants are available." The procedures and requirements of HUD are set forth in 24 CFR 805.302. Because of the general absence of any other standard housing in Indian areas, income limits for admission as low income Indian families under the definition set forth in Section 3(2) of the Act may be considerably higher than in non-Indian areas; consequently, the "broad range of incomes" may include families with incomes higher than in non-Indian areas where private industry provides an adequate supply of standard housing.

(B) The range of incomes of the Indian families served by individual projects will vary according to the influence of various economic factors. Compliance with the statutory requirements are determined project by project. While HUD does not have available statistical profiles on this issue, these could be compiled with respect to any specified project or group of projects as of a given date by organizing a special data collection effort.

(C) The IHA adopts an admissions policy which complies with 24 CFR 805.302 and is approved by HUD. The actual selection of families for admission by the IHA are reviewed as a part of the occupancy audit of the HUD field staff. Non-compliances are cited to the IHA for correction or for future compliance purposes, as appropriate.

(D) All families who meet the requirements of the IHA's approved Admissions Policy are eligible for admission to rental housing and are selected to satisfy the economic cross section requirement. Mutual Help families must, in addition, be selected on the basis of being able and willing to meet all of the obligations of the Mutual Help and Occupancy Agreement, including the obligation to perform or provide for the required maintenance, to provide the required Mutual Help contribution and their own utilities (see 24 CFR 805.406).

Question 16. (A) What facts can you give us about the cost of producing Indian housing? (B) What is the average cost of size compared to an average FmHA house?

Answers:

(A) Indian housing per unit costs are generally higher than for non-Indian public housing units. A number of the reasons for higher Indian housing costs go beyond general inflation, and involve matters over which HUD has little or not control. Some of these are:

(1) Expense of transporting materials and attracting labor to remote locations. These costs are further aggravated in Alaska by reason of the shorter construction season and dependence upon terrain and weather conditions.

(2) HUD assumption of costs for water and sewer facilities on individual homesites and, for community systems, within the boundaries of the project (rather than the Indian Health Service assuming these costs).

(3) The primary type of shelter built is scattered site, single family detached units designed to accommodate large families.

(4) Unique risks associated with construction on Indian land. Access to trust land and inability to secure ownership of sites may cause developers to inflate costs to compensate for these risks. The inability for mechanics liens to be invoked creates higher insurance costs and higher subcontract amounts.

(5) Contractors for Mutual Help project must factor into their cost estimates additional expenses for supervising and training of often unskilled Mutual Help participants who elect to contribute their required Mutual Help contribution through working on the project.

INDIAN HOUSING COSTS—BY TYPE AND OCCUPANCY

The total development cost per unit averages given below are for Indian housing rental and Mutual Help projects for which development programs were approved or amended in fiscal years 1978 and 1979. The costs are further broken down into the production methods used to develop Indian housing. The cost averages do not constitute the entire universe of Indian housing in fiscal year 1978 or fiscal year 1979. Rather, the cost averages result from a large representative sample of Indian housing unit estimated costs nationwide prior to, during, and in some cases, after construction. The representative sample used here is the best Departmental data immediately available. The Department is currently engaged in improving its ability to determine development cost data according to development method and program type.

AVERAGE TOTAL DEVELOPMENT COST PER UNIT BY FISCAL YEAR

	1978	1979	1979, Alaska ¹
Rental:			
Conventional.....	\$56,251	\$58,581	\$58,917
Turnkey ²	42,845	49,675	52,130
Mutual help:			
Conventional.....	57,584	63,036	65,404
Turnkey ²	36,155	47,103	
Elderly.....	50,203	48,542	62,134

¹ Signifies inclusion of Alaskan housing projects. 1978 Mutual help for conventional, \$61,962.

² The majority of Turnkey development method projects were built in Oklahoma where total development costs are generally lower.

Question 17. What has been the experience with Indian housing: delinquency rates? foreclosures? vacancy rates? vandalism? repair expenditures?

Answer. In HUD's experience with IHAs, delinquency rates and repair expenditures have been the two most pervasive and unyielding problem areas. For a variety of reasons, IHAs have frequently been ineffective in managing and maintaining existing housing units. The IHAs' staffs, in general, do not have sufficient management skills and that lack is not fully compensated by HUD technical assistance, and, in many instances, do not receive proper assistance and cooperation from the tribal government. Specifically, IHAs have difficulty in the following areas: hiring and retaining adequate staff; collecting rents and homebuyer payments; maintaining adequate management controls and accounting records; and budgeting. However, HUD has not experienced any problems with IHAs with foreclosures, vacancy rates and vandalism.

INDIAN HOUSING UNIT SIZE

The following data regarding the average square footage and cost per square footage of Indian housing new construction, public housing new construction and Section 8 new construction were taken from sample data available in the Office of Housing's program data systems. In the case of public housing, Indian housing, and Section 8 State Agency activity, this data comes from field surveys. The cost per square foot data represents program development cost estimates for the respective project types reaching construction start during the period October 1, 1978 to June 30, 1979. HUD maintains no data base on the per unit cost and size of Farmer's Home Administration units—or any non-HUD units. Time constraints have prevented us from getting this comparable data directly from FmHA.

SECTION 8 CONSTRUCTION DATA COMPARISON

	Rentable floor area (sq. ft.) ¹	Total develop- ment cost ²
Indian housing ³	1,065	\$58.67
Public housing/conversion.....	917	44.92
Public housing/turnkey.....	858	44.07
Section 8/section 202.....	621	48.40
Section 8/State agency.....	710	51.42
Section 8/section 221(d)(4).....	704	41.71
Section 221(d)(4).....	832	33.78

¹ Average net rentable residential floor area per unit.

² Average total development cost, less site acquisition cost per square foot.

³ Over 25 percent of Indian housing sample consists of units reaching construction in HUD's Region X (which includes housing construction in Alaska).

Question 18. (A) How much counseling does HUD provide Indian tenants? (B) Does HUD monitor the condition of the houses? Does it regularly inspect the construction of Indian housing?

Answer. HUD allows the IHAs to include in the Development Cost Budget an amount not to exceed \$500 per house for the purpose of their tenant/homebuyers counseling program.

HUD's Indian Housing regulation requires that the IHAs must inspect the units at least once a year. It also requires the units to be inspected at least once every three months during the warranty periods following construction. The HUD construction representative is required to examine carefully during each visit to a project a representative number of buildings and dwelling units to evaluate the quality of construction and the adequacy and quality of the inspection staff. The HUD Chief, Architectural staff, reviews each report and takes appropriate action to accomplish any required corrections.

Question 19. What does your analysis show to be significant contributing factors to the high Indian housing cost?

Answer. The significant part of the high Indian housing cost problem is the additional cost incurred due to the remote locations of the Indian reservations. The higher costs are basically due to site development cost, e.g., where roads and utilities have to be extended unusually long distances. The cost of dwellings are also significantly higher due to the transport of materials to remote locations.

Question 20. Why is HUD changing its policy and providing operating subsidies for Mutual Help projects?

Answer. HUD has been providing operating subsidy for many years for Mutual Help projects based upon HUD-approved operating deficits where family incomes are extremely low and operating costs of IHAs are high, particularly after the rapid increases in utility costs to the families.

The provision for operating subsidies authorized in 24 CFR 805.311, effective December 12, 1979, is to fund the expenses of the IHA which are unrelated to the homeownership responsibilities of individual homebuyer families. In addition to audit costs, these subsidies are available for administration charges attributable to vacant units, provided the IHA is making every reasonable effort to fill the vacancies; collection losses attributable to vacated homebuyers and necessary repairs to put the unit in a habitable condition, but only after utilizing all available homebuyer credits; the cost of homebuyer counseling to families of older projects, new move-ins and for reinforcement or follow-up counseling, where indicated; and for unusual or unforeseen circumstances, as determined by HUD, justifying the payment of operating subsidy.

Question 21. It is charged that modernization funds, when provided, do not permit local authorities to use them for their most urgent priorities. Any comment?

Answer. Modernization funds for rental projects in any year are insufficient to satisfy the needs of all PHAs. Therefore, such funds that are not set-aside for special programmatic purposes are assigned to each Region based upon a formula relating the adjusted percentage of PHA-owned low-income public housing units that are 15 years old or older to the national total of such units. The totals are then adjusted to reflect the impact of differentials in construction costs in the geographic area of each field office. Priorities, such as energy conservation, safety and cost effectiveness are imposed which reflect national imperatives. Individual PHA modernization programs are approved within these limitations to the extent funds are

available and where PHAs have evidenced the capability of administering the program. The modernization of homeownership programs is too new to have accumulated operating experience.

Question 22. Some people say that Indian housing costs are increased by Davis-Bacon requirements and Indian preference policies. Please describe Davis-Bacon requirements and Indian preference policies and give your judgment about the cost impact of each.

Answer. We do not have any hard data as to the overall effect of Davis-Bacon wage rates on the cost of Indian housing. However, a study of the high cost of Indian housing by our Region IX staff indicates that, with respect to certain projects, there is a general correlation between wage rates and the cost of construction. However, it was determined that Davis-Bacon wage rates were not a major factor in causing the high cost of housing.

The Indian Housing Regulations (24 CFR 805.204) provide that an IHA may, with HUD approval, provide for Indian preference either by limiting bidding to qualified Indian organizations or Indian-owned enterprises; or using a two-stage procedure, (1) to limit bidding to Indian enterprises based upon a determination that one or more Indian enterprises are qualified and interested in bidding; or (2) in the absence of qualified and interested Indian enterprises, advertise for bids with limitation, and award to the lowest responsible bidder. A prospective contractor seeking to qualify as an Indian organization or Indian-owned enterprise must submit (1) evidence of Indian ownership and interest and (2) evidence of the technical administrative and financial capability to perform the contract work. An IHA, with HUD approval, may provide for additional preference requirements provided they do not increase the cost, risk of non-performance or longer period of performance.

Under these requirements, the cost impact of Indian preference is negligible.

Question 23. What improvements are being made in achieving flexibility in the establishment of separate prototype cost limits for Indian housing?

Answer. Due to the length of time between the reservation of funds and the contract award stage and the fact that prototype costs are updated annually, there is sometimes a disparity between the amount of funds that can be reserved and the amount requested. We believe the problem will be significantly reduced by our revised system of updating prototype costs on a semi-annual basis rather than annually.

Question 24. Is it true that HUD's CPD office intends to eliminate Indians as recipients of Sec. 701 Planning Grants? I have heard there is a serious lack of planning for housing and other needed facilities on reservations and that high costs and unsatisfactory conditions are too often the result. Do you have any comment on the need for planning assistance on Indian reservations?

Answer. HUD's budget submission for fiscal year 1981 contains several amendments to the Section 701 program, one of which would eliminate Indians as recipients of the program. The Department recognizes that there is a need for planning assistance in connection with housing and other facilities on Indian reservations. However, there are other sources of funding for which can be used for purpose such as Community Development Block Grant funds, and funds from the Economic Development Agency and the Bureau of Affairs. Because of this, and the reduction in the Section 701 appropriation, the Department made the decision to eliminate Indian reservations as recipients of Section 701 planning grants.

Question 25. Is homebuyer counseling now required?

Answer. Funding for homebuyer counseling is currently authorized in the Indian Housing regulations for new projects, both Mutual Help and rental, and for existing projects to the extent not otherwise funded or for follow-up or reinforcement purposes.

Staff training may also be provided for which operating subsidy funding is authorized.

Senator MORGAN. We had originally planned to ask the public interest groups to come next, but I wonder, since all of you are from Washington, if you would object too much if we substituted our out-of-State delegation to talk about Indian housing, because they do come from Minnesota, California, and New York, and we may have some time constraints.

Bob says he's already spoken to those of you on the next panel, so if there's no objection, let me ask then Ms. Treuer, Mr. Chavez, and Ms. White to come forward.

STATEMENTS OF MARGARET TREUER, CONSULTANT, INDIAN HOUSING PROGRAMS, BEMIDJI, MINN.; PAUL CHAVEZ, CHAIRMAN, BISHOP INDIAN TRIBAL COUNCIL, BISHOP, CALIF.; AND LUCILLE WHITE, SENECA NATION, N.Y.

Senator MORGAN. For those of you who are from Washington, you understand the problems of scheduling that we have. For those who are not familiar with our process, let me just say, we do have a problem trying to meet different schedules and different committees. Sometimes if you look up here and see one Senator when there should be four or five, don't be alarmed. The staff, all of whom are very, very knowledgeable and competent in these areas, have access to the record, and we'll read it. So don't feel that your efforts and your testimony have been wasted.

Is there any order in which you wish to proceed? Do you have any agreement amongst yourselves as to how you'd like to proceed?

Ms. TREUER. No.

Mr. CHAVEZ. I'd like to have the two ladies proceed first, because they're kind of the same issue.

Senator MORGAN. All right.

Would you identify yourself? The statement and the names on the agenda are not the same?

Ms. TREUER. Margaret Treuer.

Senator MORGAN. Do you have a prepared statement?

Ms. TREUER. I did give you a prepared statement.

Senator MORGAN. And you are?

Ms. WHITE. I'm Lucille White. I haven't submitted a prepared statement. I do have one.

Senator MORGAN. We'll get it in a minute.

[Pause.]

Senator MORGAN. All right, Ms. Treuer. We have your statement. You may proceed in any way that you like. If you would, please pull the microphone as close to you as you can.

Ms. TREUER. Mr. Chairman, members of the Senate Subcommittee on Rural Housing, my name is Margaret Treuer. I'm an enrolled member of the Minnesota Chippewa tribe. I'm an attorney engaged in the practice of law in northern Minnesota and do consulting for community housing.

I'm testifying today on behalf of the Housing Assistance Council. Additionally my testimony is endorsed by the National American Indian Housing Council, which represents over 150 Indian housing groups across the Nation. We have submitted a separate written statement for the record, which I believe contains a fairly detailed treatment of some of the problems associated with the delivery of Federal assistance to the Indians in housing.

Senator MORGAN. Your statement will be made a part of the record.

Ms. TREUER. Thank you. For the purposes of my oral testimony, I would like to focus on two issues. The first is the need for more adequate funding for Indian housing. The second is the need for comprehensive legislation on Indian housing which would modify and strengthen the existing Indian housing programs and farmers home programs to make them more compatible with the unique situation of Indian people—second, to make new program alternatives available to Indian people.

AMERICAN INDIAN WORST HOUSED POPULATION GROUP

There is no question that American Indians are the worst housed population group in the United States, yet their housing needs have historically received the least attention from our Federal Government. In 1970, the Census Bureau found that 62.4 percent of Indian housing units were substandard, and in 1978 the GAO reported that 60 percent of all Indian families lived in substandard housing.

Due to a boom in the population of Indians in recent years and the fact that the median age of Indians is 20.4 years, there is a sharp increase in new Indian family formation. Consequently, the number of new Indian families living in substandard housing is increasing at an average annual rate of about 4,000.

During the 1970's, the Federal dollar commitments to Indian housing were barely sufficient to keep pace with this annual increase. There still remains a backlog of about 100,000 substandard Indian units needing repair or total replacement.

To give a specific example, between 1970 and 1976, 27,000 units were constructed on Indian reservations with Federal assistance, but during that same period of time, the number of Indian families living in substandard housing increased at an average annual rate of 3,916. In past years, the Federal goal for Indian housing has been set at 6,000 units; however, because inadequate new development cost figures were used and because inflation projections were generally overly optimistic, the ACC authority provided has rarely been sufficient to actually build 6,000 units in any given year.

A lengthy delay between appropriation of money, allocation of money to the HUD regional offices, and construction starts has further eroded the number of units that could be built with available funds. In fiscal year 1980, the administration proposed to cut the allocation of units for Indian housing from 6,000 to 4,000 units, a 33 percent cut.

Responding to the obvious unfairness of this and to the appeals of various Indian and public interest groups, Congress restored the 2,000 units. The fiscal year 1981 budget proposal submitted by the administration once again seeks to impose a one-third cut in Indian housing. This compares to the figures we heard up here from the last panel of a 9 percent overall in HUD housing and an overall 16 percent in Farmers Home.

The administration's stated reason for seeking such a drastic cut in Indian housing is an inability to actually produce that many units.

In the early 1970's, HUD Indian housing production was far behind the goals set. Improvement in recent years has been dramatic. According to HUD's own figures, Indian housing construction starts more than doubled between 1975 and 1979. In fiscal year 1975, there were 2,170 starts, compared to 4,599 in fiscal year 1979, and this represents an average gain of about 600 units a year in production.

Assuming the same trend to hold true, you could expect that in fiscal year 1981, about 5,800 units could be produced if adequate ACC authority were provided. It is widely believed by Indian housing authorities that the present delivery system for Indian housing

is capable of producing more than 6,000 units if HUD were to allocate them to the Indian housing authorities on a timely basis and if HUD allocated units each year to all IHA's having production capability.

In testimony submitted to Congress last year by the Committee to Save Indian Housing, which is a broadbased coalition, it was stated, and I quote: "It has taken 18 years to develop a delivery system for Indian housing capable of delivering 6,000 units a year. A cut in funding of the magnitude proposed, 6,000 to 4,000 units"—the same thing we're facing in fiscal year 1981—"will seriously jeopardize this most recently achieved production capability. A hasty decision to cut these moneys at this time will be a decision that will take many years and much more funding to correct."

This statement still holds true, and this subcommittee is urged to include report language or an amendment restoring Indian housing funding to the 6,000-unit level.

On the question of the need for comprehensive legislation, the delivery of effective and efficient housing assistance to Indians in rural areas defies easy solution. Most Indian communities lack the physical infrastructure in terms of roads, streets, sewer, water and utility lines normally found in non-Indian communities. Remoteness and the trust status of Indian land, which is so necessary to the economic, cultural, and political survival of the Indian tribes, means that conventional housing financing sources are unavailable to most Indians. This includes the Federal insurance programs as well.

Extremely low incomes, high unemployment, the seasonal nature of employment on many reservations, and the lack of a stable economic base all complicate the problem. Additionally, the cultural, legal, and geographical diversity of 300-plus Indian tribes must somehow be accommodated.

At the present time, the housing assistance needs of Indians must be met out of a single program initially created for use in large urban centers and administratively adapted for rural Indian use. The needs of Indians from small tribes, Indians of exceptionally low income and Indians with higher incomes living on trust lands, are not met.

It is obvious that a variety of program alternatives with adequate funding is essential, if the deplorable Indian housing conditions which exist in this country today are to be eliminated. To this end, the subcommittee is urged to seriously consider further hearings on Indian housing with a view to enacting a comprehensive Indian legislation which will deal with some of the problems which are unique to Indian people.

Thank you, and I'll answer any questions you may have.
[Complete statement of Ms. Treuer follows:]

Testimony of
Margaret Seelye Treuer

I. INTRODUCTION:

The Housing Assistance Council and the National American Indian Housing Council are very pleased to see this Subcommittee take testimony on the critical problems of Indian housing. American Indians rank as the worst housed population group in the United States. Yet, their housing needs have historically received the least attention by the Federal government. The inclusion of an Indian panel on this year's rural housing hearings is most welcome, as is a recent Indian housing oversight initiative taken by the Subcommittee on Housing and Community Development in the House of Representatives.

The delivery of effective and efficient housing assistance to Indians in rural areas defy easy solutions. Most Indian communities lack the physical infrastructure comprised of roads, streets, sewer, water, and utility lines normally found in non-Indian communities. Remoteness, and the trust status of Indian land which is so necessary to the economic, cultural, and political survival of the Indian tribes means that conventional real estate financing and Federal mortgage insurance programs as presently structured are unavailable to most Indians. Extremely low incomes, high unemployment, the seasonal nature of employment on many reservations, and the lack of a stable economic base on most reservations all complicate the problem. Additionally, the cultural, legal, and geographical diversity of the 300 plus Indian tribes must somehow be accommodated. At the present time, the housing assistance needs of Indians must be met out of a single program initially created for use in large urban centers and administratively

*This testimony is endorsed by the National American Indian Housing Council. Johnnye Chopper, Chairman; Lloyd LeBeau, Chairman of Legislative Subcommittee.

adapted for rural Indian use. It is obvious that a variety of program alternatives with adequate funding is essential if the deplorable Indian housing conditions which exist in this country today are to be eliminated.

To this end, this Subcommittee is urged to seriously consider further hearings on Indian housing with a view to enacting comprehensive Indian housing legislation. Ideally such legislation should:

1. Modify and strengthen existing HUD Indian housing programs and FmHA loan and grant programs to make them more responsive to the unique situation of Indian people.
2. Devise entirely new program alternatives for Indian use to compliment those which already exist.

II. PRESENT FEDERAL HOUSING PROGRAMS ONLY MINIMALLY RESPONSIVE TO INDIAN NEED:

A. Too Few Program Alternatives Available to Indians

Until 1961 when tribal governments were first recognized by HUD as having sufficient independent police power to create their own housing authorities Indians were excluded as a practical matter from participation in any of the Federally assisted housing programs when then existed. Today, Indians are still denied access to most Federally assisted housing except for two small special programs created under the authority of the regular public housing program, and the small grossly under-funded Housing Improvement Program created by the Bureau of Indian Affairs in 1964.

Few FmHA loans or grants are made to Indians, despite the fact that rural areas where most Indian reservations are located are supposed to be the theatre of operations for the FmHA. FmHA's county offices are generally located in the county seat far removed from reservation centers. As a result FmHA has little visibility among Indian groups.

The 1974 Housing and Community Development Act made it possible for the first time for the FmHA to accept a security interest in a 50 year leasehold on Indian trust lands. It was thought that this provision would remove a major obstacle to Indian participation in FmHA loan programs. However, Indians living on allotted trust lands are reluctant to use FmHA programs because FmHA and the BIA have agreed that the trust feature of such lands will evaporate in the event of foreclosure. Even in the case of tribal trust lands, FmHA loans are viewed with suspicion because a foreclosure could result in non-Indians taking possession of the land for the remainder of the lease term. Other factors which inhibit FmHA loans to Indians are 1) "steady job" requirements and 2) the general unaffordability of the programs for a large percentage of the Indian population, even with an interest subsidy.

As stated previously, the unique legal status of Indian land effectively prevents Indian use of conventional mortgage financing and the use of the various state and Federal mortgage insurance programs. Even if the security interest requirement could somehow be overcome it is doubtful whether such programs would work without an alternative loan servicing feature because many reservations are far removed from the service area of conventional banking institutions.

B. The Annual Federal Dollar Commitment For Indian Housing is Inadequate.

A 1970 Census Bureau report on housing characteristics indicated that 62.4% of the housing units on Indian reservations were substandard compared to 12.9% for the total U.S. population. In March of 1978 the GAO issued a report on Indian housing which estimated that fully 60% of all Indian families were living in substandard housing. The term "substandard" commonly used in housing circles does not accurately reflect the actual state of much Indian housing. It is not uncommon for Indian people to live

in small shacks without benefit of running water or electricity taken for granted by most of the rest of the population. Overcrowding is severe. A 1973 BIA report stated that 15,000 of the 92,000 Indian housing units then under its jurisdiction contained two or more Indian families.

Due to a boom in the population of Indians in recent years (between 1960 and 1970 the Indian population doubled) and the fact that the median age of Indians is 20.4 there is a sharp increase in new Indian family formation. Correspondingly, the number of new Indian families living in substandard housing is increasing at an average annual rate of about 4,000. During the decade of the 1970's the Federal dollar commitment to Indian housing was barely sufficient to keep pace with this annual increase. There still remains a backlog of about 100,000 substandard Indian units needing repair or total replacement. To give a specific example - between 1970 and 1976, 27,000 units were constructed on Indian reservations with Federal assistance, but during that same period the number of Indian families living in substandard housing increased at an average annual rate of 3,916.

Excluding various mortgage insurance programs such as VA and FHA, it is estimated that the government provides housing assistance sufficient to meet approximately 5 to 6 percent of the need for the total U.S. population and between 2.5 to 4% of the need for Indian housing. This is patently unfair on its face and more so when the disparity in the percentage of Indian families living in substandard housing is compared to that of the general population and when the relative quality of housing between Indians and other population groups is considered.

In past years the Federal goal for Indian housing has been set at 6,000 units. However, because inadequate unit development cost figures were used and because inflation projects were generally overly optimistic, the ACC authority provided has rarely been sufficient to actually build

6,000 units. A lengthy delay between appropriation of money, allocation to the regional offices, and construction start has further eroded the number of units that could be built with available funds due to inflation.

In FY 80 the Administration proposed to cut the allocation of units for Indian housing from 6,000 to 4,000 units. Reacting to the obvious unfairness of this and to the appeals of various Indian and public interest groups Congress restored the 2,000 units. The FY 81 budget proposal submitted by the Administration once again seeks to impose a one-third cut in Indian housing funding. The Administration's stated reason for seeking such a drastic cut in Indian housing is an inability to actually produce that many units. While HUD Indian housing production was far behind the goals set in the early 1970's improvement in recent years has been dramatic. According to HUD's own figures Indian housing construction starts more than doubled between 1975 and 1979. In FY 75 there were 2,170 starts compared to 4,599 in FY 79. This represents an average annual gain in starts of 607 units. Assuming this same trend to hold one could expect a minimum 5,813 unit production capability for FY 81 if adequate ACC authority were to be provided. It is widely believed by Indian housing authorities that the present delivery system for Indian housing is capable of producing more than 6,000 units if HUD were to allocate units to the IHA's on a more timely basis and if HUD allocated units each year to all IHA's having production capability.

In testimony submitted to the Subcommittee on HUD-Independent Agencies of the House Appropriations Committee last year by the Committee to Save Indian Housing it was stated:

"It has taken 18 years to develop a delivery system for Indian housing capable of delivering 6000 units per year. A cut in funding of the magnitude proposed (6,000 to 4,000 units) will seriously jeopardize this recently achieved production capability."

"We believe a hasty decision to cut these monies at this time will be a decision that will take many years and much more funding to correct."

This statement still holds true and this Subcommittee is urged to include report language restoring Indian housing funding to the 6,000 unit level.

III. HUD'S INDIAN HOUSING PROGRAMS:

A. Program Overview.

The only major source of housing assistance for Indians is that provided by HUD under its public housing program authority. Under that authority HUD offers Indian tribes two program alternatives - Conventional Low-Rent and Mutual Help Homeownership Opportunity (MH). In the rental program HUD utilizes a 40 year ACC mechanism to finance construction and provides an operating subsidy in accordance with the Performance Funding System so that family payments are limited to 25% of adjusted income.

Under the MH program, participating families donate \$1,500 in land, work, or materials to a project. During the time that the project is under ACC, tenants pay either 25% of income or the established monthly administrative charge of the IHA, whichever is larger. In addition, they must provide all maintenance and pay for their own utilities. At the end of the financing term or sooner under certain circumstances, the family can gain title to the unit it has been occupying. There are a number of problems with the HUD program which, were they to be remedied by legislative mandate would result in a program more responsive to Indian need. It is recommended that these programs be kept intact but with some modifications.

B. Need to provide for the Inclusion of Very Low Income Indian People In the Indian Housing Program.

For a number of reasons MH has been the program of choice on Indian reservations. Roughly 70% of the homes built with HUD assistance are Mutual Help. Unfortunately for many lower income Indian families, a MH unit is beyond their means. The IHA administrative charge, required under HUD

regulations, (arrived at by establishing an operating budget and prorating the costs among the units under management) may well exceed 25% of income. When this charge is added to utilities and maintenance expenses the burden becomes impossible. Families who donated their \$1500.00 in land, work, or material in the expectation that they would have a home find themselves being evicted.

HUD has the authority to provide an operating subsidy for all Indian low-income housing projects it finances. First, MH is really nothing more during the ACC period than a rental program. We believe that in refusing to provide an operating subsidy for MH which relieves participants of costs for housing exceeding 25% of income HUD is violating the intent of the Brooke Amendment, and the Stevens Amendment to Sec. 5(c) of the 1974 Act. The Stevens Amendment stated that with respect to Indian housing "the annual contributions for a project shall . . . be equal to the difference between the . . . total debt service payment plus approved operating costs, and the rental payments that tenants are required to make under Sec. 3(1)."

HUD has refused to provide the subsidy and we therefore recommend that this be rectified by legislative mandate.

One might wonder why the rental program which does carry a deeper subsidy is not used more extensively. Even though many Indians live under extremely poor housing conditions, most have always "owned" their homes and rent is an unfamiliar concept. In addition, many Indian families live on land which has been theirs by virtue of allotment or tribal land assignments for generations. They are understandably reluctant to turn over their land to the housing authority on a permanent basis or to move to a different location. The Mutual Help program, in contrast to the rental program, at least holds out the promise of eventual return of title or tribal land rights to the participating families. Therefore, more families are willing to sign their land over to the authority.

Another factor hampering rental unit development is that not all tribes have an unlimited land base. Tribal members are unwilling to part with their land assignments and unassigned land may be slated for vitally necessary economic development. On some reservations land suitable for housing development is not to be had unless "fee" land is purchased at market. This then involves the tribe and the IHA in the tax abatement agreements with the county or state, which is an arrangement often unworkable due to deep-seated hostility existing between many tribal governments and local taxing jurisdictions.

Theoretically, tribes could purchase land, put it into trust, and lease it to the IHA for housing development. However, HUD regulations will allow the IHA to pay the tribe only a portion of the purchase price up to a maximum of 2/3 of market value as if alienable in fee. Unless the tribe has sufficient resources to absorb the loss this is not a realistic alternative.

C. Need to Include Small Tribes in the Indian Housing Program

Because of HUD's financial feasibility requirements very small tribes cannot participate in HUD's Indian housing programs. The market for units in terms of numbers is too small to support the necessary IHA administrative structure even with payment of the low-rent type operating subsidy.

Where a number of small tribes are located within reasonably close geographical proximity, one solution is the establishment of consolidated or coordinated IHA. Another is the establishment of separate authorities for the individual tribes but with consolidated management. Still another, is a contract arrangement with a nearby county or other housing authority. To bring any of these alternatives into fruition requires a level of expertise which is not often available to small tribes. HUD does very little to provide technical assistance to bring these alternatives for small tribes to life.

It is recommended that a technical assistance program for small tribes be established to assist them in obtaining housing for their members including

coordinated or consolidated IHA's. It is also recommended that an administrative grant program for small Indian housing authorities be considered.

D. Cost Factors in Indian Housing

The bare fact that the development costs for HUD Indian housing exceed those for FmHA and other assisted housing is naturally alarming to legislators. These cost realities are equally alarming to IHA's because they are keenly aware that high per unit development costs translate into fewer Indian families being decently housed.

In FY 79 the average total development cost (TDC) for Indian housing was approximately \$62,000. Section 8 TDC was about \$28,000. Public housing was about \$50,000 and FmHA Section 502 loans averaged about \$38,000. Thus Indian housing in FY 79 ran \$22,000 to \$24,000 more than FmHA Section 502 housing. Why such a cost disparity? A HUD study based on Indian housing in HUD Region IX identified the following as being uncontrollable extra

costs unique to Indian housing:	Counseling-----	\$	342
	Insurance-----		125
	Quality Design Standards (Primarily for energy conservation and maintenance cost reduction-----		1,422
	Poor bidding climate-----		1,565
	Large family size-----		8,000
	Site improvements-----		4,182
	Total-----		\$15,636

HUD's most recent Report to Congress on Indian Housing states that in addition to inflation, family size, extraordinary costs of size of units, and physical infra-structure costs (30 to 40% of TDC in some instances) are all major factors contributing to high Indian housing costs.

The Effect of Davis-Bacon

Many tribal and IHA officials cite Davis-Bacon wage rate requirements imposed on HUD-financed Indian housing as a major factor contributing to the high cost of Indian housing and the low rate of local Indian employment on HUD projects.

It is a fact that Davis-Bacon is not required in FmHA, FHA, and Section 8 (below 10 units) and that these programs cost less than Indian housing.

Indian reservations do not generally have separately established Davis-Bacon rates and are instead based on the county or counties encompassing a given reservation. The wage rates Indian reservations have to work with are generally much higher than those actually prevailing in the area. Data used to establish rates is often old, from outside the local area, and may even be based on construction other than housing. The March 1978 GAO Report on Indian Housing states that wage rates are often taken from those established for the nearest metropolitan area and increased to provide for a travel differential.

The artificially high wage rates increase housing costs both directly and indirectly. Delays, which translate into higher costs, occur because union contractors often do not operate in Indian areas and the required higher rates make non-union contractors reluctant to bid on Indian projects. Some Indian housing authorities have also encountered construction delays because there were no rates established for their area at all.

In addition, Davis-Bacon rates work to disadvantage of local Indian employment on HUD projects, contrary to the original intent of the Davis-Bacon Act. There is no pool of skilled workers on most Indian reservations and contractors are understandably reluctant to hire unskilled workers at Davis-Bacon rates. The ultimate answer may lie in the development of workable apprenticeship and training programs for Indian reservation by the Labor Department. However, an interim solution is to direct HUD to take the initiative and work out a mechanism with DOL whereby separate wage rates based on data supplied by the tribe and/or the IHA or some other reliable entity would be established for each Indian area.

E. Prototype Cost Limits Need to be Eliminated

Experience has shown that prototype cost limits are ineffectual as means

of controlling costs of Indian housing. Worse than that, the use of prototypes has contributed to delays in construction as under estimating has often led to initial underbidding, renegotiations, and rebidding. Since total development cost figures for projects are not subject to change by the time prototypes have been set costs have been trimmed by down/designing, using cheaper materials and products, and reducing the number of units.

The primary reasons attributed to the prototype problem is that these cost limits are published only once each year and do not necessarily reflect the cost of constructing housing on an Indian reservation far distant from major suppliers and contractors normal home bases. In addition, HUD generally publishes prototypes in June, the height of the construction season on reservations. Since bidding must take place long before construction commences, IHA's find themselves working with year old prototypes which have been outstripped by the forces of inflation.

Serious thought should be given to eliminating the legislatively mandated prototype cost requirements for Indian housing. At a minimum HUD should be required to publish prototypes twice each year for Indian areas and should be required to base cost factors on the realities of housing reservation construction.

F. Minimum Property and Design Standards

In past years MPS which reflect judgements about resale market factors and which are generally irrelevant in a reservation setting have been the cause of much dissention between HUD, the IHA, and the tribes. Examples of insensitive and senseless MPS requirements or HUD design requirements regarding Indian housing abound. Adobe has been used for housing by the Pueblo Indians for thousands of years and in the Southwest it is used extensively in housing built for the private market. HUD refuses to allow it in Indian housing unless additional insulation and metal supports are added driving the cost beyond the reach of the IHA. In Alaska, Wyoming, and elsewhere log

homes have been in wide use by Indian and non-Indian alike for a couple hundred years. Until this year HUD did not allow IHA's to build log homes despite engineering studies showing that they were as energy efficient as conventional frame construction. In a remote Alaska Native village where no one owned a car and where the permafrost made it impossible to maintain a road, HUD and the BIA required the IHA to include streets in a housing project.

In the new Indian housing regulations issued in November of 1979 HUD now states that MPS "shall be taken into account but shall not be controlling." Additionally, the regulations make mandatory attention to maximum economy in energy consumption and encourages use of alternative energy sources. It is hoped that these changes will result in a less rigid approach to Indian housing property and design standards, will allow housing based on the cultural preferences of the various tribes, and will result in reduced maintenance costs and reduced operating costs by encouraging energy efficiency and use of indigneous fuels.

G. Where Possible Federal Housing Projects Should Contribute to Reservation Economic Development

Housing construction, when it occurs can be significant in terms of the over-all economic and Community Development of the reservations. With housing comes development of a physical infrastructure by way of roads and utilities and opportunities for training, employment, and business for local Indian enterprises. Despite such Federal legislation such as the "Buy Indian" Act and the Indian Self-Determination Act, P.L. 638, HUD takes a narrow approach to the issue of Indian preference and fails to balance short-term cost savings against long-range benefits. HUD has no Indian preference requirements with respect to its own employees engaged in Indian housing programs. It does not require or even encourage Indian preference for contracts between IHA's and Architects and Engineering or law firms. And the new Indian housing regula-

tions are more, rather than less restrictive with respect to Indian preference and construction contracts than they were in the past. Previously an IHA could award a construction contract to an Indian firm if it was within 10% of the low bid. Now, an IHA can give Indian preference only if it determines in advance to allow bidding by Indian firms alone or if an Indian firm is within 1% of the low bid.

In a 1978 Report to Congress on Indian Housing, the secretary of HUD lamented that on some reservations poverty was so severe that no housing program could succeed until the general economy of the reservation improved. HUD should include strong Indian preference provisions in their program regulations. Also HUD should include local Indian economic development considerations as a constituent element of its over-all approach to delivery of Indian housing.

H. Federal Agency Administrative Issues

The development of a "HUD" Indian housing project involves three federal agencies plus the tribal government and the IHA. Pursuant to a tri-agency agreement, the Bureau of Indian Affairs approves and funds site access roads with funds it receives from the Federal Highway Administration; the Indian Health Service approves and funds sewer and water facilities; and HUD funds actual construction of the homes, streets, and other facilities within the boundaries of the projects. Pursuant to its trust responsibility for Indian lands, the BIA must approve site leases to the IHA on all trust lands. Where tribal trust land is involved the tribe must concur in approval of the leases. In addition, HUD has final approval authority ofr sites. Utility companies must agree to provide services. Refuse collection must be assured, and various other clearances must be obtained. E.g. Flood plain clearance from the Army Corps of Engineers, Preservation of Antiquities Act compliance and others.

The three principal Federal agencies rarely consult each other in their internal budget planning and rule-making processes. Consequently there is

never any assurance funds for water, sewer, and roads, will all be available at the same time for any given HUD Indian housing project. Nor is there any assurance that agency regulations will be complimentary. HUD agrees that it has authority to fund access roads and sewer and water facilities and seek reimbursement from the BIA and IHS in cases where these agencies requirements or funding situation is unduly delaying a project. However, the new regulations allow for this only if these costs are offset by another party on the same project. Additionally, HUD regulations put a one-year time limit on submission of an approvable development program after issuance of a program reservation on pain of loss of the entire project.

Within HUD itself there is no centralized administration of Indian programs. Indian housing, Community Development Block Grants and 701 planning which have contained an Indian set-aside are all administered out of separate offices. Last year, HUD established a separate Indian housing division with a small staff under the Assistant Secretary for Public and Indian housing at its central office in Washington. To date, the position for the Director of this Indian division has not been filled. At the present time, a reorganization for Indian housing administration is taking place in the field. This initiative was long over-due and should have beneficial effect on Indian housing administration at that level. It is unclear whether CDBG will be consolidated with housing in the new field offices. If not, they should be so consolidated.

I. Meaningful Planning for Housing and Community Development at Local Level Thwarted

On most reservations it is probably fair to say that housing is built at irregular intervals depending on fund availability and the decisions of distant agencies. Comprehensive community development planning is rare and when it is done can serve little useful purpose without the means to carry such plans into effect. In addition, 701 planning funds for Indian tribes have been so meager that many tribes are denied the means to carry

out any planning activities at all.

Ideally, each tribe without sufficient resources of their own, should receive planning grants to conduct comprehensive housing inventories, assess housing needs, project for population and family increases, and develop an over-all housing assistance, community development, and land use plan in the expectation that the plan could be put into effect.

IV. THE PROGRAMS OF THE FmHA

Individual Indians are eligible for FmHA Section 502 Section 504 programs. Tribal governments and/or IHA's are eligible sponsors for virtually all other FmHA programs. FmHA's Section 515 rental program is rarely used on reservations.

Due to its relative simplicity, rural orientation, and family centered approach, the FmHA Section 502 program is better suited to the reservation setting than are most Federal housing programs. Yet, as stated previously, few of these loans go to Indians. In 1978 Indians received only 467 or 0.4% of the total FmHA 502 loans made.

In an effort to improve its outreach efforts, each FmHA state office has designated a staff person to serve as an "Indian coordinator". Only in Arizona however, has the Indian coordinator been relieved of other responsibilities. It has been reported that since the Arizona staff position came into being that Indian loans in that state have increased. If this is true FmHA should establish similar positions in other states with a large Indian population.

Other recommendations which would result in greater Indian participation in FmHA programs are as follows:

- A. Discontinue the threat to the trust status of Indian land. Provide instead for FmHA-tribal agreements whereby, in cases of loan delinquencies involving homes on tribal land, foreclosure will result in a cancellation of the borrowers land assignment or lease and a

resale or refinancing in favor of another qualified Indian borrower. Where resale is not possible allow the tribe or the IHA to operate the unit on a rental basis.

In the case of allotted land loan delinquencies, the FmHA-borrower loan documents could provide that foreclosures would result in a reversion of the land to tribal trust status, and a resale, refinancing, or rental option as suggested with tribal trust land.

The threat to the borrower of the loss of equity and right of occupancy should be sufficient to encourage loan repayment.

- B. To counter its low profile on reservations and overcome the problem of FmHA staff shortages which serve to discourage FmHA county staffs to make the needed special effort to process and service Indian loans, an Indian set-aside of Section 525 TA grants for tribal, IHA, or Indian non-profit organizations should be considered. Such funds could be used to provide outreach and publication of available housing assistance programs including FmHA's, counseling, loan servicing, and loan packaging services. *The Minnesota Chippewa Tribe recently won a two year, \$100,000 FmHA Section 525 demonstration grant to do FmHA outreach, counseling, loan packaging, and loan servicing on its six constituent reservations. Meager funding of Section 525 may require increases to accommodate an Indian set-aside.
- C. Provide funds for the HOAP program, which is ideally suited for Indian use, and using the Section 525 program above, encourage Indian participation.
- D. Delete the equal housing opportunity requirements from FmHA regulations as they pertain to Indian housing. A few IHA's and tribes have stated that they have not sought to build Section 515 rental

projects because preference in occupancy could not be given to Indians. There are statutes which exempt Indian tribes from Federal non-discrimination laws which have been upheld by the U.S. Supreme Court as not violative of equal protection. FmHA probably has the authority to remove these requirements of its own initiative with respect to Indians, but has failed to do so. Therefore the adoption of rectifying legislation is urged.

V. SUGGESTED NEW PROGRAM ALTERNATIVES

A. Lease-Purchase Program for HUD Assisted Indian Housing

In February of 1978 several of IHA's proposed that HUD adopt a lease-purchase program for Indian use. This proposal was put forth in response to management problems the IHA's were encountering with respect to the seasonal and periodic changes in income levels of their constituents and to conflicting management and accounting procedures necessary under the four different program types utilized over the past 19 years by HUD.

Basically, lease-purchase would combine the low-rent and MH programs. Participants would make monthly payments between 15-25% of adjusted income as they now do in the rental program. Where payments exceed the cost of the IHA administrative charge and utility costs, the excess would be credited to the participants equity account as is now done in the MH program. The more payments that are made exceeding the minimal requirements the sooner homeownership is achieved.

If a participant's income drops, the equity already acquired remains stationary and a subsidized low-rent program is substituted until income rises again. In this manner, two serious problems with the present scheme would be avoided.

1. The IHA would not be forced to evict MH participants from their units and physically move them into separate low-rent units simply because they were temporarily unable to meet the expense of the IHA

administrative charge and utility costs.

2. Participants who have long occupied rental units and would like to purchase their units which have become home to them would be able to do so.

B. Establish a Tribal or IHA Administered Revolving Loan Program

In recent years the Minnesota Home Finance Agency (MHFA) and the Minnesota Chippewa Tribe which has six constituent reservations, entered into a joint venture which shows great promise for financing moderate income Indian housing. Under this program the MHFA established a 7 million dollar revolving loan fund for Indian housing. The loans can be made to any tribal member, can be used for new construction, outright purchase, or purchase and rehabilitation to standard, up to a maximum amount of \$37,000. Loans, which carry a 4% interest rate for 30 years can be used for on or off reservation housing. Servicing of the loans is conducted by the tribe with repayments being used to revolve the fund. Approximately 70 home loans per year are financed under the program.

Because the tribe administers the entire program from the application stage through closing and servicing, the program has extremely high visibility and the default rate is very low. If foreclosure is necessary, the tribe gains title to the home, can sell it, and apply the proceeds to the loan fund. MHFA financed the fund through the sale of state bonds.

HAC recommends that serious consideration be given to implementation of a similar program for Indian use at the Federal level, perhaps in conjunction with a tie-in to GNMA or a similar secondary mortgage market scheme until the number of outstanding loans on any given reservation is sufficient to support an adequate "roll-over" each year.

Senator MORGAN. Are the problems of Indian housing in Minnesota unique or different from the problems of Indian housing in other States?

Ms. TREUER. Of course in the northern part of the State, we have very severe climatic conditions, and one of the problems we have is trying to adapt minimal property standards to construct houses that are energy efficient. Often that's a long drawn-out battle, to get maybe 2 by 6 construction or to get beefed-up insulation in a climate with 40-degree below temperatures in the winter.

Senator MORGAN. Would you describe a substandard Indian house in the northern part of Minnesota where the cold is severe?

Ms. TREUER. Well, you bring up a good point, because I think most of us use the term "substandard" to mean, you know, there may be certain things lacking in a house that most Americans enjoy. On Indian reservations generally and in northern Minnesota, a standard Indian house is probably a two- or three-room shack without running water; if you're lucky, maybe electricity.

Senator MORGAN. What do they heat with?

Ms. TREUER. Most people use wood.

Senator MORGAN. Well, let me move on to Ms. White, and then Mr. Chavez, and we'll come back and try to discuss this more. That was just an interest of my own.

Ms. WHITE. Thank you, Mr. Chairman. I appreciate this opportunity to appear before you and the committee to discuss the rural housing problems as they affect the rural Indian population.

My name is Lucille White. I am an enrolled member of the Seneca Nation of Indians. I serve as the executive director of the Seneca Nation Housing Authority. I am presently the chairperson of the Association of Eastern Indian Housing Authorities. I'm on the board of directors for the National American Indian Housing Council, which represents 165 tribes throughout the Nation.

Senator MORGAN. Ms. White, would you excuse me just a minute. I have to step out to see my senior chairman. I'll be right back.
[Brief recess.]

Senator MORGAN. Ms. White, I'm sorry. If you would proceed?

Ms. WHITE. Thank you. My experience of 8 years with an Indian housing program has been with development and administration of a small housing program where conditions of substandard housing exist, as is the case with most Indian areas. Progress is a daily battle of overcoming the shortage of decent, safe, and sanitary housing accommodations which are available to Indians. This progress continues to move at a snail's pace.

INDIAN HOUSING FACING BUDGET CUTS

The shortage forces occupation of unsanitary, unsafe, and overcrowded dwelling conditions, yet with full knowledge of these conditions, Indian housing is faced again with more budget cuts. HUD's own annual report to Congress on Indian and Alaskan Native housing and community development programs reports that Indian housing costs were well below the national, new-construction price levels for single-family housing and even goes so far as to admit that one of the factors is in the outdated or inappropriate prototype costs.

Prototype costs, as we all know, are determined for an urban area. Rural housing costs should be considered and additional procedures facilitated in establishing and revising separate prototype costs for Indian areas to be incorporated into the regs. We request action, not promises.

So much of the regs are for urban areas. Let's take a look at the needs for rural areas. Outreach programs by the Farmers Home Administration must be stepped up in order to meet the housing needs on reservations and, if possible, find a way to provide housing on trust lands.

Our experience is that 502 and 504 programs are provided minimal assistance for rehab of existing housing. Funds are not available where conditions are so poor that renovation would not be feasible. Inflation has kept the improvement of housing conditions out of the reach of Indians, and financial institutions continue to avoid home loans on all Indian reservations.

The cost of operating a home has escalated far beyond the reach of the income of Indian families. Because of this, many elect to remain in substandard housing conditions. Continued efforts on the part of HUD, the BIA, and IHS must be stepped up as the Indian population continues to grow and substandard housing conditions continue to threaten the health of the American Indian, the first American.

Homeownership opportunities must continue to be available with emphasis on cost of moneys allotted for assistance in improving housing conditions and meeting the responsibilities of homeownership.

I stress, also, the problem of performance funding. Operating subsidies for rental programs must be taken a good look at. I'd also like to submit a resolution requesting appropriate steps to maintain the delivery of 6,000 Indian housing units as adopted by the National American Indian Housing Council. I'd like to submit this as part of my testimony.

Senator MORGAN. Does that complete your statement?

Ms. WHITE. That's it.

Senator MORGAN. Thank you very much. I suggest, Mr. Chavez, that we hear from you at this time. Then we'll proceed to questions.

Mr. CHAVEZ. Mine is a little bit different from what's been discussed. I feel a little bit out of place—but my name is Paul Chavez. I am from the Bishop Paiute Indian Reservation in California.

Senator MORGAN. Where is Bishop, California?

Mr. CHAVEZ. Bishop is eastern central California, a rural area.

I am here today to request your consideration for amending the urban development action grant program legislation to include Indian tribes as eligible for program participation for the purposes of self-determination. Before I go any further, I'd also like to take a moment to ask you to consider the tribes that weren't able to have time on the agenda today, to consider their written testimony, also.

Senator MORGAN. You can be assured that their testimony will be carefully considered when we try to arrive at some conclusions.

Mr. CHAVEZ. Thank you. The basic reasons that we want to be considered in this legislation—is that we feel that many reservations have the same problems as small cities do. We have our own

roads, sewer problems, poverty, unemployment, and limited resources. And I view this legislation as another means and another resource with which we could pursue economic development.

For that reason, I believe that tribes would like to be considered—part of this legislation. My basic intent is for tribes to compete for the benefits of this legislation along with small cities.

Senator MORGAN. I believe you, in your statement, pointed out that your reservation has a population of about 1,100 or 1,200 and that you're surrounded by the town or city of Bishop.

Mr. CHAVEZ. Right.

Senator MORGAN. Therefore, your reservation is somewhat analogous to a small city.

Mr. CHAVEZ. Right.

Senator MORGAN. What you point out—what you're really interested in—is some development grants. What has the administration had to say about this?

Mr. CHAVEZ. The administration? UDAG?

Senator MORGAN. No, about your proposal. What has the Carter administration had to say about it? Did they support you?

Mr. CHAVEZ. Our proposal, OK. We haven't submitted it to UDAG, because of the legislation. I really don't know that answer as my tribe has never pursued the administration for support. Other tribes have pursued it more intensely than we have. We just came on board a short time back, after we went to other Federal resources like EDA. We have several HUD block grants right now.

Senator MORGAN. I was going to ask you—you do have some block grants from HUD?

INSUFFICIENT HUD BLOCK GRANTS

Mr. CHAVEZ. Yes; we do, but it simply amounts to that they're just not enough. I think one attractive thing about UDAG is that it would permit tribes to deal with the private sector, because we've been dealing mainly with Federal and State Government, and the private sector has been out there, just unavailable.

I think with UDAG it would help attract some of the private sector into dealing with economic development on the reservations. Right now, our reservation is dealing with a shopping center project. EDA fell through. Even though we are a high priority, it fell through because of a lack of loan funds.

With UDAG—it would be another resource which we could put toward the project, and hopefully get it off the ground. So again, it amounts to another resource in which tribes could help their economic development.

Senator MORGAN. Senator Cranston has discussed your problems with this committee. He was unable to sit in on the committee—this subcommittee meeting today. We'll take your statement, and we'll get back with Senator Cranston. There are some problems that we have to deal with, because UDAG talks about "viable urban governments," and we have to kind of fit your government in with that kind of government.

Mr. CHAVEZ. I understand.

Senator MORGAN. Let me just assure you that the committee will take a long, hard look, and see if we can find some kind of relief. It

seems that you're in sort of a unique position. You don't fit into some of the categories at all.

Mr. CHAVEZ. We'd appreciate that, and if you need more information we'd be happy to provide that.

Senator MORGAN. Thank you very much. And we will be back in touch with Senator Cranston. Let me ask these ladies a couple of questions.

Does Indian public housing serve the lowest income Indians? Who does get served?

Ms. TREUER. Under the regulations, supposedly, the Indian housing program serves from very low-income Indians on. The regulations are sort of strange, because they sort of do allow trying to serve higher income Indians as well. There's no actual annual income cutoff, and this is primarily because there just is no private financing. There's no place for an Indian, whether moderate or higher income—no bank, really, to go to to get a loan for housing. As a result, the only program around is the HUD program. So some people of higher and moderate income do get served.

The serious problem, I think, comes with the issue of serving very low-income Indians. I don't know what the 1980 census will show as to what the average income is, on Indian reservations, but I am quite sure that it is substantially lower than most population groups. I think \$3,000 a year or \$4,000 a year is not at all unusual. And even if you have the low-rent program, which requires a payment of 25 percent of income, that doesn't leave you much left over, even to feed a family—if you have to pay \$1,000 of that for housing.

As a result, a lot of Indians don't even participate in the low-rent program, because they feel they can't afford it.

RENTAL PROGRAMS DO NOT WORK

The other problem is that rental programs just do not work well. As in most rural areas, they don't work very well on Indian reservations, either. And the mutual help program, which is a homeownership program—meaning that at the end of the ACC financing term the people who have been participating in the program can get title to their units—I think roughly 70 percent of all the HUD housing is mutual help—partly because rent is a sort of foreign concept to Indians, but mostly, I think, because of the trust status of the land and the fact that a lot of it is tied up either in tribal economic development ventures or in land assignments to individual families who have lived on this land for many, many years—oftentimes generations, and they're not really willing to sign their land over to the housing authority and have it be gone from their family forever.

So land acquisition problems kind of mandate that the mutual help program is the one that gets used. The mutual help program, in cost to the family, is 25 percent of family income or the IHA administrative charge, whichever is larger.

Plus families have to pay for all maintenance of their units and have to pay for all utility costs.

Earlier in the program, HUD's minimum property standards did not allow for the use of indigenous fuel systems. There was not

adequate insulation and so on, and sometimes you have utility costs for a home exceeding \$300 a month—just to heat, in areas like northern Minnesota.

In 1974, there was language put into the Housing and Community Development Act which, I believe, allowed HUD to provide a pretty good subsidy to keep Indian payments for housing down to 25 percent of income, by providing an operating subsidy to housing authority—but HUD has not implemented that provision.

And they maintain that it only allows them to offset some of the administrative costs, like vacant units and so on, that they may have, and not to relieve the burden on the families.

Senator MORGAN. Now, Ms. White, you actually operate a housing authority?

Ms. WHITE. That's correct.

Senator MORGAN. What incomes are served by your agency?

Ms. WHITE. The income raise for the Seneca Nation housing authority varies. We have incomes as low as \$2,000 per year, on up. We try to keep the rental program available for those of lower income.

Senator MORGAN. Try to keep it available—

Ms. WHITE. For those who have lower incomes, because the homeownership programs mandate that the individual pays for their own maintenance as well as the utilities and must be able to make monthly payments to the housing authority. So low-income persons really could not afford a homeownership program, because of high costs of utilities as well as high costs of maintenance.

We do have problems in that area, and of course, there isn't a real operating subsidy available for homeownership programs. The rental programs, there is some operating subsidy available.

But again, we have to operate within the performance funding system.

The reason I say, as a housing director, the performance funding system is not applicable to Indian housing, is that our housing sites are most times on scattered sites, located on scattered sites. They are single-story family units, usually of maybe one or two floors maximum. The square footage of our units is not as great as rental units off the reservation, because their units are high-rise apartment buildings, which are much larger.

We also find that the travel costs of a reservation are absorbed and the rural housing areas have a great problem, particularly now with high energy costs.

RANGE OF INCOME

Senator MORGAN. What is the range of income of families in the homeownership program or the self-help program?

Ms. WHITE. Their range of income, taking 25 percent of their adjusted gross income—the lowest income that we can accept within that program, in order for them to meet their housing costs, would have to be somewhere in the area of \$8,000 adjusted. The lowest income—

Senator MORGAN. What is the highest?

Ms. WHITE. The highest income goes up well over \$15,000—which is not very high with today's inflation costs.

Senator MORGAN. Well, you are familiar, I'm sure, with the HUD region IX study that showed that the cost of Indian housing—costs of Indian housing are high, over \$64,000 per house, as I understand it. Now, it's been reported that a substantial part of this high cost is a result of the difference between construction costs for the home and the total development cost—which includes site improvement and other costs.

It's said that there are incentives for developers and others to push up nonconstruction costs, which also tend to be more unique situations, in order to increase their return. What is your analysis? You are familiar with this study?

Ms. WHITE. Yes. I have read the study. I agree with some of their findings. I don't necessarily agree with their conclusions.

Senator MORGAN. Why are costs so high? This is the thing that bothers us.

Ms. WHITE. I believe part of the reason why it is so high is because of—first of all, let's break down what that cost is. The entire percentage—or what they're calling \$65,000 per unit—is not all construction costs. Part of that is administration costs; part of it is construction costs; legal costs; architects costs. All of those figures.

Senator MORGAN. Are these costs that are incurred by other people, too, in other types of housing that are constructed off of reservations? Non-Indian housings?

Ms. WHITE. I'm sure.

Senator MORGAN. You see, this is the thing that is sort of difficult for me to understand.

Ms. WHITE. But it certainly does not represent the cost of the unit as it is constructed.

And again, I think part of the problem, again, in the construction of Indian housing units, is the rural housing situation: the unavailability of housing construction materials to Indian reservations, and the inappropriate prototype costs for Indian housing.

Senator MORGAN. Well, on page 100 of the report, they indicated that probably two of the largest items of extra costs were the large family size and space, and also site improvement is substantially higher.

Can anything be done about the space requirements, in order to make more units available?

Ms. WHITE. I don't know how you do anything about the space that is required, because we have to operate under standard housing conditions as well, trying to provide enough space for the number of people within the family.

Senator MORGAN. What is the square footage of the average house? We'd like it for the record—if you could supply it.

Ms. TREUER. On the issue of family size, I have not seen that whole study. I've just seen bits and pieces of it. But I think they said that uncontrollable extra costs for any housing related to family size was something like \$8,000, and they said, as a controllable extra cost—I forget the exact figure, when they're talking about large numbers, I think they're talking about extra bedrooms, in that uncontrollable part.

They said controllable was \$1,500 or something extra, for extra square footage, but I think they were still thinking in terms of a

very small kitchen and living area for large families—you know, having enough bedrooms but a postage-stamp-sized kitchen or living room for the rest of the area. I don't think that's a controllable, if we're going to have standard housing.

Senator MORGAN. As you know, we Senators have to do about a dozen things at one time. I am going to have to leave. We'll take about a 15-minute recess. If you would work with Mr. Malakoff here during this period of time, he'll try to get some of the information. Then what we can't get—I'll be back in about 15 minutes.

[Recess.]

Senator MORGAN. We'll try to resume our hearings. Again, I think those of you who came from out of our area—I think we've got our record complete.

Ms. TREUER. Senator, we will be submitting our statements for the record on the main questions that you have. I would just like to take this opportunity to thank you very much for the interest that you have shown in the issues of Indian housing.

I think this is probably the first time any of the Senate housing committees have heard testimony on Indian housing. I commend you for it, and thank you very much.

Senator MORGAN. Thank you, and thank all of you. You've informed us about a problem that we need to hear more about.

Mr. CHAVEZ. Mr. Chairman, I'd like to make one last statement to help tie us together, and I think it's very important.

I view economic development and housing as two of the basic things that will develop a reservation for self-determination. The reason being there's a lot of human resources—young people going to college from the reservation.

There's two things that'll bring them back to the reservation. That's economic development—which means jobs—and housing. Those two incentives alone will help build a reservation internally.

And I think it's very important that it's understood, because the human resources are the most important factor in self-determination on an Indian reservation.

Senator MORGAN. Thank you very much. Bill Powers, Harold Wilson, and Jeanine Kleimo. I thank you folks for waiting. We thought if we didn't get to you this morning, you could come back. The others might not, however. Bob tells me we might be able to conclude this morning. We'll go as far as we can, and then if we don't—we can call you back. Any way you want to proceed.

STATEMENT OF WILLIAM POWERS, VICE CHAIRMAN, NATIONAL RURAL HOUSING COALITION; HAROLD O. WILSON, EXECUTIVE DIRECTOR, HOUSING ASSISTANCE COUNCIL; AND JEANINE KLEIMO, MEMBER, BOARD OF DIRECTORS, RURAL AMERICA, INC.

Ms. KLEIMO. Thank you, Mr. Chairman. My name is Jeanine Kleimo. I am from Dover, Del., where I am executive director of the National Council on Agricultural Life and Labor, a nonprofit housing assistance organization working with farmworkers and other rural people in five mid-Atlantic States.

I am here today in my role as a board member of Rural America, and as a member of Rural America's Housing Council. Rural America is a national membership organization which has been

established to help people in small towns, in rural areas, to meet their housing and rural development needs.

For the past 10 years, Rural America has provided a broad range of technical and organizational assistance to low-income housing groups throughout the country. Since July of 1978, Rural America has operated a national program designed to monitor the implementation of the community development block grant program in nonmetropolitan areas. We have called for the involvement of rural community-based organizations in monitoring local CDBG activities, with emphasis on documenting the extent of low-income benefit from and citizen participation in the community development process.

For more than a year, NCOL has been serving as one of 20 monitoring organizations and we currently cover 12 jurisdictions in Delaware and Maryland. In addition, we have undertaken an active program in our area, furnishing housing development assistance to local farmworker and other rural housing groups.

My comments here today go out of more than 4 years of housing and community experience, and reflect our familiarity with local housing conditions and the operating existing Government programs.

I appreciate the invitation to testify before your subcommittee on needed rural housing legislation.

We agree with the committee's sense that the President's policies and commitments have not been backed by budget figures proposed by the administration. Our testimony highlights our perspectives and where we see the priorities.

NEW PROPOSAL

We are also submitting a new proposal which can immediately improve the targeting of the Farmers Home Administration dollars to very low income people and increase their cost-effectiveness. We hope you will consider it seriously.

Six years ago, as part of the Housing and Community Development Act of 1974, the Congress established an important program of technical and administrative assistance to local nonprofit housing corporations engaged in the development of low-income housing in rural areas. Under section 525 of that act, local groups could receive grant assistance from the Farmers Home Administration to carry out a comprehensive program of outreach, housing counseling, and development activities designed to fully utilize existing Federal housing assistance authorities.

A similar program, section 106(a), had been established within HUD almost 10 years earlier. Such a program of technical assistance to nonprofit agencies in rural areas is absolutely essential if we are to develop an effective housing delivery system in our smaller towns and rural communities.

Unfortunately, the section 525 program was not funded until 2 years ago, and then only at a modest level well below that established by this subcommittee. During the past 2 years action taken by both the congressional Appropriations Committees and the administration have tended to restrict both the 525 and 106(a) pro-

grams to a narrowly defined set of housing activities, at the expense of broader outreach and housing development functions.

Farmers Home through its 525 technical assistance program and HUD through its 106(a) program should begin to actively support the development of a large-scale nationwide housing delivery structure through which local public and private nonprofit agencies would be able to furnish a wide range of housing assistance to low-income families in rural areas.

Specifically, we urge an expanded authorization of at least \$25 million for the section 525 program, including clear authorization for a full range of outreach services, including but not limited to housing counseling, and that a specific mandate be provided to Farmers Home to assure that essential housing needs of migrant and seasonal farmworkers are met as a part of this program.

In addition, we urge that the predevelopment loan included in section 525 be implemented and funded at a level of not less than \$1 million. Such front-end loan money is an integral part of low-income housing development in rural areas.

We would also recommend that HUD be instructed to similarly expand its activities under section 106(a) to include local outreach and development efforts in rural as well as urban communities. To date that program has been limited to the provision of counseling assistance in conjunction with only HUD housing programs. Such an urban bias clearly discriminates against rural people and fails to provide the type of broad assistance desperately needed.

In addition, we want to urge an expansion in HUD's neighborhood self-help development grant program. Last year only \$15 million was appropriated for this much needed effort, and we think it ought to be increased.

As the subcommittee is well aware, we are deeply concerned by the failure of most Federal programs, and specifically existing homeownership assistance programs, to meet the critical housing needs of very low income families. We strenuously supported the establishment of the homeownership assistance program, or HOAP, 2 years ago and appreciated the subcommittee's efforts to implement the program.

Unfortunately, no funding has been provided to HOAP, even though the housing situation for low-income families has deteriorated still further and while families with incomes under \$7,000 are effectively assisted from ownership assistance in rural areas in the absence of HOAP or other specialized efforts. We therefore support the reauthorization of the homeownership assistance program at its present authorized level of about 15,000 units, and encourage the subcommittee to join with the administration in securing needed appropriations.

SERIOUS INEQUITY

A serious inequity has been created as a result of Congress failure to implement the HOAP program. When HOAP was enacted 2 years ago, a unique subsidy recapture provision was also put into effect. The idea was that the deep proposed subsidies made available under HOAP would be repaid or recaptured by Farmers

Home borrowers out of proceeds of the sale financed by Farmers Home as the families' income improved.

There is a clear linkage between this assistance being provided under HOAP and the recapture of subsidies written into the law at that time. However, that linkage has been broken, because the recapture provisions were implemented almost immediately by Farmers Home on all assisted loans, while HOAP has yet to be initiated.

We urge the subcommittee to reestablish that linkage by modifying the language pertaining to recapture in such a way as to require the implementation of HOAP at its fully authorized level before the recapture provision is put into effect. The section 502 program, which was geared to the rural low-income homeownership program, has become a moderate income program. In 1973, 47.1 percent of the families served by section 502 had incomes under \$7,000. In 1976 only 20.4 percent of the families served had incomes under \$7,000. And in 1979 that figure was down to 10.2 percent.

This is one reason why we have advocated strongly for HOAP. In the absence of a sizable appropriation for HOAP and the increasing deterioration of the rural housing stock, we're supportive of a new section 530 geared to address the needs of the low-income rural tenants. We're supporting new authority for the Secretary of Agriculture to drive no-interest front-end money to public and private nonprofit groups in rural areas, to purchase and rehabilitate deteriorated dwellings for resale under section 502 to families with incomes below \$7,000.

The total cost of purchase, rehabilitation and administration should not exceed \$14,000, and the standards to which these dwellings must be brought should be those necessary to meet basic health and sanitary needs.

We would be happy to supply this committee with additional data on the proposed program.

As an active member of the National Rural Housing Coalition, we wholeheartedly endorse the authorization levels for Farmers Home programs that are being recommended by Mr. Powers on behalf of the coalition. Those recommendations represent the considered opinion and reflect the experience of many individuals and organizations who are familiar with rural housing conditions and deserve your serious consideration.

Finally, we ask you to explore the desirability of establishing 3-year authorizations for most basic Farmers Home housing authorities. By extending these programs for 2 or 3 years, the subcommittee could devote more time to oversight inquiries into their actual operation and concentrate on special programs of groups such as the rural poor, farmworkers, and the elderly.

As currently operated, each year an enormous amount of time goes into the simple reauthorization process, resulting in only limited oversight and exploration of special needs.

Mr. Chairman, this concludes my remarks. If you have any questions, I would be pleased to respond. I also have with me today members of the Rural America staff who may be of assistance in responding to specific questions.

Thank you.

Senator MORGAN. Thank you.

[The complete statements follow:]

STATEMENT OF JEANINE KLEIMO BEFORE THE SUBCOMMITTEE ON
RURAL HOUSING AND DEVELOPMENT, COMMITTEE ON BANKING, HOUSING
AND URBAN AFFAIRS, UNITED STATES SENATE, WASHINGTON, D.C.,
APRIL 1, 1980

MR. CHAIRMAN, MY NAME IS JEANINE KLEIMO. I AM THE EXECUTIVE
DIRECTOR OF THE NATIONAL COUNCIL OF AGRICULTURAL LIFE AND LABOR,
A NONPROFIT HOUSING ASSISTANCE ORGANIZATION WORKING WITH FARM-
WORKERS AND OTHER LOW-INCOME RURAL PEOPLE IN THE DELMARVA
PENNINSULA. I AM HERE TODAY IN MY ROLE AS A BOARD MEMBER OF
RURAL AMERICA, AND A MEMBER OF RURAL AMERICA'S HOUSING COUNCIL.

RURAL AMERICA IS A NATIONAL MEMBERSHIP ORGANIZATION WHICH
HAS BEEN ESTABLISHED TO HELP PEOPLE IN SMALL TOWNS AND RURAL
AREAS MEET THEIR HOUSING AND RURAL DEVELOPMENT NEEDS. FOR THE
PAST 10 YEARS, RURAL AMERICA HAS PROVIDED A BROAD RANGE OF
TECHNICAL AND ORGANIZATIONAL ASSISTANCE TO LOW-INCOME HOUSING
GROUPS THROUGHOUT THE COUNTRY.

SINCE JULY 1978, RURAL AMERICA HAS OPERATED A NATIONAL
PROGRAM DESIGNED TO MONITOR THE IMPLEMENTATION OF THE COMMUNITY
DEVELOPMENT BLOCK GRANT PROGRAM IN NONMETROPOLITAN AREAS. IT

CALLED FOR THE INVOLVEMENT OF RURAL COMMUNITY-BASED ORGANIZATIONS IN MONITORING LOCAL CDBG ACTIVITIES, WITH EMPHASIS ON DOCUMENTING THE EXTENT OF LOW-INCOME BENEFIT FROM, AND CITIZEN PARTICIPATION IN, THE COMMUNITY DEVELOPMENT PROCESS. FOR MORE THAN A YEAR, NCALL HAS BEEN SERVING AS ONE OF 20 MONITORING ORGANIZATIONS, AND WE CURRENTLY COVER 12 JURISDICTIONS IN DELAWARE AND MARYLAND. ADDITIONALLY, WE HAVE UNDERTAKEN AN ACTIVE PROGRAM IN OUR AREA OF FURNISHING HOUSING DEVELOPMENT ASSISTANCE TO LOCAL FARMWORKER AND OTHER RURAL HOUSING GROUPS. MY COMMENTS HERE TODAY GROW OUT OF OUR MORE THAN FOUR YEARS OF HOUSING AND COMMUNITY EXPERIENCE, AND REFLECT OUR FAMILIARITY WITH LOCAL HOUSING CONDITIONS AND THE OPERATION OF EXISTING GOVERNMENTAL PROGRAMS.

I APPRECIATE THE INVITATION TO TESTIFY BEFORE YOUR SUBCOMMITTEE ON NEEDED RURAL HOUSING LEGISLATION. IN THE INTEREST OF TIME, I WILL CONFINE MY REMARKS TO CERTAIN PROGRAMS AND RURAL HOUSING PROGRAM NEEDS UNDER THE JURISDICTION OF THE FARMERS HOME ADMINISTRATION AND HUD,

LOCAL DEVELOPMENT CAPACITY

SIX YEARS AGO, AS A PART OF THE HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1974, THE CONGRESS ESTABLISHED AN IMPORTANT

PROGRAM OF TECHNICAL AND ADMINISTRATIVE ASSISTANCE TO LOCAL NONPROFIT HOUSING ORGANIZATIONS ENGAGED IN THE DEVELOPMENT OF LOW-INCOME HOUSING IN RURAL AREAS. UNDER SECTION 525 OF THAT ACT, LOCAL GROUPS COULD RECEIVE GRANT ASSISTANCE FROM THE FARMERS HOME ADMINISTRATION TO CARRY OUT A COMPREHENSIVE PROGRAM OF OUTREACH, HOUSING COUNSELLING, AND DEVELOPMENT ACTIVITIES DESIGNED TO FULLY UTILIZE EXISTING FEDERAL HOUSING ASSISTANCE AUTHORITIES. A SIMILAR PROGRAM, SECTION 106(A) HAD BEEN ESTABLISHED WITHIN HUD ALMOST 10 YEARS EARLIER. SUCH A PROGRAM OF TECHNICAL ASSISTANCE TO NONPROFIT AGENCIES IN RURAL AREAS IS ABSOLUTELY ESSENTIAL IF WE ARE TO DEVELOP AN EFFECTIVE HOUSING DELIVERY SYSTEM IN OUR SMALLER TOWNS AND RURAL COMMUNITIES,

UNFORTUNATELY, THE SECTION 525 PROGRAM WAS NOT FUNDED UNTIL TWO YEARS AGO, AND THEN ONLY AT A MODEST LEVEL WELL BELOW THAT ESTABLISHED BY THIS SUBCOMMITTEE. DURING THE PAST TWO YEARS, ACTIONS TAKEN BY BOTH THE CONGRESSIONAL APPROPRIATIONS COMMITTEES AND THE ADMINISTRATION HAVE TENDED TO RESTRICT BOTH THE SECTION 525 AND 106(A) PROGRAMS TO A NARROWLY DEFINED SET OF HOUSING COUNSELLING ACTIVITIES, AT THE EXPENSES OF THE BROADER OUTREACH AND HOUSING DEVELOPMENT FUNCTIONS. WE

BELIEVE THAT FMHA THROUGH ITS 525 TECHNICAL ASSISTANCE PROGRAM, AND HUD THROUGH ITS 106(A) PROGRAM, SHOULD BEGIN TO ACTIVELY SUPPORT THE DEVELOPMENT OF A LARGE SCALE, NATIONWIDE HOUSING DELIVERY STRUCTURE THROUGH WHICH LOCAL PUBLIC AND PRIVATE NONPROFIT AGENCIES WOULD BE ABLE TO FURNISH A WIDE RANGE OF HOUSING ASSISTANCE TO LOW-INCOME FAMILIES IN RURAL AREAS.

SPECIFICALLY, WE URGE AN EXPANDED AUTHORIZATION OF AT LEAST \$25 MILLION FOR THE SECTION 525 PROGRAM, INCLUDING CLEAR AUTHORIZATION FOR A FULL RANGE OF OUTREACH SERVICES, INCLUDING, BUT NOT LIMITED TO, HOUSING COUNSELLING, AND THAT A SPECIFIC MANDATE BE PROVIDED TO FARMERS HOME TO INSURE THAT THE SPECIAL HOUSING NEEDS OF MIGRANT AND SEASONAL FARMWORKERS ARE MET AS A PART OF THIS PROGRAM. IN ADDITION, WE URGE THAT THE PRE-DEVELOPMENT LOAN AUTHORITY INCLUDED IN SECTION 525 BE IMPLEMENTED AND FUNDED AT A LEVEL OF NOT LESS THAN \$1 MILLION. THERE IS A CLEAR NEED FOR SUCH FRONT END LOAN MONEY AS AN INTEGRAL PART OF LOW INCOME HOUSING DEVELOPMENT IN RURAL AREAS.

WE WOULD ALSO RECOMMEND THAT HUD BE INSTRUCTED TO SIMILARLY EXPAND ITS ACTIVITIES UNDER SECTION 106(A) TO INCLUDE LOCAL OUTREACH AND DEVELOPMENTAL EFFORTS, AND TO BEGIN UTILIZING

THOSE SCARCE PUBLIC FUNDS TO SUPPORT LOCAL ACTIVITIES BY GROUPS IN RURAL AS WELL AS URBAN COMMUNITIES. TO DATE, THAT PROGRAM HAS BEEN LIMITED TO THE PROVISION OF COUNSELLING ASSISTANCE IN CONJUNCTION WITH ONLY HUD HOUSING PROGRAMS. SUCH AN URBAN BIAS CLEARLY DISCRIMINATES AGAINST RURAL PEOPLE, AND FAILS TO PROVIDE THE TYPE OF BROAD ASSISTANCE DESPERATELY NEEDED. IN ADDITION, WE WANT TO URGE AN EXPANSION IN HUD'S NEIGHBORHOOD SELF-HELP DEVELOPMENT GRANT PROGRAM. LAST YEAR, ONLY \$15 MILLION WAS APPROPRIATED FOR THIS MUCH NEEDED EFFORT, AND WE THINK IT OUGHT TO BE INCREASED. HUD HAS MADE SIGNIFICANT EFFORTS TO REACH OUT AND FUND COMMUNITY BASED HOUSING GROUPS IN RURAL COMMUNITIES. WE ENCOURAGE AND SUPPORT THIS AND HOPE TO SEE A FURTHER EXPANSION IN THIS VERY IMPORTANT PROGRAM.

LOW INCOME HOME OWNERSHIP ASSISTANCE

AS THIS SUBCOMMITTEE IS WELL AWARE, WE ARE DEEPLY CONCERNED BY THE FAILURE OF MOST FEDERAL PROGRAMS AND SPECIFICALLY, EXISTING HOME OWNERSHIP ASSISTANCE PROGRAMS TO MEET THE CRITICAL HOUSING NEEDS OF VERY LOW INCOME FAMILIES. WE STRENUOUSLY SUPPORTED THE ESTABLISHMENT OF THE HOME OWNERSHIP ASSISTANCE PROGRAM (HOAP) TWO YEARS AGO, AND HAVE APPRECIATED THIS SUBCOMMITTEE'S EFFORTS TO IMPLEMENT THE PROGRAM. UNFORTUNATELY, NO

FUNDING HAS BEEN PROVIDED TO HOAP, EVEN THOUGH THE HOUSING SITUATION FOR LOW-INCOME FAMILIES HAS DETERIORATED STILL FURTHER. TODAY, FAMILIES WITH INCOME UNDER \$7,000 ARE EFFECTIVELY EXCLUDED FROM OWNERSHIP ASSISTANCE IN RURAL AREAS IN THE ABSENCE OF HOAP OR OTHER SPECIALIZED EFFORTS.

WE THEREFORE STRONGLY SUPPORT THE REAUTHORIZATION OF THE HOME OWNERSHIP ASSISTANCE PROGRAM AT ITS PRESENT AUTHORIZED LEVEL OF ABOUT 15,000 UNITS. WE WOULD ALSO ENCOURAGE THIS SUBCOMMITTEE TO JOIN WITH THE ADMINISTRATION IN SECURING NEEDED APPROPRIATIONS, SINCE THE ADMINISTRATION HAS MADE HOAP ONE OF ITS PRIORITIES UNDER THE RURAL DEVELOPMENT POLICY STATEMENT ANNOUNCED LAST DECEMBER.

HOWEVER, WE WOULD LIKE TO POINT OUT A SERIOUS INEQUITY WHICH HAS BEEN CREATED AS A RESULT OF CONGRESS' FAILURE TO IMPLEMENT THE HOAP PROGRAM. WHEN HOAP WAS ENACTED TWO YEARS AGO, A UNIQUE SUBSIDY RECAPTURE PROVISION WAS ALSO PUT INTO EFFECT. THE IDEA WAS THAT THE DEEPER PUBLIC SUBSIDIES MADE AVAILABLE UNDER HOAP WOULD BE REPAID OR RECAPTURED BY FARMERS HOME BORROWERS OUT OF PROCEEDS OF THE SALE OF HOMES FINANCED BY FMHA OR AS THE FAMILIES' INCOMES IMPROVED. THERE WAS A

CLEAR LINKAGE BETWEEN THE ASSISTANCE BEING PROVIDED UNDER HOAP, AND THE RECAPTURE OF SUBSIDIES WRITTEN INTO THE LAW AT THAT TIME.

HOWEVER, THAT LINKAGE HAS BEEN BROKEN BECAUSE THE RECAPTURE PROVISIONS WERE IMPLEMENTED ALMOST IMMEDIATELY BY FARMERS HOME ON ALL ASSISTED LOANS, BUT HOAP HAS YET TO BE INITIATED. WE STRONGLY URGE THIS SUBCOMMITTEE TO RE-ESTABLISH THAT LINKAGE BY 1) WORKING AGGRESSIVELY TO INSURE THAT HOAP IS FINALLY IMPLEMENTED THIS YEAR, AND 2) BY MODIFYING THE LANGUAGE PERTAINING TO RECAPTURE IN SUCH A WAY AS TO REQUIRE THE IMPLEMENTATION OF HOAP AT ITS FULLY AUTHORIZED LEVEL BEFORE THE RECAPTURE MECHANISM IS PUT INTO EFFECT.

NEW REHABILITATION PROGRAM TO AID VERY LOW-INCOME TENANTS

THE SECTION 502 PROGRAM WHICH WAS GEARED TO BE A RURAL LOW-INCOME HOMEOWNERSHIP PROGRAM HAS STEADILY BECOME A MODERATE-INCOME PROGRAM. IN 1973, 47.1% OF THE FAMILIES SERVED BY SECTION 502 HAD INCOMES UNDER \$7,000. IN 1976, ONLY 20.4% OF THE FAMILIES SERVED HAD INCOMES UNDER \$7,000 AND IN 1979, THAT FIGURE WAS DOWN TO 10.2%. THIS IS ONE REASON WE HAVE ADVOCATED STRONGLY FOR HOAP, IN THE ABSENCE OF A SIZABLE APPROPRIATION FOR

HOAP AND THE INCREASING DETERIORATION OF RURAL HOUSING STOCK WE ARE SUPPORTIVE OF A NEW SECTION 530 GEARED TO ADDRESS THE NEEDS OF LOW-INCOME RURAL TENANTS (RURAL RENTERS SUFFER ALMOST TWICE THE INCIDENCE OF BAD HOUSING AS DO RURAL HOMEOWNERS),

WE ARE SUPPORTING NEW AUTHORITY FOR THE SECRETARY OF AGRICULTURE TO PROVIDE NO INTEREST FRONT-END MONEY TO PUBLIC AND PRIVATE NONPROFIT GROUPS IN RURAL AREAS TO PURCHASE AND REHABILITATE DETERIORATED DWELLINGS FOR RESALE UNDER SECTION 502 TO FAMILIES WITH INCOMES BELOW \$7,000. THE TOTAL COST OF PURCHASE, REHABILITATION AND ADMINISTRATION SHOULD NOT EXCEED \$14,000 AND THE STANDARD TO WHICH THE DWELLING MUST BE BROUGHT SHOULD BE THOSE NECESSARY TO MEET BASIC HEALTH AND SANITARY NEEDS.

THIS WOULD BE A NEW AUTHORITY BUT ONE THAT WOULD BE COST-EFFECTIVE AND IMMEDIATELY BEGIN THE PROCESS OF TARGETING THE 502 PROGRAM BACK TO SERVING LOW-INCOME PEOPLE.

WE WOULD BE HAPPY TO SUPPLY THIS COMMITTEE WITH ADDITIONAL DATA ON THIS PROPOSED PROGRAM.

FARMERS HOME AUTHORIZATIONS

AS AN ACTIVE MEMBER OF THE NATIONAL RURAL HOUSING COALITION, WE WOULD WHOLEHEARTEDLY ENDORSE THE AUTHORIZATION LEVELS FOR FARMERS HOME PROGRAMS THAT HAVE BEEN RECOMMENDED BY MR. POWERS ON BEHALF OF THE COALITION. THOSE RECOMMENDATIONS REPRESENT THE CONSIDERED OPINION AND REFLECT THE EXPERIENCE OF MANY INDIVIDUALS AND ORGANIZATIONS WHO ARE FAMILIAR WITH RURAL HOUSING CONDITIONS, AND DESERVE YOUR SERIOUS CONSIDERATION.

ADDITIONALLY, WE WISH YOU WOULD EXPLORE THE DESIRABILITY OF ESTABLISHING THREE-YEAR AUTHORIZATIONS FOR MOST BASIC FARMERS HOME HOUSING AUTHORITIES. BY EXTENDING THESE PROGRAMS FOR TWO OR THREE YEARS, INSTEAD OF ONE AS NOW, THE SUBCOMMITTEE COULD DEVOTE MORE TIME TO OVERSIGHT INQUIRIES INTO THEIR ACTUAL OPERATION, AND CONCENTRATE ON SPECIAL PROBLEMS OF GROUPS SUCH AS THE RURAL POOR, FARMWORKERS, AND THE ELDERLY. AS CURRENTLY OPERATED, EACH YEAR AN ENORMOUS AMOUNT OF TIME GOES INTO THE SIMPLE REAUTHORIZATION PROCESS, RESULTING IN ONLY LIMITED OVERSIGHT AND EXPLORATION OF SPECIAL NEEDS.

CONCLUSION

MR. CHAIRMAN, THIS CONCLUDES MY REMARKS. IF YOU HAVE ANY QUESTIONS, I WOULD BE PLEASED TO RESPOND. I HAVE WITH ME TODAY MEMBERS OF THE RURAL AMERICA STAFF WHO MAY BE OF ASSISTANCE IN RESPONDING TO SPECIFIC CONCERNS.

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

Tuesday, April 1, 1980

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 and 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 NRHC appreciates the support this Committee has given to assisted housing programs, especially as they have affected low income rural people. Over the past two years, a number of important changes in both the HUD and FmHA housing programs were enacted which improve the programs for poor people and the elderly.

The current justified concern about inflation seems to have fixed on the federal budget as the primary villain, a questionable assumption at best. It would appear that balancing the budget is the new way to get a handle on inflation. Given the huge success of the Federal Reserve Board's high interest rate policy, we hope that the budget slashing is approached thoughtfully and that the programs serving poor people and the elderly are not the programs on which Congress focuses. The CBO's listing of possible areas of cuts offer many alternatives, including the MX, reducing the oil depletion allowance, etc., which should get first consideration.

Congress should not ignore some of the tax expenditure limitations contained in the CBO report. As Cushing Dolbear of the National Low Income Housing Coalition has pointed out, the largest housing subsidies are in the form of tax expenditures, a very large portion of which goes to those with incomes above \$30,000. If Congress is looking for ways to save money, it should look to reform of this system. The CBO example of converting the present deduction of mortgage interest payments to a 25% tax credit could save \$5.1 billion over the next five years.

Millions of Americans continue to live in bad housing, often without indoor plumbing, and/or pay exorbitant portions of their incomes for housing. Overwhelmingly, these people are the poor and the elderly. Nearly half of them live in rural areas of our country. The forecast for these families to significantly improve their housing is bleak at best. Increased migration back to rural areas, while welcome, only serves to exacerbate the situation because there is additional pressure on an already diminished housing supply. In addition, production of nonsubsidized rental housing has ground almost to a halt. Coupled with this are losses due to conversion, natural disaster, and abandonment--all adding up to a severe crisis in rental housing. You have been presented this grim picture in more detail by others who have testified earlier.

It is in this context that we must view the federally assisted housing programs. By any measure, the Administration's FY 1981 budget recommendations for assisted housing are totally inadequate. There are not enough units in the proposed budget to take care of all the households on the waiting list for public housing in New York City--let alone the rest of the country.

While it was encouraging to see the HUD recommendation get boosted some from the OMB low watermark, the Administration's request still is well below the national goals and among the lowest unit requests since 1974. We understand that CBO calculates the HUD FY 1981 unit request at 283,000, not the 300,000 suggested by the Administration. The FY 1981 recommendation for the FmHA continues a three-year trend of proposing lower unit levels in most programs. A notable exception is the Section 504 repair loan program, which is doubled despite the fact that the FmHA has not used all of the funds allocated for many years now. Last year, \$9 million of \$24 million appropriated was unused. The most disturbing thing is to see unit reductions in those programs which serve the lowest income people such as Section 515 rural rental, Section 514/516 farm labor housing, the rural rental assistance program, and the Home Ownership Assistance Program (HOAP). Finally, the overall reduction in units and obligational authority for all the single-family home ownership programs come at the worst possible time--when conventional credit is non-existent. This can only serve to put additional pressure on the already tight market.

The NRHC believes that it would be tragic for this Committee to authorize less than last year's unit levels for all the FmHA programs. This is particularly the case for those programs which serve the lowest income people. We hope that this Committee will authorize HOAP for FY 1981. Without such a program or a dramatic increase in rural rental assistance, Section 514/516 farm labor housing or Section 504 repair grants, it will be almost impossible for the FmHA to meet the Congressional recommendation that at least 30% of all funds go to those below 50% of the median income. We therefore urge the following program levels:

- A 10% increase over last year's level in the number of units for low-income Section 502 loans;

- A 20% increase of last year's level in the number of units for low income Section 515 loans;
- A 50% increase in rental assistance units;
- A \$50 million increase for farm labor housing loans and grants, and a \$5 million level for technical assistance and counseling.

Less than that makes a sham of your directive last year that more assistance be provided to lower income households.

The balance of our testimony will offer our views on a number of issues.

Farmworkers

In last year's legislation, Congress adopted several amendments to improve the FmHA Section 514/516 program's service to migrant farmworkers. In addition, both HUD and FmHA have been moving to direct their assisted housing programs to meet the pressing needs of migrant farmworkers. We welcome these initiatives.

The NRHC is a member of the Farmworker Housing Coalition, which consists of a number of national organizations dedicated to improving living conditions of our nation's farmworkers. This Coalition has conducted five public hearings around the country to gather direct testimony on the housing problems of farmworkers and how this need is being met by government programs and farmers. The hearings clearly establish that much remains to be done in this area by all involved. These hearings are now being summarized and we offer the record of the hearings to this Committee to show the dire need of farmworkers for decent housing. We hope that this hearing record will induce the Committee to hold hearings into this matter soon. Finally, we eagerly await the FmHA report on farmworker housing mandated by Congress in 1978 and now overdue by one year.

Legislative Recommendations

Home ownership. The NRHC, as stated earlier, strongly supports HOAP. It is clear that with overall costs rising on housing prices and operation, the Section 502 program as currently operated even with full interest credit cannot serve people with incomes much below \$10,000 in most sections of the country. We urge the Committee to consider a number of steps to deepen the subsidy program beyond its present one percent mortgage. Consider a no-interest mortgage and some assistance with utilities. This will extend the possibility of service to a group currently excluded because of inadequate income.

Notwithstanding clear statutory language to the contrary, the Section 502 program as currently administered does not permit interest credit to those whose incomes are above \$11,200 adjusted. What is happening is that in high cost areas, homebuyers just above this income level cannot purchase a house because their adjusted income will not support the housing costs. This creates pressure on FmHA to continually adjust upward the maximum income level for low income

families, thereby diminishing the amount of assistance available to those with lower incomes. The moderate income families should receive interest credits, while not diluting assistance available to lower income families.

Making the FmHA cooperative housing program work. The FmHA has had authority to administer a program of loans to cooperatives for several years now. Since 1966 only three loans have been made. Cooperative ownership of housing could be an important tool to extend home ownership benefits to rural people. Several legislative limitations in the current program hamper the successful implementation of the program. First, there is no mechanism for a person to sell their interest in the cooperative without destroying the low income character of the project. Second, under the current law, if a person's income rises above the level for moderate income set by the agency, that person is forced to move. These limitations stand as serious obstacles to cooperative housing being used as a major housing program by FmHA. We urge that legislative amendments be considered to change these conditions.

Establishing priority in FmHA programs. In last year's housing bill, Congress established a priority for HUD assisted housing programs to those living in substandard housing, or those being involuntarily displaced. These changes were significant and needed. We urge that such priority also be extended to the FmHA housing programs.

Transfer responsibility for administering the use of HUD Section 8 with the FmHA rental program to the FmHA. HUD currently allocates 10,000 units of Section 8 to the FmHA to use within the FmHA rental programs. Responsibility for administration of the Section 8 remains with HUD. There have been problems getting the two agencies and programs to work together effectively. We urge Congress to allocate these units directly to FmHA to administer.

Making use of surplus federal land and property. Under Section 414 of the 1969 Housing Act, HUD is provided authority to ask for federal property declared surplus for use for housing for low and moderate income people. The FmHA also should be made eligible to use this program because many of the surplus properties are in rural areas. In addition, Congress should make clear that it expects this program to be aggressively implemented. This surplus land and property is often a valuable housing resource.

Displacement. In the last few years there has been increasing attention to the problem of involuntary displacement, especially that which results from government action or government-funded action. In the last two years, Congress has expressed its concern by giving a preference in HUD assisted housing to those who are involuntarily displaced and also by requiring that displacement be minimized in HUD funded housing programs.

We strongly support these changes in the HUD assisted programs and suggest that they be incorporated as part of the FmHA's basic enabling laws.

Energy conservation. FmHA units currently in the Secretary's inventory are not required to meet energy conservation standards before being resold. Many of these houses were built at a time when energy was not the problem it is today and are inefficient and wasteful. We urge this Committee to require that such houses meet a minimum standard of energy efficiency before resale to low and moderate income families.

* * *

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.

TESTIMONY OF HAROLD O. WILSON, EXECUTIVE DIRECTOR
OF THE HOUSING ASSISTANCE COUNCIL
SENATE COMMITTEE ON
SUBCOMMITTEE ON (RURAL HOUSING)

APRIL 1, 1980

Mr. Chairman and members of the subcommittee, the Housing Assistance Council, in its concern for improving the housing conditions of the poor and poorly housed in rural America, appreciates this opportunity to comment on legislative efforts and initiatives necessary to direct this country toward eradication of a very serious and continuing housing crisis. We commend this Committee for its strong and continuous support of assisted rural housing programs, particularly as they address the needs of the poor and elderly rural population. The housing programs available for this need are themselves being threatened by inflation, skyrocketing energy costs, and the resulting atmosphere in both the Administration and Congress which leads us to believe that it will once again be the poor, more than others, who will be asked to tighten their already restricted belts and "get by" on still less. Indeed, recent news commentaries suggests that "there are additional sensible ways to save money without squeezing the poor", for example, "replace the home mortgage interest deduction with a tax credit, focusing

the subsidy on poorer homeowners" (The New York Times, March 1980, "Squeeze the Budget, Not the Poor") and that Congress and the Administration are engaged in a rather "symbolic waltz that passes for a strategy to control inflation" (Washington Post, Sunday, March 9, 1980 "How Not To Fight Inflation").

This symbolic gesture is no salve for poor and elderly rural Americans for whom the cost of homeownership, substandard living conditions, rent increases, and mushrooming health care and heating costs have created an intolerable burden, the cost of which our society cannot afford. The philosophy that "less is more" is simply not true as far as assisted housing is concerned. Less is less---no matter how you slice it--and the economic and social cost is still the same.

It is essential that this committee reauthorize all the FmHA low and moderate income housing programs which expire at the end of the fiscal year, at the highest possible levels. In order to properly compensate for inflation, reauthorization levels must, at a bare minimum, provide funds to meet last year's unit levels. The dollar levels must be increased. The Administration's FY 1981 Budget recommendations for assisted housing are totally inadequate. FmHA housing programs have already suffered from budget reductions, particularly in the programs for the poor, and we are still waiting to see the President's second budget.

The FY 81 Budget of the Farmers Home Administration calls for a significant reduction in assistance over FY 80 levels. Most programs are proposed to be funded at the same dollar levels as last year, which, as we previously stated, after considering the impact of inflation, translates into a substantial reduction in the number of units to be provided. The most important point is that the Administration proposes to reduce the very programs, such as Rental Housing, Rental Assistance, and the Home Ownership Assistance Program, designed to meet the needs of the lowest income persons. The Section 515 Rental Housing Program when coupled with Rental Assistance and Section 8, has been effective in serving low-income persons. Yet the FY 81 Budget calls for a 2,833 unit cut in the Section 515 Program and a 2,770 unit reduction in Rental Assistance. Similarly, the Carter Administration proposes to reduce the FmHA Farm Labor programs by 15% and to reduce the Home Ownership Assistance Program to the level of a demonstration program, only 910 units.

These programs, together with the Section 504 Home Repair Program have been most effective in meeting low-income rural housing needs. An increased Section 504 program, however, cannot alone solve the housing problems of those most in need. The condition of today's economy results in an average income of \$9,974 for the average Section 502 home ownership borrower so that only 4.2% of

Section 502 loans go to households with incomes below \$5,000. Even with interest reduced to 1%, the Section 502 program is no longer a low-income program.

Farmers Home cannot target its assistance to low-income persons without adequate support for those programs which have a sufficiently deep subsidy to reach low-income persons. For this reason HAC urges that this Committee exercise its influence to reverse cuts in the Rental Housing, Rental Assistance and Farm Labor Housing and Homeownership Assistance Programs and to increase the Section 504 Home Repair Grant Programs and make such home repair grants available to low-income families. Further, the Committee should give consideration to expanding the authority to use Rental Assistance and Section 8 on Section 502 houses which are returned to the FmHA inventory.

The reauthorization of the Homeownership Assistance Program and funding for the program is an essential element for targeting by FmHA. The HOAP program has never received an appropriation. Since its enactment in 1978, Congress has voted down a supplemental appropriation request for FY 79 and a funding request for FY 80. In FY 79, FmHA recommended a program level of 16,000 units for \$985 million in budget authority. In FY 80, the unit level was lowered to 15,000, but the budget authority figure remained the same. Congress' refusal to fund HOAP was based in part on the high level of subsidy which FmHA

estimated would be necessary to operate the program. This level was in fact an overestimation, and an error. For one thing, it did not take into consideration the recapture of a portion of the subsidy back into the Rural Housing Insurance Fund. Moreover, certain characteristics of potential HOAP borrowers indicate that they will not use all of the subsidies allotted to them. These characteristics create a substantial likelihood that (1) not all HOAP borrowers will remain in their homes for the full 33 years, and (2) many HOAP borrowers will graduate from the subsidy program as their incomes increase.

These factors will reduce the cost of the program to one fourth of the projected budget authority figure. This year, FmHA proposes to fund 910 HOAP units with \$100 million in budget authority. But the administrations Budget Appendix does note that 74 percent of this amount will not be spent or will be recaptured by the RHIF. Thus, FmHA's estimate of the actual cost to the government for 910 HOAP units is \$26 million in budget authority, and only \$1 million in outlays in FY 81. Members of Congress should be aware of this distinction in deciding the fate of HOAP.

Even excluding consideration of recapture, it is important to note that the subsidy cost of HOAP is significantly lower than that of any existing alternative program. The HOAP cost per unit is 28.4 percent lower than that of HUD Section 8 projects financed by State Housing Finance Agencies and Section 202 elderly housing developers and 26.5 percent lower than that of Section 8

projects that are sponsored by private developers. In addition, FmHA has prepared a handbook explaining the HOAP program which indicates that per-unit HOAP costs will be comparable to regular Section 502 costs.

To fund HOAP at the level which the Administration proposes for FY 81 virtually makes it a demonstration program. Treating it in this manner falls far short of the effort required to fill the need for low-income home-ownership opportunities in rural areas with insufficient rental housing markets. The proposed funding level also falls short of providing FmHA the necessary tools to target assistance to low-income persons.

We also quite strongly urge that this committee take an interest in and exercise its influence to insure that HUD's non-metropolitan Community Development Block Grant funds actually reach the smaller communities toward which they are, or should be, directed. Our experience has been that fewer and fewer small communities are able to enter the program. We believe this is attributable to at least three factors: 1) the absence of technical assistance, 2) the existing rating system which scores communities with a greater absolute number of poverty and substandard housing higher than those with a high proportion of poverty and substandard housing, 3) the HUD definition of "non'metro" which makes it too easy to ignore small communities.

We urge this Committee to examine ways in which the CDBG program might be improved in order to better serve rural areas. We provide three charts which demonstrate (1) that first-time grantees under this program, between 1975 and 1979 have suffered a dramatic overall decrease, and especially in nonmetropolitan areas; (2) in a representative sample of North Carolina towns, during those same years, municipalities with the highest populations received disproportionately more funds and (3) the same is true of statistics showing how many times these towns were funded. (See Attachments 1, 2, & 3.)

Furthermore, we believe that this Committee should counter the budgetary cuts proposed for water and waste disposal grants. The President's first budget message proposed reductions from \$300.7 million in 1980 to \$284 million in 1981: a 5.6% cut of \$46.7 million. Part of the rationale suggested by the Administration included the availability of similar E.P.A. grants. However, in the recent announcement of a coming "second round" of budget cuts (its purported purpose to show that all agencies of the government and sectors of the economy would share the burden) a selected list of examples targeted for additional cuts noted EPA water and sewer funds in addition to FmHA. To cut water and waste disposal further is to fail to address the areas most in need. Two-thirds of all substandard housing is in rural areas.

The lack of adequate water and sewer facilities is a primary factor causing substandard housing; and refusal to fund the development of such facilities precludes the development of housing in the areas and for the families in most blatant need: We seek two fundamental goals -- First, to protect the federal investment through preservation and maintenance in standard condition of the existing low-income stock and; Second, to follow the mandate of a decent home and suitable living environment for every individual, through an increase rather than cut-back in the production of federally-assisted housing.

Suggestions to reduce low-income housing assistance should be met with the argument that housing tax expenditures should, instead, be reduced. It is estimated that tax expenditures will increase by almost \$5 billion FY 81 to nearly \$29 billion. The primary housing tax expenditures are homeowner and investor deductions and the primary beneficiaries of these deductions are middle and upper income persons. While repeal or significant reduction in such benefits is politically impossible it may be possible to place a ceiling on deductions or to replace the deductions with a more equitable tax credit. In any case, those in Congress who feel this nation cannot afford its housing programs should be asked to look to the tax expenditure subsidy first before reducing assistance to those who can least afford it.

HAC in agreement with the National Rural Housing Coalition, recommends the following FmHA program levels:

- o Section 502 Homeowner Loans: 10% increase over last year's unit level.
- o Section 515 Rural Rental Housing: 20% increase over last year's unit level.
- o Rental Assistance: 50% increase.
- o Farm Labor Housing Loans and Grants: \$50 million increase.
- o Technical Assistance and Counseling: \$5 million.
- o Homeownership Assistance Program: \$100 million.

Suggestions and Initiatives

Targeting

Allocation of rural housing funds to various states, consistent with need, while an important way in which to direct resources to those most in need of housing assistance, requires careful examination to assure its proper effect. The Committee should urge FmHA to adopt procedures for public participation in its state management plans and should make certain that appropriate formulas are developed.

Targeting to minorities and low-income families, an essential objective, similarly requires workable methods. HAC, in our Comments on FmHA Proposed Regulations for the Section 515 Rural Rental Housing Program urged the Administration to adopt a priority formula designed to meet the needs of those least served. It might serve as a model

for other FmHA housing programs and is as follows:

Proposed Ranking System

The ranking system suggested below is based on the criteria found in 1944.231 (d)(3)(ii). The date used for criteria B, C, and D should be taken from the best available source covering the smallest geographic area possible; enumeration district census data and town surveys, for example, are more likely to provide a more accurate description of the project location than would countywide data, which may encompass significant differences in the income and racial composition of the population.

<u>Criteria</u>	<u>Points</u>
A. <u>Projects using FmHA Rental Assistance or HUD's Section 8.</u> (The priority given to 40% or less RA is required by the 1979 Housing Act.)	
Section 8 or 40% or less RA (rental assistance).....	5
More than 40% FmHA RA.....	3
Neither Section 8 nor RA.....	0
B. <u>Projects serving communities with high levels of substandard housing.</u>	
25% or more substandard housing.....	5
20-24% substandard housing.....	4
15-19% substandard housing.....	3
10-14% substandard housing.....	2
less than 10% substandard housing.....	1

C. Projects serving communities with high levels of poverty.
 Poverty level is defined as 50% of household median income.

- 25% or more of the population below poverty level.....5
- 20-24% below poverty level.....4
- 15-19% below poverty level.....3
- 10-14% below poverty level.....2
- less than 10% below poverty level.....1

D. Projects serving minority communities.
 Projects located in places where minority population

- is more than 50%.....5
- is less than 50%.....0

E. Projects which will serve more remote, smaller communities.

- (a) More than 50 miles from a town of 50,000 population.....2
- Less than 50 miles from a town of 50,000 population.....0
- (b) Less than 2,500 population.....3
- 2,500 to 5,000 population.....3
- 5,000 to 10,000 population.....1
- Over 10,000 population.....0

F. Projects serving large families, as measured by units with 3 bedrooms or more. (For this category alone, preapplications are compared to one another on the basis of the percentage of 3 or more bedroom units in each application, and are ranked according to quintiles, so that those applications which fall within the highest 20% receive 5 points, and so on.)

- Fifth quintile of applications with 3BR or more units.....5
- Fourth quintile.....4
- Third quintile.....3
- Second quintile.....2
- First quintile.....1
- Applications with no units with 3 or more bedrooms.....0

G. Projects sponsored by public bodies or nonprofit organizations.

- Public body applicant.....5
- Nonprofit corporation or cooperative.....3
- Limited profit corporation.....1

H. Projects which are small or scattered site projects where each site has the following number of units:

- 15 or fewer units per site or project.....3
- 16-24 units per site or project.....2
- 25 units and over per site or project.....1

Although we believe that the proposed ranking plan provides a more objective system for rating preapplications than does the system published in the proposed regulations, and therefore, provides a stronger guarantee that FmHA rental housing will be constructed in those areas with the greatest need, it alone cannot ensure that the persons living in substandard housing and poverty become the occupants of the new or rehabilitated housing. Therefore, we strongly urge FmHA to complete its targeting policies by requiring that all tenant admission plans include preference to poor persons living in substandard housing. Without this last provision, FmHA's targeting policies, which have progressed so far toward realization, cannot achieve the purpose for which they were designed.

Legislation

HAC, in conjunction with the National Rural Housing Coalition, strongly urges this committee to propose and support legislative on the following various issues:

Farmworker Housing

HAC, as a member of the Farmworker Coalition (Hal Wilson, Chairman) has participated with the members of the coalition which includes a number of national organizations committed to improving farmworker's living standards across the country. Through five regional sets of hearings (Idaho; Minnesota; California; Texas; Florida) we are

attempting to define and seek resolution to the housing problems of migrant and seasonal farmworkers. The hearing record is available to this Committee and we would like to encourage the Committee to hold oversight hearings, perhaps in conjunction with the House Subcommittee on Housing and Rural Development, on farmworker housing programs in an effort to improve delivery and create new legislation.

Displacement

Involuntary displacement as a result of federally-assisted programs has been increasingly recognized as a significant problem. We support changes in FmHA enabling legislation to insure minimization of displacement caused by FmHA financed programs and the provision of adequate relocation assistance when displacement is unavailable. We also urge the establishment of a priority for admission of involuntary displacees in Section 515 Rural Rental Housing. Congress has already taken this course with respect to HUD financed programs.

Preservation for Low-Income Use of FmHA - Financed Single Family

Housing

Retention of Section 502 Housing for low-income use should be accomplished (1) by providing FmHA with a right of first refusal on the purchase of 502 housing and (2) by requiring that 502 housing returned to the FmHA inventory

be sold to low-income families, consistent with targeting policies, where there is a need in the area. This both protects the Government's investment and carries forth the goal of rural housing programs designed to meet the needs of low-income families and individuals.

Energy

The National Rural Housing Coalition also suggests two energy related amendments. The first is that housing taken into the FmHA stock and subsequently sold must meet energy efficiency standards. The second proposal would clarify that high energy costs are a basis for granting a moratorium on payments under the Section 502 program. Where FmHA housing was inadequately insulated and occupants face delinquencies and foreclosures due to high utility bills, FmHA should be granting moratorium relief and making loans to retrofit the units.

The energy crunch has a devastating effect on the poor, with many low-income families in rural areas paying as much as 25 percent and sometimes up to 40 percent of their income just for energy costs. It simply makes good sense--good economic sense and good social sense--for the government to make its own stock energy-efficient and for the government to assist low-income persons in reducing the level of energy they require.

Compensate for Defects

FmHA should be required to assume greater control and care over newly constructed units and purchase of existing units under Section 502. Until such time as FmHA exercises this control the time within which a family must apply for compensation for a newly constructed house (18 months is insufficient) should be expanded to at least 36 months and authority for compensation should be extended to existing structures.

Farm Labor Preference

Farmworkers, especially migrant farmworkers suffer acute deprivation with respect to their housing needs. The FmHA Section 514/516 Farm Labor Housing Program has not been funded sufficiently to allow any more than the development of 2,000 units in a year, and only some of that is used for migrant workers. We support establishing an admission preference for farmworkers in Section 515 Housing in areas where there is a need.

Decent Housing at Affordable Cost:
Section 515 Housing

The purpose of this program is to provide standard housing at a cost tenants can afford. Yet, in many FmHA financed rental units, tenants pay more than 25% of their income for rent. We urge that owners be required to apply for rental assistance before FmHA can approve any rent increase.

Section 524 Site Loans

Site loans should provide with lower interest rates when the sites will be used to develop housing for the lowest income; farmworkers, and those using the self-help housing program and the rental assistance program. This and the extension of the term of the loan would enhance delivery of housing for low and moderate income families by encouraging more site development.

Loans on Indian Land

Indians too are among the most poorly housed in this country. FmHA housing loans should be permitted on federal or state recognized reservation lands and eligibility criteria extended to include tribal groups.

Subsequent Loans

In areas of prior FmHA loans, now ineligible because of increases in population, subsequent loans should be made for improvement and expansion so that loans on these houses will not require default and foreclosure.

Use of Surplus Federal Property

Section 514 of the Housing and Urban Development Act of 1969, as it does with respect to HUD that Section 8 should permit the transfer of surplus land to USDA (thereby, FmHA) for use of low and moderate income family housing.

Transfer of HUD Section 8 Authority to FmHA

There are many problems in the administration by HUD and FmHA of a combined Section 8/515 program -- largely because of bureaucratic tangles. A sensible solution to these difficulties would be direct allocation of the Section 8 subsidy to FmHA as it is provider of the basic financing, part of the interest rate deduction, uses HUD minimum property standards and produces the least expensive units.

Water and Sewer

FmHA does not meet its responsibility to enforce the provisions of the civil rights laws. Existing policy fails to encourage communities applying for funds to remedy existing instances of inequality in the availability of adequate water and wastewater disposal within the community or its adjacent service area. Additionally, FmHA does not provide for citizen participation or suitable rate structures. Action in these areas would substantially improve the quality of much substandard housing and would permit, consistent with FmHA targeting policy, the new housing development for minority and low-income families and individuals. It is often minorities who suffer exclusion from municipal water and waste facilities. FmHA should not exacerbate this problem through contribution of federal funds. We urge the committee to direct FmHA to

correct these deficiencies.

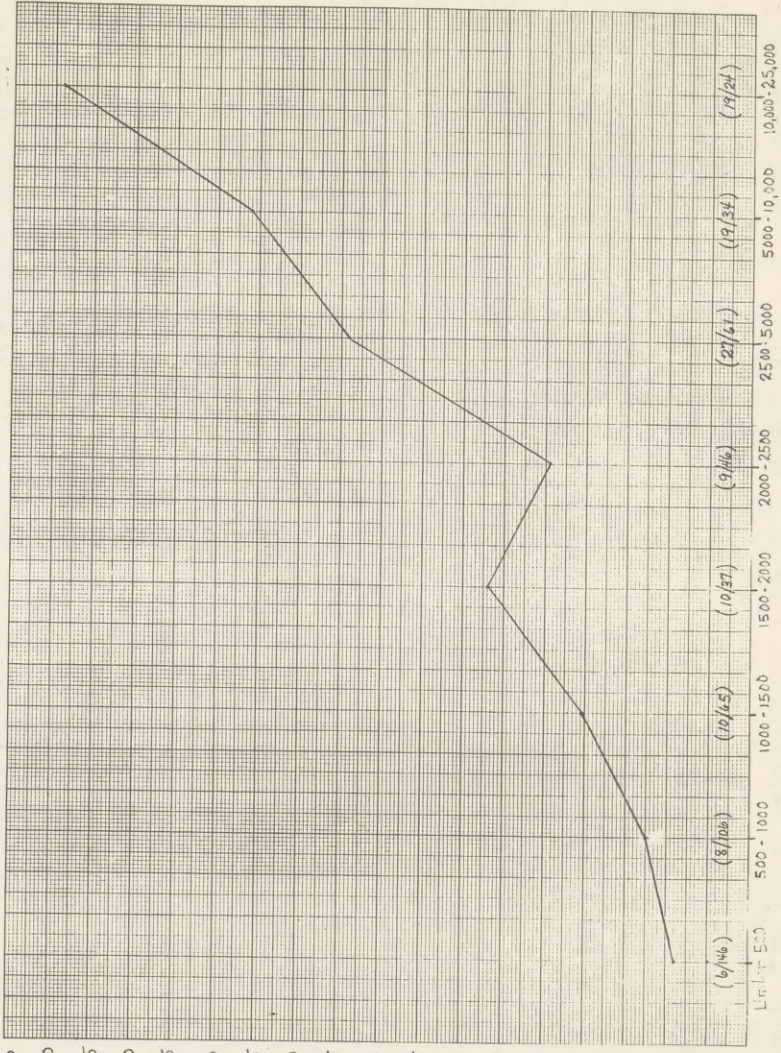
Refinancing FmHA Loans

We think it's essential that FmHA implement the authority granted to it under the Housing and Community Development Act of 1974 to refinance its own loans as a means of servicing loans and avoiding foreclosures, i.e. carrying out the goals of FmHA to provide housing for those in need. We believe the Committee should direct FmHA to provide borrowers, as they are authorized by law to do, with the opportunity to refinance their loans on viable terms.

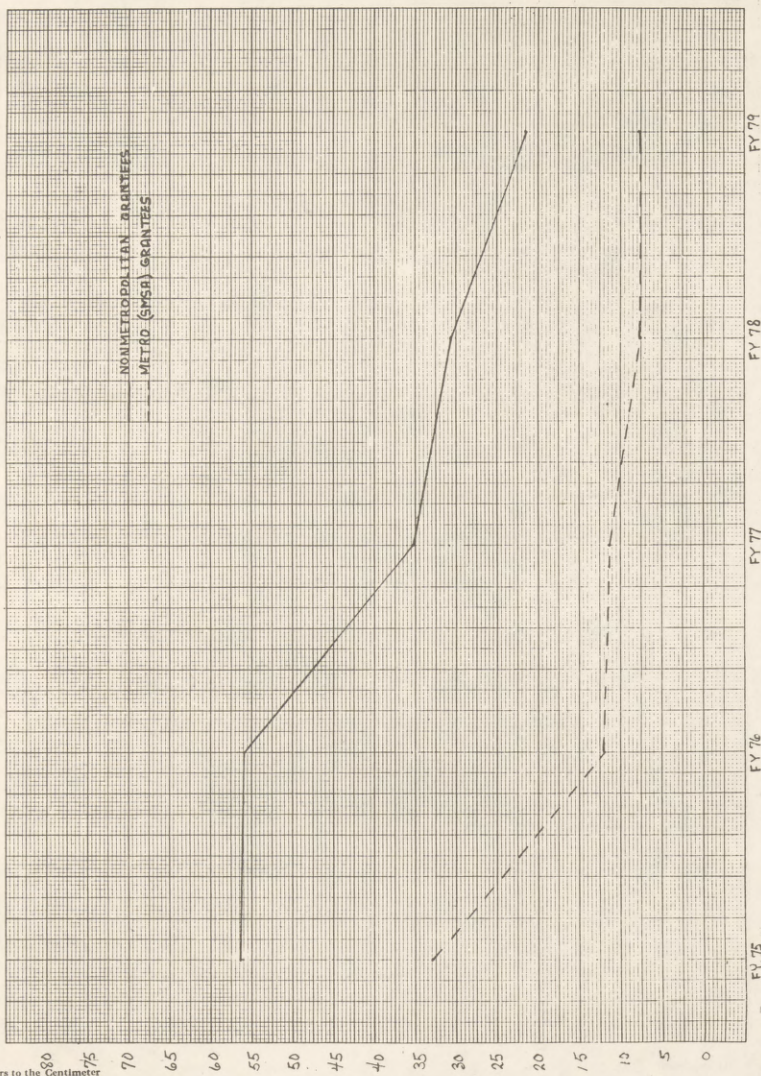
This concludes our testimony. We again thank you for the opportunity to present our views and hope our testimony can assist the Committee in its deliberations.

PERCENT OF NORTH CAROLINA TOWNS, BY SIZE, RECEIVING CDBG SMALL CITIES FUNDS - FY 75-79 - MUNICIPAL GRANTEEES ONLY

10 Millimeters to the Centimeter



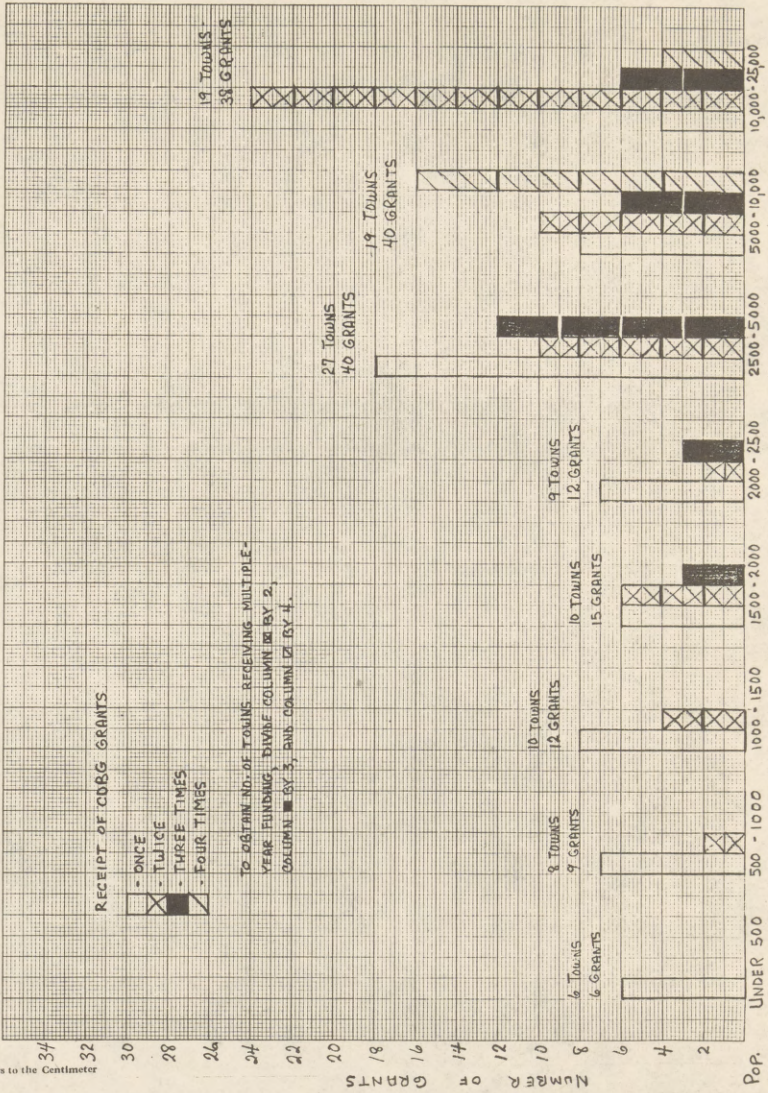
PERCENT OF FIRST-TIME, NON-ENTITLEMENT GRANTEES IN CDBG SMALL CITIES PROGRAM FY 75 - 79 (ALL GRANTEES - MUNICIPAL & COUNTY)



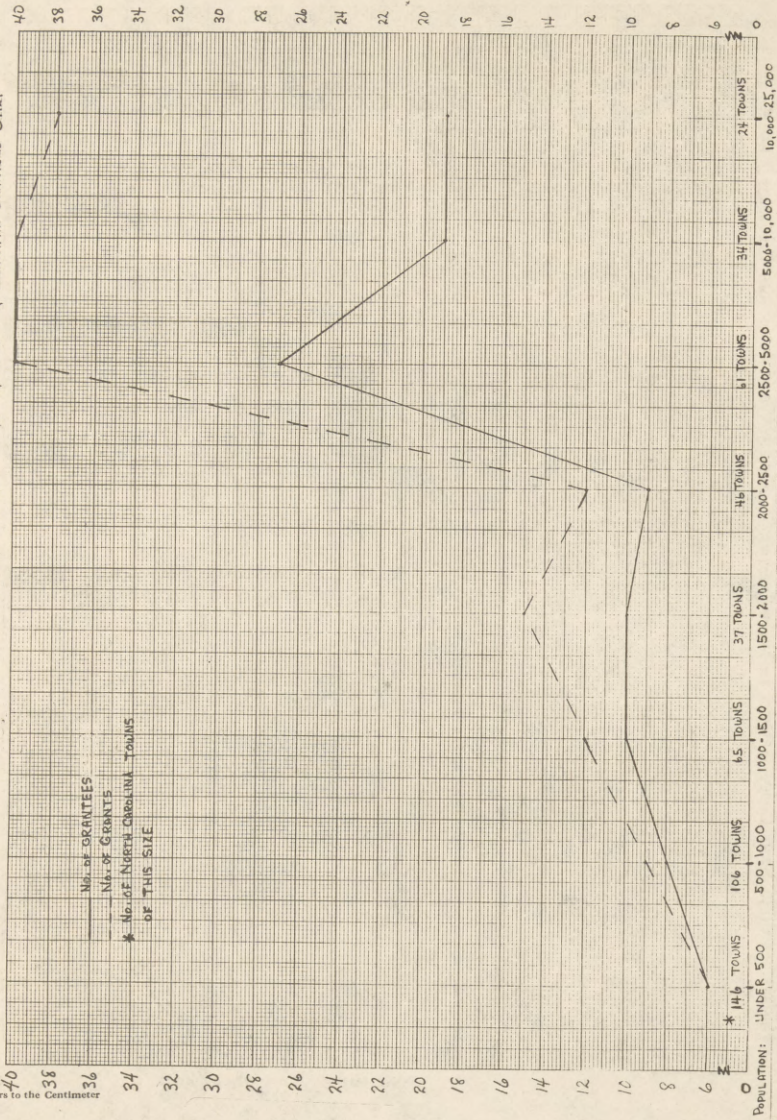
10 Millimeters to the Centimeter

NUMBER OF CDBG SMALL CITIES GRANTS TO NORTH CAROLINA TOWNS BY POPULATION AND FREQUENCY, FY 75-79

10 Millimeters to the Centimeter



NUMBER OF COBG GRANTS AND GRANTEEES IN NORTH CAROLINA BY SIZE OF TOWN, FY 75-79, MUNICIPAL GRANTEEES ONLY



STATEMENT OF NED ANDERSON, PRESIDENT
INTER-TRIBAL COUNCIL OF ARIZONAHEARINGS BEFORE THE
SUBCOMMITTEE ON RURAL HOUSING

UNITED STATES SENATE

April 1, 1980

Mr. Chairman, my name is Ned Anderson. I am President of the Inter-Tribal Council of Arizona (ITCA) and I also serve as Chairman of the San Carlos Apache Tribe. Nineteen Arizona tribes, with a combined population of more than 70,000, are members of ITCA.

ITCA urges that the Housing and Urban Development Act be amended in order that Indian tribes may be eligible to receive Urban Development Action grants to benefit unincorporated small cities on Indian reservations.

In Sec. 102(a)(5) of the present Act, cities are defined, in part, as those units of general local government which are classified as municipalities by the U. S. Bureau of the Census; or town or townships, which, in the determination of the Secretary, possess powers and perform functions comparable to those associated with municipalities. In order for a city to be classified as a municipality by the Bureau of the Census, it must be incorporated under state law.

We find these requirements to be inappropriate with respect to the unincorporated small cities located on Indian reservations. Indian tribes are recognized by the United States to be units of general government that possess powers to govern their members and their constituent communities. Tribal governments function as the municipal governments of unincorporated small cities located on Indian reservations.

We do not believe, and nothing in the legislative history of the Act suggests, that the Congress intended to disqualify otherwise qualified distressed small cities on Indian reservations simply because they are governed by Indian tribes under Federal and Indian law, or that it intended to interpose state law in tribal affairs. The record suggests the contrary. Over the years, the Congress, through a number of measures, has provided for special programs or for special set-asides in general authorizations to be administered by Indian tribes, reflecting its commitment to reduce

the extraordinary condition of poverty on reservations and in small cities on reservations.

In my own State of Arizona, Indian tribes today live in poverty; but all of them in time could become economically self-sufficient with the right kind of development assistance. One of the most effective forms of Federal assistance is the UDAG program. However, no small city located on an Arizona reservation is included among the more than 10,000 small cities ruled eligible by HUD in the list published in the Federal Register of October 30, 1979. Twenty-nine small cities in Arizona are listed. We are pleased that the Act makes it possible for our non-Indian neighbors to obtain needed help from UDAG grants. We have similar needs and development opportunities. Globe and Miami lie just to the West of the San Carlos Indian Reservation and are qualified. On my reservation are the distressed small cities of San Carlos, Bylas, Skill Center, and the twin cities of Peridot-Tulipe Acres and they are not qualified, because they are governed by Indian law and custom. As tribal chairman, I serve, in effect, as the mayor of these towns, but I cannot administer UDAG grants. If I were the mayor of Globe or Miami, I could. It does not make sense.

It is clear that the Congress intended that Indian tribes benefit from the UDAG program. The Federal Register of October 30, 1979 shows, for example, that the incorporated small cities of Browning, Montana, on the Blackfeet Reservation and Sisseton, South Dakota, on the Lake Traverse Reservation are eligible.

Mr. Chairman, the Inter-Tribal Council of Arizona recognizes the importance of amending the Act to benefit tribes in states throughout the Nation. Today Paul Chavez, Chairman of the Bishop Band of Paiute Indians of California, appears as a witness to ask that his tribe be made eligible in order that a promising commercial development on his reservation can get off the ground. In your own State of North Carolina, the Eastern Band of Cherokee Indians could accelerate their economic progress if the Act were amended as we propose.

ITCA also suggests that the proposed amendment enable unincorporated Alaska Native villages to become eligible. At present, only about 70 villages qualify. Twice that number do not, because they are not incorporated under state law, although they are recognized by the United States as units of general government.

ITCA would be happy to work with you and the Committee staff to prepare appropriate language.

Your interest in this matter and your concern for our needs are deeply appreciated.

Senator MORGAN. Let me go off the record.

[Discussion off the record.]

Senator MORGAN. We'll stand adjourned. We'll get back with all of you. We just may have to set up another hearing.

[Whereupon, at 12:55 p.m., the subcommittee was adjourned.]

[Copies of the legislation under consideration at this hearing follow:]

96TH CONGRESS
2D SESSION

S. 2647

To amend title V of the Housing Act of 1949.

IN THE SENATE OF THE UNITED STATES

MAY 2 (legislative day, JANUARY 3), 1980

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 (42 U.S.C.
4 1483) is amended—

5 (1) by striking out in subsection (a) “not to exceed
6 \$4,484,000,000 with respect to fiscal year ending Sep-
7 tember 30, 1980” and inserting in lieu thereof “not to
8 exceed \$3,672,600,000 with respect to the fiscal year
9 ending September 30, 1981, and such sums as may be

1 necessary for the fiscal year ending September 30,
2 1982”;

3 (2) by striking out in subsection (a)(1) “not less
4 than \$3,070,000,000” and inserting in lieu thereof
5 “not less than \$3,120,000,000”;

6 (3) by striking out in subsection (a)(2) “not more
7 than \$38,000,000” and inserting in lieu thereof “not
8 more than \$25,600,000”;

9 (4) by striking out in subsection (b)(2) “not to
10 exceed \$48,000,000 for loans and grants pursuant to
11 section 504 for the fiscal year ending September 30,
12 1980” and inserting in lieu thereof “not to exceed
13 \$75,000,000 for loans and grants pursuant to section
14 504 for the fiscal year ending September 30, 1981,
15 and such sums as may be necessary for the fiscal year
16 ending September 30, 1982”;

17 (5) by striking out in subsection (b)(3) “not to
18 exceed \$30,000,000 for financial assistance pursuant to
19 section 516 for the fiscal year ending September 30,
20 1980” and inserting in lieu thereof “not to exceed
21 \$25,000,000 for financial assistance pursuant to sec-
22 tion 516 for the fiscal year ending September 30,
23 1981, and such sums as may be necessary for such as-
24 sistance for the fiscal year ending September 30,
25 1982”; and

1 (6) by striking out in subsection (b)(4) "not to
2 exceed \$1,500,000 for the purposes of section 525(a),
3 of which not less than \$750,000 shall be used for
4 counseling purchasers and delinquent borrowers, and
5 not to exceed \$1,000,000 for the purposes of section
6 525(b) for the fiscal year ending September 30, 1980",
7 and inserting in lieu thereof "not to exceed \$2,000,000
8 for the purposes of section 525(a) for the fiscal year
9 ending September 30, 1981, and such sums as may be
10 necessary for the fiscal year ending September 30,
11 1982".

12 SEC. 2. Section 515(b)(5) of the Housing Act of 1949
13 (42 U.S.C. 1485(b)(5)) is amended by striking out "Septem-
14 ber 30, 1980" and inserting in lieu thereof "September 30,
15 1982".

16 SEC. 3. Section 517(a)(1) of the Housing Act of 1949
17 (42 U.S.C. 1487(a)(1)) is amended by striking out "Septem-
18 ber 30, 1980" and inserting in lieu thereof "September 30,
19 1982".

20 SEC. 4. Section 521(a)(1)(C) of the Housing Act of 1949
21 (42 U.S.C. 1490(a)(1)(C)) is amended by striking out "may
22 not exceed an aggregate amount of \$985,000,000 for con-
23 tracts entered into with respect to fiscal year 1979 and an
24 aggregate amount of \$500,000,000 for contracts entered into
25 with respect to fiscal year 1980. Such additional assistance

1 may not be so approved with respect to any fiscal year after
2 fiscal year 1980" and inserting in lieu thereof "may not
3 exceed an aggregate amount of \$100,000,000 for contracts
4 entered into with respect to fiscal year 1981, and such
5 amount as may be necessary for contracts entered into with
6 respect to fiscal year 1982. Such additional assistance may
7 not be so approved with respect to any fiscal year after fiscal
8 year 1982".

9 SEC. 5. (a) The second sentence of section 523(f) of the
10 Housing Act of 1949 (42 U.S.C. 1490c) is amended by strik-
11 ing out "September 30, 1980" and inserting in lieu thereof
12 "September 30, 1982".

13 (b) Section 523(g) of such Act is amended to read as
14 follows:

15 "(g) There are authorized to be appropriated for the
16 purposes of subsection (b)(1)(B) not to exceed \$4,000,000 for
17 fiscal year 1981, and such sums as may be necessary for
18 fiscal year 1982. Amounts appropriated under this subsec-
19 tion, together with principal collections from loans made
20 under appropriations in any previous fiscal years, shall be
21 deposited in the Self-Help Land Development Fund, which
22 shall be available as a revolving fund without fiscal year limi-
23 tation for making loans under subsection (b)(1)(B). Instru-
24 ments and property acquired by the Secretary in or as a
25 result of the making of such loans shall be assets of the Self-
26 Help Land Development Fund."

1 "not to exceed \$3,772,600,000 with respect to the
2 fiscal year ending September 30, 1981";

3 (2) by striking out "not less than
4 \$3,070,000,000" in subsection (a)(1) and inserting in
5 lieu thereof "not less than \$3,120,000,000";

6 (3) by striking out "not more than \$38,000,000"
7 in subsection (a)(2) and inserting in lieu thereof "not
8 more than \$25,600,000";

9 (4) by striking out "not to exceed \$48,000,000 for
10 loans and grants pursuant to section 504 for the fiscal
11 year ending September 30, 1980" in subsection (b)(2)
12 and inserting in lieu thereof "not to exceed
13 \$50,000,000 for loans and grants pursuant to section
14 504 for the fiscal year ending September 30, 1981";

15 (5) by striking out "not to exceed \$30,000,000 for
16 financial assistance pursuant to section 516 for the
17 fiscal year ending September 30, 1980" in subsection
18 (b)(3) and inserting in lieu thereof "not to exceed
19 \$25,000,000 for financial assistance pursuant to sec-
20 tion 516 for the fiscal year ending September 30,
21 1981"; and

22 (6) by striking out "not to exceed \$1,500,000 for
23 the purposes of section 525(a), of which not less than
24 \$750,000 shall be used for counseling purchasers and
25 delinquent borrowers, and not to exceed \$1,000,000

3

1 for the purposes of section 525(b) for the fiscal year
2 ending September 30, 1980" in subsection (b)(4) and
3 inserting in lieu thereof "not to exceed \$2,000,000 for
4 the purposes of section 525(a) for the fiscal year
5 ending September 30, 1981".

6 (b) Section 513 of such Act is amended by adding at the
7 end thereof the following new subsection:

8 "(c) Of the amount approved pursuant to subsection (a),
9 not more than \$125,000,000 shall be available during the
10 fiscal year ending September 30, 1981, for guaranteed
11 loans."

12 (c) Section 515(b)(5) of such Act is amended by striking
13 out "1980" and inserting in lieu thereof "1981".

14 (d) Section 517(a)(1) of such Act is amended by striking
15 out "1980" and inserting in lieu thereof "1981".

16 (e) Section 523 of such Act is amended by striking out
17 "1980" in subsection (f) and inserting in lieu thereof "1981".

18 (f) Section 523(g) of such Act is amended by inserting
19 after "September 30, 1980" "and not to exceed \$4,000,000
20 for fiscal year 1981".

21 (g) Section 521(a)(2) of such Act is amended by adding
22 the following new subparagraph at the end thereof:

23 • "(D) The Secretary, to the extent approved in ap-
24 propriation Acts, may enter into rental assistance con-
25 tracts aggregating not more than \$518,000,000 in car-

4

1 rying out subparagraph (A) with respect to the fiscal
 2 year ending on September 30, 1981, except that such
 3 amount shall be reduced by any amount approved in
 4 appropriation Acts for use pursuant to section
 5 521(a)(1)(C).”.

6 (h) Section 521(a)(1)(C) of such Act is amended—

7 (1) by striking out the second sentence thereof
 8 and inserting in lieu thereof the following: “The
 9 amount of such additional assistance which may be ap-
 10 proved in appropriations Acts may not exceed an ag-
 11 gregate amount of \$100,000,000”; and

12 (2) by striking out “1980” in the third sentence
 13 thereof and inserting in lieu thereof “1981”.

14 PROJECTS

15 SEC. 2. Title V of the Housing Act of 1949 is amended
 16 by adding the following new section at the end thereof:

17 “CONDITION ON RENT INCREASES IN 514, 515, AND 517

18 PROJECTS

19 “SEC. 530. The Secretary may not approve any in-
 20 crease in rental payments where the increase will cause ten-
 21 ants to pay more than 25 per centum of their income for rent
 22 in any project which is assisted under section 514, 515, or
 23 517 and under section 521(a)(1)(B) unless the project owner
 24 is receiving, or has applied for (within the most recent period
 25 of one hundred and eighty days prior to the effective date of

1 such increase), rental assistance payments with respect to
2 such project under section 521(a)(2)(A) of this title or section
3 8 of the United States Housing Act of 1937.”.

4 REFINANCING FOR CONSUMER COOPERATIVE

5 SEC. 3. Section 515 of the Housing Act of 1949 is
6 amended by adding the following new subsection at the end
7 thereof:

8 “(f) Notwithstanding the provisions of subsections (a)
9 and (b) of this section, the Secretary may make and insure
10 loans to consumer cooperatives to enable such cooperatives
11 to finance the transfer of membership in the cooperative upon
12 such terms and conditions as low- and moderate-income per-
13 sons can reasonably afford; except that such loans shall not
14 be made upon terms more favorable than are authorized
15 under section 521(a) and that the total loan to the coopera-
16 tive under this section does not exceed the value of the
17 property.”.

18 CONTINUED ELIGIBILITY OF COOPERATIVE MEMBERS

19 SEC. 4. (a) Section 515(a) of the Housing Act of 1949 is
20 amended—

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

22 (2);

23 (2) by striking out the period at the end of para-
24 graph (3) and inserting in lieu thereof “; and”; and

1 (3) by adding the following new paragraph at the
2 end thereof:

3 “(4) such a loan, when made to a consumer coop-
4 erative for cooperative housing purposes, may, not-
5 withstanding any other provision of law, be made upon
6 condition that persons, admitted as eligible members
7 and tenants of the cooperative, may not subsequently
8 be deprived of their membership or tenancy by reason
9 of their no longer meeting the income eligibility re-
10 quirements established by the Secretary.”.

11 (b) Section 515(b) of such Act is amended—

12 (1) by striking out “and” at the end of paragraph
13 (4);

14 (2) by striking out the period at the end of para-
15 graph (5) and inserting in lieu thereof “; and”; and

16 (3) by inserting the following new paragraph at
17 the end thereof:

18 “(6) such a loan, when made to a consumer coop-
19 erative for cooperative housing purposes, may, not-
20 withstanding any other provision of law, be made upon
21 the condition that persons, admitted as eligible mem-
22 bers and tenants of the cooperative, may not subse-
23 quently be deprived of their membership or tenancy by
24 reason of their no longer meeting the income eligibility
25 requirements established by the Secretary.”.

1 “(g)(1) The programs authorized by this title shall be
2 carried out, consistent with program goals and objectives, so
3 that the involuntary displacement of families and businesses
4 is avoided.

5 “(2) In any case where, in connection with an activity
6 assisted by a program authorized by this title, the Secretary
7 determines that such involuntary displacement is unavoi-
8 able, the Secretary shall take all reasonable steps to assure
9 that adequate replacement housing and relocation assistance
10 services and assistance are made available as provided by
11 law.”.

○

RURAL HOUSING OVERSIGHT AND REAUTHORIZATIONS

WEDNESDAY, APRIL 30, 1980

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

The subcommittee met at 2:10 p.m. in room 5302 of the Dirksen Senate Office Building; Senator Robert Morgan (chairman of the subcommittee) presiding.

Present: Senators Morgan and Stewart.

OPENING STATEMENT OF SENATOR MORGAN

Senator MORGAN. This hearing has been called to resume the questioning of Farmers Home Administration officials concerning what they are doing to our rural housing programs or for our rural housing programs.

Earlier this month, on April 1, we received testimony from officials of the Department of Agriculture and HUD, and from representatives of organizations representing rural and Indian interest groups.

We didn't have sufficient time at that hearing to explore all the questions that we wanted to ask. Consequently, we submitted a number of them to be answered for the record.

In addition, we have asked the Farmers Home Administrator Cavanaugh to meet with us today in order to focus greater attention on the activity of the Farmers Home Administration and various legislative proposals which the committee will consider next Wednesday.

This is the height of the legislative season. The authorizing, Appropriations, and Budget Committees are all now preparing to act on new legislation.

I understand that the House Banking and Currency Committee is marking up housing legislation this afternoon. We know all of this legislative activity requires the attention of program administrators as well as Congress.

And we know that our schedule has required us to call today's hearing with little leadtime. And we do appreciate you gentlemen meeting on such a short notice and being with us today to elucidate on any of your answers and to answer further questions that we might have.

(221)

STATEMENT OF GORDON CAVANAUGH, ADMINISTRATOR, FARMERS HOME ADMINISTRATION, ACCOMPANIED BY L. D. ELWELL, ASSISTANT ADMINISTRATOR FOR MULTI-FAMILY HOUSING, AND JENNINGS ORR, ASSISTANT ADMINISTRATOR FOR SINGLE-FAMILY HOUSING

Senator MORGAN. Gordon, do you have any opening statements or information that you would like to present?

Mr. CAVANAUGH. No, sir, just to say that we are pleased to be back before your committee and, of course, Senator Stewart, because we know of your serious concern and commitment for decent housing programs for rural areas. And we would like to answer any questions that the committee has.

I would like to introduce, for the record, the Assistant Administrators who have the major responsibility in conducting these programs. They have been before this subcommittee before. Mr. L. D. Elwell, at my left, is Assistant Administrator for Multi-Family Housing; and Jennings Orr, on my right, is the Assistant Administrator for Single-Family Housing.

Senator MORGAN. We are glad to have both of you here.

If I understood the testimony correctly, if Bob and I interpret it correctly, Farmers Home has done more in dollars and cents for rural housing in the last 3 years than it has done in the 18 years preceding; is that correct?

Mr. CAVANAUGH. I believe that is correct. I know we have lent more money through the Agency in all of our programs, housing, farm, business, industrial, and community programs, in the past 3 years than we have in the 45-year history of Farmers Home and its predecessors, the Farm Security Administration and the Resettlement Administration.

I believe that housing dollars would follow pretty much the same kind of percentages.

Senator MORGAN. Other than your aggressive leadership, to what do you attribute it?

Mr. CAVANAUGH. In the first instance, I think the Farmers Home has had good strong support in the Congress.

Senator MORGAN. I was going to say, other than the aggressive leadership, yours and others.

COMMITMENT TO SMALL TOWNS

Mr. CAVANAUGH. In addition, I think plainly the President has a very strong commitment to the smaller towns and rural areas of this country. And we have had, I think, very constant and full support from the administration over these past 3 years.

The commitment of the President and the administration was highlighted in the Small Community Rural Development Policy that was enunciated by him last December.

I think that the full impact of that statement will be something that the country will feel over a long period of time, because basically it is a direction by a President, for the first time, for all of the bureaucracy—not just Farmers Home and Department of Agriculture, but all other agencies—to see that they adopt plans to improve the welfare and opportunities of people who are in the

small communities in a fuller way than has been true of many Federal agencies heretofore.

Senator MORGAN. I think it's a commendable record. I just wanted to know what you thought about it.

You want to proceed?

Senator STEWART. What I would like to do is ask some questions with regard to budget figures for this year. I thought that was what we intended to do.

How do these figures compare, Mr. Cavanaugh, with what you had last year?

Mr. CAVANAUGH. Well, for fiscal 1979, which ended September 30 of last year, our total housing funds were just above \$4.2 billion.

Senator STEWART. Total housing funds?

Mr. CAVANAUGH. Yes, sir.

And for fiscal 1980, the current fiscal year, our funds total \$4.896 billion.

Senator STEWART. What are they for 1981?

BUDGET CUTS

Mr. CAVANAUGH. The budget that is formally before the Congress is just below \$4.5 billion, and the amended budget for 1981 is just above \$4.2 billion, the difference being the elimination of the guarantee authority for the above moderate, single-family program.

Senator STEWART. So actually you were cut by \$0.6 billion; is that correct?

Mr. CAVANAUGH. In housing, we came from \$4.8 to \$4.2 billion.

Senator STEWART. Almost 0.6 or 7?

Mr. CAVANAUGH. If I may point out, the \$4.8 billion for the current fiscal year includes \$500 million for the guaranteed, above-moderate program. And realistically, we will not use anywhere near that amount.

So if you eliminate that figure from the current fiscal year, it would have been about a \$4.35 or \$4.4 billion budget this fiscal year that I think is the realistic figure to compare with the amended 1981 budget, that would be \$4.2 billion.

And the drop is, as I say, traceable to the elimination of funds for the above moderate guarantee program.

Senator STEWART. What would that do to your program if this money is eliminated?

Mr. CAVANAUGH. Well, if it were unfunded, obviously we would just not be able to proceed with the program.

Senator STEWART. Is this a program that you don't need? Is it something that is not merited, something you didn't ask for, something you didn't want?

Mr. CAVANAUGH. No, I think it's a good program. While we have not had a lot activity under the program, we have been building to better levels of activity in the above moderate guarantee.

The reason for the cut is that we, together with other Federal agencies, had a share in the budget tightening. And this program serves the income levels that are eligible for Farmers Home housing assistance.

Senator STEWART. So you targeted your money, as other agencies are doing, to the lower-income participants in your housing programs.

What percentage of your budget has been cut? Let's take the \$4.896, or roughly \$4.9 billion—what figure—percentage of this has been cut?

Mr. CAVANAUGH. In the housing program, it's approximately a 6-percent cut in the total amounts.

Senator STEWART. I thought last time the testimony indicated that the cut was about 13 percent.

Mr. CAVANAUGH. We have other cuts in our overall budget, most prominently in the water and waste disposal loan and grant programs.

Senator STEWART. So your total budget cut was somewhere in the neighborhood of 13 percent?

Mr. CAVANAUGH. As I see it, it's just a little better than 10 percent. It might reach 13 percent—although I cannot provide you with the exact percent at this time. Our original proposed 1981 budget for all programs was \$10.738 billion. And cut from that was \$954 million.

Senator STEWART. So you're talking what kind of cut, about 13 percent? That's in your overall program?

Mr. CAVANAUGH. It appears to be a little less than 10 percent of the total amounts for all programs. In other words, our original budget, in rounding figures off, was \$10.7 billion. In our amended budget, it is \$9.7 billion, roughly 10 percent less than we originally proposed.

Out of the moneys that are cut, as I say, \$275 million is in the above moderate guarantee authorities. There is a \$485 million cut in the water and waste treatment loan and grant programs, and I believe about \$185 million is cut from the business and industrial loan guarantee program.

Now, the comparison I was just making is between the originally proposed 1981 budget and the amended 1981 budget. I hope they were the comparisons that you were looking for.

Senator STEWART. Have you boosted your figures in this year's budget for the number of rehabilitated units?

Mr. CAVANAUGH. The 504 loan program which is used extensively for rehabilitation has been increased from \$24 or \$25 million to \$50 million between the current fiscal year and the next fiscal year.

Senator STEWART. What did you do last year?

Mr. CAVANAUGH. Approximately \$14 million, during fiscal 1979.

Senator STEWART. Your number of units?

Mr. CAVANAUGH. 5,213.

Senator STEWART. Units last year?

Mr. CAVANAUGH. Yes, sir.

Senator STEWART. What do you anticipate doing this year?

Mr. CAVANAUGH. If we were to use the entire \$24 million authorization, we would do just under 8,000 units.

Senator STEWART. And was your budget increase substantially in the rehab area?

I've got a figure for 1981 of 15,000 rehabilitated units. How do you arrive at this figure with a budget cut such as the one we are talking about?

Mr. CAVANAUGH. The amount of moneys provided for 504 repair loans was doubled, so that would have enabled us to reach that higher number of units if we used the entire authorization.

Senator STEWART. Can you use the entire authorization?

Mr. CAVANAUGH. I think it's questionable.

Senator STEWART. Then what are we realistically talking about in rehab units?

Mr. CAVANAUGH. The effort is to try to increase usage of 504, and it has risen markedly in each of the past 3 years. There is also being pursued by the Assistant Secretary agreements with the Department of Energy to get weatherization grant money from that Department, which could be combined with our 504 repair loans. If that were to occur, it would further accelerate our use of the 504 moneys.

If it weren't to occur, it is my view that we would not be able to use the \$50 million.

MONEY RETURNED

Senator STEWART. You turned back some of that money last year. How much did you turn back?

Mr. CAVANAUGH. In the last fiscal year we turned back, or didn't use, \$9 million worth of authority.

Senator STEWART. Are you anticipating something along these lines this year?

Mr. CAVANAUGH. I don't know at what level it will be, but the present trends would indicate we will not use our full authorization of \$24 million this fiscal year.

Senator STEWART. This fiscal year. So you will turn some back this fiscal year?

Mr. CAVANAUGH. We believe we will. We are striving to use it all, but—

Senator STEWART. If you had difficulty using these funds in the first fiscal year I asked you about, 1979, and also during this fiscal year, it would be unrealistic to say that you could arrive at double the number of rehabilitated units in fiscal 1981.

Mr. CAVANAUGH. It's ambitious for us to look to using \$50 million of 504 repair money. As I say, the reasons why the higher figure is in the budget is in part because we have been making steady growth in the use of the 504 program and based on efforts to couple it with weatherization money the Department of Energy.

Senator STEWART. There is a reduction, I notice, in the other programs, as far as the number of units that you expect to achieve with the 1981 budget. I'm looking at a document here that has been provided to me by staff. It's a Farmer Home budget listed by program area, headed "Rural Insurance Fund, Housing Insurance Fund, Rural Housing Program." Why don't you get a hold of this document and explain to me exactly how you expect to arrive at your lower figures.

Mr. CAVANAUGH. Yes. Well, in the first case, between fiscal 1980 and fiscal 1981, both under the originally proposed fiscal 1981 budget and the amended fiscal 1981 budget, there's a drop of \$390

million for the unsubsidized 502 program. That in itself would represent a lower level of activity in the 502 program.

And next, while the subsidized 502 moneys have been increased by approximately \$80 million in the 1981 budget over the 1980 budget, that is not quite an increase that makes up for inflation.

Senator STEWART. So you've got a loss of units there, don't you?

Mr. CAVANAUGH. Yes, sir. We would produce fewer units under the proposed \$2.3 billion and 502 subsidized moneys than we were able to produce or are now producing under the \$2.2 billion subsidized money in the current fiscal year.

Senator STEWART. If you take out the 15,000 rehabilitated units—if you reduce that to a realistic figure, and then add the reductions that occur across the board in the other housing programs at Farmers Home, what realistically, are we talking about in the number of units that will be cut?

Mr. CAVANAUGH. If you reduce the production under the 504 program, as you suggest, let us say by half, there would be 7,500 units.

Senator STEWART. I wouldn't want to do that unless it's realistic, but you have been turning back appropriated money each year. I assume around \$26 million would be returned if production under the program were cut in half.

Mr. CAVANAUGH. Senator, I think the major reductions in the amount of housing we would finance in 1981 versus fiscal year 1980 would first be in the 502 unsubsidized, in that our budget proposes \$400 million—approximately \$400 million less in 1981 than it did in 1980. And you can use whatever house price you want, but there are probably 10,000 units represented by that drop.

Then the next factor is that in the 502 subsidized, while we have an increase in the budget between 1980 and 1981, the increase is probably not large enough to maintain the same level of production, because of the sharp trend that inflation has taken. However, I would say this: If inflation is halted or the rate of inflation is dropped, we might very well accomplish the same number of 502 unsubsidized in 1981 that we had in 1980.

Senator STEWART. Gordon, if you can just tell me when that will occur, I'll quit asking you questions.

Mr. CAVANAUGH. I really can't say that. But I do think conditions could be better and that prices might be less.

Senator STEWART. Let's hope they are. But I just see a reduction in each of the programs as I look down the list. And I've got some different figures here. In fact, they're based on the materials you have given me. The first program you mention, the unsubsidized 502 program, would probably suffer from a 12,000 unit reduction. I'm just wondering if other housing programs took it on the chin like the Farmers Home programs did?

Mr. CAVANAUGH. I regret that I cannot tell you what the impact of the budget cuts has been on other agencies, primarily on HUD. I do know that there has been some talk currently about trying to augment the programs of HUD to bolster, among other things, the construction industry. The Assistant Secretary of Agriculture for Rural Development Mercure has addressed to the Office of Management and Budget and others that if there is to be any improve-

ment in the HUD programs, there should be a corresponding improvement in support for either of our programs.

Senator STEWART. That would be fair enough if there had been a corresponding cut in Farmers Home to begin with. It's my understanding that the HUD's housing programs will lose only in the sense that HUD's budget has been kept at a constant level, which means that its programs will be unable to keep pace with inflation. The Farmers Home housing programs, on the other hand, suffered a double cut—a cut because of inflation, as well as a real reduction in their budget levels. There's no question about this.

Mr. CAVANAUGH. Incidentally, we had volunteered to see the 1981 budget for the above moderate reduced from its current funding levels of \$500 million to \$275 million, because we didn't think it was likely that we would achieve the \$500 million level next year. The further reduction of that is the main cut we have had in our housing program. It is hard for us to estimate how many units are really lost through that cut because a lot of that will be a function of where conventional interest rates are. That's been one of the things that's kept that program from moving forward faster.

PROGRAMMATIC CUTS

Senator STEWART. Let's go back to the original point I was making. I just want to get it for the record here. Based on the information I have, according to your budget, none of the programs of the Farmer's Home Administration will keep pace with inflation. In addition to that, Famer's Home will be experiencing real programmatic cuts, cuts which will be felt by at least 10,000 moderate-income citizens. However, I assume that low-income housing recipients will also suffer, because your subsidized 502 program will not keep up with inflation.

Now, my question to you is whether this is, in fact, an accurate description of the situation? If so, I have got some followup questions to ask you.

Mr. CAVANAUGH. I apologize. I got distracted during the last part of your question.

Senator STEWART. I was just asking you if the situation is as I described it.

Mr. CAVANAUGH. If we got cut more than other housing agencies?

Senator STEWART. If you have suffered both a real programmatic cut and a cut because your budget failed to rise as fast as the rate of inflation.

Mr. CAVANAUGH. I think the first is that, obviously, if your budget doesn't increase by the rate of inflation, you are able to deliver less—

Senator STEWART. So the answer to that is yes?

Mr. CAVANAUGH. Yes.

Senator STEWART. You also suffered a programmatic cut?

Mr. CAVANAUGH. In that a program was eliminated in the budget, namely the above-moderate guarantee program.

Senator STEWART. It seems to me as if there were some other cuts in the amounts of money—

Mr. CAVANAUGH. Now, between taking fiscal 1980 versus fiscal 1981, the other major cut is in the 502 unsubsidized homeownership program, a cut of \$328 million.

Senator STEWART. So, in fact, you did suffer programmatic cuts?

Mr. CAVANAUGH. Yes, sir.

Senator STEWART. All right. Now what would you do if you were a member of this Housing Committee to somewhat equalize the burden being impaired by the budget cuts? I know it's hard for you to divorce yourself from the administration's position, but you are our expert. What would you do? How would you face this situation?

Mr. CAVANAUGH. Well, I think, given the fact that the country has got to face some set of budget cuts—

Senator STEWART. I know the country has got to face budget cuts.

Mr. CAVANAUGH. The Congress also feels it's going to make budget cuts.

Senator STEWART. Congress is going to do this, and what we're trying to do is proceed in a slightly more equitable manner. That's one of the reasons I asked Senator Morgan to hold this hearing. I want to be able to establish a record here so that we work toward a more equitable solution.

Mr. CAVANAUGH. I would just say that I would hope that the rural programs did not suffer any cuts that were disproportionate to those in the urban programs.

Senator STEWART. Let's just say for argument's sake that they have, despite the rural initiatives that were announced in December of 1979, and despite the well-intentioned motivations of administrators. According to my staff the current administration budget poses three basic problems—one, it reduces low-income rental assistance for families with less than \$11,000 a year annual income; two, it reduces the amount of farmers' home loan assistance for moderate-income families or families with \$11,000 to \$15,000 a year annual income; and three, it eliminates the loan guarantee program for above moderate-income families, or those earning over \$16,500 annually.

What I would like to know from you gentlemen today is this: If you had to, how would you address these problems within the budgetary constraints that members of this Housing Subcommittee and Members of the Senate are currently facing?

Senator STEWART. What would you say if you were free from the fetters and bonds of the administration's position, and were speaking as an advocate? Tell me what changes you would make—because I will be free to make these changes—I'm not bound by the chains that are holding you.

Mr. CAVANAUGH. If I speak, I may be free from the fetters and bonds. [Laughter.]

Senator STEWART. If you've got a staffer out there that's got tenure, that can't be fired, send him up here and let him speak. You've got to catch a plane anyway.

Mr. CAVANAUGH. I support very much, and painfully so, that cuts are necessary. If someone were to ask me how I would recast our housing programs for the coming year and did not look on me as a budget expert—I get tangled in outlays, budget authorities, what have you—

Senator STEWART. So do I.

Mr. CAVANAUGH. But one might wish, for starters, that the above-moderate guarantee housing program could continue at some modest, restrained level. I say that as someone with some investment in our agency, who has worked hard for several years with a good deal of the private sector to begin to introduce that program and to make it workable. And I think it would be a shame if that public investment were totally discarded after the effort that's been made.

I would not suggest that it remain at the \$275 million level that was originally proposed in our 1981 budget. I would hope somebody might think of whether it should be retained at some level, so that we not lose such momentum as we have in the program.

I don't think there is any one of us who doesn't wish that times were different and that the unsubsidized 502 program could be at a better funding level. But I'm not prepared to recommend that, because I do think that I can't see the whole picture that the Government has in trying to implement its budget cuts.

PROGRAMS UNTOUCHED

What I think is completely correct about what has been done with our budget is that those programs that reach the people who have the least chance of getting resources anywhere else, have in fact been kept intact. Even under the amended budget cut, the 502 subsidized program has been untouched. The authorization levels for the rental assistance program has remained untouched. And the Administration's support for the home ownership assistance program (HOAP) has remained untouched.

All of those programs are more costly than the ones that have been removed, but I think they represent an important priority of trying to—

Senator STEWART. They are lower figures than they were for last year, aren't they?

Mr. CAVANAUGH. No, sir. The 502 subsidized is up by about \$80 million.

Senator STEWART. Lower number of units. Let's not get off into dollar figures. I like to look at the end results. You first got me off into dollar figures and you almost got me supporting the administration's requests.

Let me ask you about one change that could be adopted in the area of low-income assistance. That would be to stay with the administration's total budget levels, but reduce the request for the repair loan program by \$25 million. This would provide for a small increase, \$2 million, over last year's authorization level. And I have been told that this effectively would provide for an increase of more than \$10 million in program levels, because the administration turned back \$9 million in unused repair money last year. The other part of this recommendation is to retain the \$100 million requested for HOAP, but to amend the administration's request so that the money would be available for either low-income rental programs or the homeownership assistance program.

Now, the House is expected to take this action. What would your position be on these steps, as a way to slightly mitigate the damage done by the administration's budget cuts?

Mr. CAVANAUGH. Let me address the last proposal. As I understand it, there is being discussed, in effect, combining the authorization for the home ownership assistance program and rental assistance in the authorizing bill, which should the appropriations be made for the home ownership assistance program, permit the agency to implement the scale of program that we proposed, approximately 1,000 units.

If the appropriation is not received for the home ownership assistance program, we would be able to use those funds in rental assistance to try to bring the level of units assisted up to where they were last year.

Senator STEWART. That's what was discussed in the House.

Mr. CAVANAUGH. Yes; I happen to think that's a good proposal.

Senator STEWART. What about the first part of the proposal, to reduce the administration's request for the repair loan program by \$25 million? If this request doesn't go through, we will have an extra \$25 million which could be used for low-income rental assistance. This additional money would just about offset the reduction in assisted units that will otherwise result due to inflation.

Mr. CAVANAUGH. I think what I was saying is that, if I understand the proposal correctly, FmHA would be provided with a combined authorization for home ownership assistance and rental assistance. In the event that the appropriations were not made for the home ownership assistance program, we would be able to use that authorization to augment the rental assistance program.

Senator STEWART. You would also take \$25 million out of the home repair loan program and add the money to the appropriations for the HOAP program and the low-income rental assistance program.

Do you think this idea will work?

Mr. CAVANAUGH. To me personally that makes sense. And I might even add a little different twist to it, which is to take the 504 repair moneys and instead make that money available for the above-moderate guarantee program, so that the investment in that program would not be lost and it would continue at some level.

Senator STEWART. Of course, we are hopeful that the administration will do something like this. I wouldn't want to rob from the poor to help the near-poor. I want to see if we can't find some other way to permit the above-moderate loan guarantee program to be continued.

We're going to try to help you somewhat in this matter.

It's my understanding from staff—and I guess we can learn together here—that we don't need budget authority for the above-moderate program. So we can approach the problem of saving this program in another way.

I assume that you're speaking for the administration this afternoon in saying that you would be willing to help us try to keep the above moderate program in operation.

Mr. CAVANAUGH. I can't say I'm speaking for the administration in the proposal to combine the authorization, but I would strongly recommend it to the administration. It seems to me that we have proposed to you a budget that in two fashions attempts to deal with the problems of very low income people.

I assume the administration would have no objection whatsoever to spending the same total amount of dollars for that end, and if the home ownership assistance program were not appropriated, the equivalent of what would be those appropriations could be used for the rental assistance program.

Senator STEWART. Let me turn to some other questions going out of the concerns which I expressed at our previous hearing. I'm going to ask you two, and I'll submit the remainder to you and ask, if you would, to respond to those for the record.

I would like for you to describe for us very briefly the home ownership assistance program you are proposing for very low income families, and give your best arguments for proposing the program again this year in the face of last year's rejection of the program by Congress.

Mr. CAVANAUGH. Senator, when we last met here, you were pointing up, I believe, the fact that the lowest income levels that we were serving in our programs was going up; that we were basically leaving a number of people behind as the years went by. And of course, the reason for that is that our major housing program—I think it's almost 75 percent of what we do—is in the 502 home ownership program, and the individual housing costs for our agency have tripled in about 4 to 5 years time.

So that your observation was quite correct, that with inflation and with a limited subsidy, namely, down to 1 percent interest, we are regularly leaving more and more people unserved by the 502 program.

Now, it's our commitment that we would use our rental programs to reach those people who can't afford home ownership. However, it's also our experience that there are many small communities that in fact have not had rental housing development, that are unattractive to developers to develop the kind of small projects that are called for, and that consequently do not get a decent housing opportunity. We have renewed the home ownership assistance program to try to address the problems of such rural people, namely, those who cannot get decent housing in any other way.

And as I believe you know, we made the commitment that we would not use it where we could develop rental housing. Instead, we would use it first of all for existing housing, and only in the last resort would we use it for any kind of new construction.

If we do not have such a program, or one that someone else devises that gets to the same result, namely, bringing shelter within costs that people can afford, we really are just saying to those people that the promises of the Housing Act are not for them. Now, we recognize that Congress, or many Members of Congress, have concern about the home ownership assistance program. And it is for that reason that this year we have reduced the scale of the program to a demonstration size of approximately 1,000 units.

We think in conducting that demonstration we would be able to show people that it can be handled properly, that we can manage it properly, and that some of the sore housing needs of some very low-income people can be solved.

I might add, if I may, that the home ownership assistance program is treated as though it is something completely new under the legislative sun. Some of us have conducted a similar type program in the cities back in the late sixties, and I believe it's still on the statute. It used to be acronymed HOPLIF. I believe it's still in the public housing authority that HUD has, and it has basically the same concept of bringing home ownership to people who cannot afford within reasonable amounts of their income to buy a house.

I think the seriousness of the administration's commitment to the program and to seeing that it is something that is vitally needed is the fact that even in a lean budget year, it has proposed that we proceed on some level with this form of assistance.

Senator STEWART. Do any of you gentlemen have anything else to add?

Would you describe the gap that now exists in your program for moderate-income families?

INSURED OR DIRECT LENDING PROGRAM

Mr. CAVANAUGH. As a general observation, what is happening in our insured or direct lending program, Senator, is that those people who can get interest credit, currently those with adjusted incomes of under \$11,200, can often afford to buy a house before the interest rates go down to 1 percent; whereas, those people just above that cutoff point up somewhere approaching our maximum of \$15,600 cannot because you have got a great jump from what can be a 1-percent interest rate to what is currently a 13-percent rate, and yet, the spread of those incomes is not very great.

It's only when you get to the top of our income eligibility that you get people who again can afford a house. So that you have got gaps. Now those gaps have widened since we raised our rate now to 13 percent. And they will widen further, we believe, under the income limits we are about to implement under the 1979 Housing Act.

Mr. Jennings Orr, Assistant Administrator for Single Family Housing has for you a display which takes three States, one of which is Alabama, and shows you how things might look under the new income limits and current housing costs.

The first column shows you 80 percent of the State nonmetro median income. We are under directions from the 1979 Housing Act to use that as a definition of low income. And you can see what that is for Alabama.

The next column shows you what a new 502 house costs in Alabama. The third column shows the income needed to be able to afford to pay for that house with a 13 percent mortgage, applying 20 percent of your income to the principle, interest, taxes, and insurance.

The next figure indicates the income gap. That is a range in Alabama for a new house of approximately \$10,000 for people who cannot afford that typical buying Farmer's Home 502 house without interest assistance. And they are currently not eligible for it.

The next column shows you the affordability of the same house if you had the 1-percent mortgage. As you can see, we can keep it as

low as to enable people with \$6,500 income to afford that house, where people between \$10,000 and \$20,000 can't.

The last figure refers to an amendment that this committee added to last year's legislation, which is that 30 percent of our housing program, should go to people with 50 percent of median income or under. And as you can see there, they can't quite make it.

Now that picture changes, as you can see, in some of the other States that are illustrated. But basically, the problem in our view is that you have got a cutoff of—

Senator STEWART. Well, from the cutoff line up to what, \$20,549 annual income—

Mr. CAVANAUGH. Mr. Orr is pointing out to me again, staying in Alabama for a moment, the \$6,455 cutoff figure that you see there; 24 percent of the rural population in the State is below that income level.

Now we can serve, though it's not illustrated on that chart, people from the \$6,455 figure. We get 1 percent interest credit up through \$10,600.

That represents 18 percent of the State's population. And in the gap, that is, the figure from \$10,600 to \$20,500, is approximately 36 percent of the population which remains unserved.

Now we have the same figures—I see Senator Morgan has come back for his statement. It would somehow parallel those percentages, although a little different.

The thing that I do want to say, there is a little overstatement in the chart in that if one were talking of an existing house rather than a new house, slightly lower and broader incomes could afford it.

We are at the point now where I believe approximately half of our program is in existing housing. There are many States, however, and I include Alabama and North Carolina among them, where there is just not enough available existing housing of the size that people who are eligible for our program can buy.

So in those States, a new construction program is very, very important.

Senator STEWART. I'm going to yield to the chairman. He is back and Mr. Cavanaugh has indicated that he has a plane that he has to catch.

Thank you very much.

Mr. CAVANAUGH. Thank you, Senator. If I could append one thing in response to the Senator, but you don't need to stay for it. The last column really points up the need for HOAP as well, which you have asked about. Those people who were at 50 percent of State median income and below, where we're supposed to put 30 percent of our program, are really ruled out without some other program such as HOAP.

Senator MORGAN [presiding]. I haven't been able to convince them in Congress.

In light of your time, what effects would there be if Farmer's Home used their existing legal authority to close the gap?

Mr. CAVANAUGH. You mean by supplying interest credit through the eligible limits? Well, I think one is that there would obviously be larger amounts of expenditures. However, those expenditures

would be offset by the fact that all of our mortgages since last October have been written with recapture provisions in it.

Now we have done some surveys, Senator, of recently sold Farmer's Home houses that were recently on interest credit. We have done those surveys to determine how much of that interest credit we would have gotten back had they been subject to recapture. Those surveys, which I think included about 450 properties throughout the country, indicated we would have recaptured just over 70 percent of the subsidies that have been provided in connection with those houses.

Therefore, while there would be an increase in immediate outlays for interest credit over time, we believe that we would recover at least 70 percent of those increases. Perhaps as important as anything is that, in my view, we would have a fairer housing program and it would be affordable to those people whom Congress intends to serve.

You have told us last year you would like us to reach people below 80 percent of median income with 60 percent of the program. That's going to lead to some new income limits for the above low income people and we will have gaps such as this chart illustrates throughout the country in reaching those people who are just above the low income people.

Senator MORGAN. Let me ask you another one. Could moderate-income families benefit from the use of the guarantee program?

Mr. CAVANAUGH. We have not yet settled upon what would be the upper-income limit of the moderate-income program. What we are finding, incidentally, is that in some States, it is surprisingly high. It could very well be in some parts of the country where there are high incomes, that some people within the moderate range could afford a house under the guaranteed Farmer's Home program.

My own view is that there are going to be very difficult cases to call as to whether those who are within the definitions of eligible for insured, should get insured or guaranteed.

But I do think that the upper ranges in some States, with some of the income levels that we are seeing from the new formulas, that the guaranteed program would work.

That sentence was very Pennsylvania Dutch, and I apologize for it.

Senator MORGAN. Gordon, we've got a few more questions that we will want to discuss with you maybe before we get to the markup. But you have got a plane to catch and rather than push you, why don't we just close the hearing?

Mr. CAVANAUGH. Thank you very much, Senator.

[Whereupon, at 3:15 p.m., the hearing was adjourned.]

