

RURAL HOUSING SERVICE

Statement of Tammye Trevino, Administrator, Before the subcommittee on Agriculture, Rural Development Food and Drug Administration, and Related Agencies

Chairman Aderholt, Ranking Member Farr and Members of the Subcommittee, thank you for the opportunity to present the President's 2014 Budget for the Department of Agriculture's (USDA) Rural Housing Service (RHS).

As the only Federal Department with the primary responsibility of serving rural areas, the presence of USDA field offices in every state helps us serve the specific housing needs of local communities. USDA's housing programs ensure that rural families have access to safe, well-built, affordable homes. In Fiscal Year (FY) 2012, more than 153,000 families with limited to moderate incomes purchased homes utilizing our housing programs. We also helped about 7,000 rural individuals or families repair their existing homes under our home repair loan and grant program. More than 400,000 low and very-low income people were able to live in safe and affordable USDA-financed multi-family housing. More than 280,000 of these households were able to afford this thanks to rental assistance.

We also support the social infrastructure needed to make rural communities attractive to small business owners, employees and families. The Community Facilities program, also part of the RHS portfolio, provided assistance to construct or improve 215 educational facilities and supported 168 health care projects – part of more than 1,400 projects supported nationwide in FY 2012.

In FY 2014, the mission of the RHS remains unchanged. Through mortgage finance and refinance, as well as rental subsidies, we will continue to make housing opportunities available and affordable to rural Americans as they continue to work to ensure the security and prosperity of our Nation. We will seek to ensure that communities have access to the

capital they require to expand local infrastructure and build a lasting foundation for renewed economic growth. For 2014, RHS requests total budget authority of \$1.13 billion, supporting a program level of approximately \$27.23 billion in loans, loan guarantees, grants, and technical assistance.

RHS is the only Federal agency that provides direct single family housing loans to very-low and low income rural borrowers. The continuation of this program is crucial to maintaining access to affordable mortgage credit in rural America. Without these housing programs, it is possible that many rural residents would be without a home and dependant on other, more costly, assistance programs.

Our programs have grown significantly in recent years and that expansion has helped satisfy the homeownership and community development aspirations of many thousands of families across rural America. As we embark upon an era of much tighter budgets and significant reductions to salaries and expenses, our success will be gauged not only by how many new loans we can provide, but by how well we continue to manage the program and portfolio risks associated with existing loan obligations. Careful monitoring of our portfolio and effective management of its risk has always been among our topmost priorities. We view the expansion of our programs as tacit recognition of their importance to underserved rural communities, and we are grateful to Congress for the shared commitment to our mission.

Today, after experiencing staffing reductions in offices around the country, our shrinking portfolio servicing and risk management capability struggles to keep pace with the origination requirements of our expanding programs. As Secretary Vilsack emphasized in his testimony on the 2014 budget, any further reduction in funding for our back office operations would significantly impair our ability to deliver critical services, and would imperil our efforts to manage an increasingly complex workload with less money and fewer workers.

Single Family Housing SFH)

The impressive FY 2012 results posted by the Single Family Housing (SFH) Guaranteed program underscore both the successes and the challenges of expansion. For the seventh consecutive year, the total amount of rural home loans guaranteed has increased – from \$2.9 billion in 2006 to \$19.2 billion last year. In 2012, more than 145,000 guarantees were issued. By the end of FY 2012, we had provided more than 1 million rural families guaranteed loans for purchase and refinance since the SFH Guaranteed program started with a small pilot program in 1987. FY 2013 promises to be another record breaking year of about \$24 billion, the current authorized level.

The 2014 budget request proposes a continuation of the program level for the SFH Guaranteed program at \$24 billion, which could provide over 171,000 homeownership opportunities in 2014. This level of funding is supported by a fee structure which, coupled with low and stable default rates, results in a negative subsidy program requiring no budget authority. As in 2013, the fee structure includes a 2 percent up-front fee and 0.4 percent annual fee for both purchase and refinance transactions. The budget also includes language that will make the SFH guaranteed program a direct endorsement program, which is consistent with VA and HUD's guaranteed home loan programs. This will make RHS more efficient and allow the single family housing staff to refocus on the other unmet needs.

A pilot program implemented a year ago has increased the applications for refinancing loans. Refinance loans can be made to borrowers with existing USDA loans through our Guaranteed or Direct home loan programs. The pilot program expands eligibility for mortgage refinancing by eliminating the need for a credit report if a borrower has been current on loan payments for 12 consecutive months. Providing homeowners a new refinance option helps them keep their homes, pay their bills, and invigorate the local economy through increased consumer spending. Because these loans are already part of the existing USDA portfolio and because this pilot will lower monthly payments for borrowers, it will also mitigate portfolio risk and help protect taxpayers by reducing the incidence of default

and subsequent foreclosure. The pilot has resulted in 3,700 refinance transactions in 35 States through April 10, 2013.

SFH Direct loans and housing repair grants are both funded at reduced levels for FY 2014. This again reflects budgetary constraints and places increased emphasis within RHS on cost-efficiency as an important determinant of program viability. On an absolute basis, the lower-cost guaranteed loan program, which serves low and moderate income homeowners, dwarfs the reduction of the SFH Direct program, which serves very low and low-income homeowners and historically low interest rates mean that lower income applicants are able to qualify for the guaranteed program.

At a requested program level of \$360 million, the direct loan program is expected to provide just over 3,100 homeownership opportunities to very-low and low income borrowers. This is a reduction of \$357 million in program level. This reflects that with a \$24 billion guarantee single family housing loan level and interest rates at their lowest levels in decades, demand for the historical levels should be waning, and the focus should be on the utilizing the guarantee program to its fullest extent.

Given the current budget limitations, Mutual and Self-Help grants to local non-profit groups that provide assistance to families building their own homes is funded at a maintenance level of \$10 million. In addition, a few minimally funded housing assistance grants were eliminated.

Through the SFH Housing Repair grant program, USDA will provide approximately 4,100 grants to very-low income, elderly, rural homeowners in order to make essential safety-and health-related repairs to their homes. For 2014, the budget is requesting \$26 million in the repair loan program which will allow us to serve over 4,700 of the lowest income rural homeowners and optimizes historically low interest rates that allow lower income families to qualify for affordable repair loans.

In response to tightening budgets, RHS has continued to explore more cost efficient business models. Among them are the Real Estate Owned (REO)/Foreclosure and Single Family Housing Guaranteed centralization initiatives that could eliminate operational redundancies both within and among States. In addition to their cost benefits, these streamlining efforts reflect the Department's commitment to a "best-practices" approach with regard to the implementation of business process controls.

Multi-Family Housing Programs (MFH)

The Multi-Family Housing (MFH) budget reaffirms Rural Development's commitment to providing affordable housing options to the poorest of the poor in rural America. The average income of these program tenants is approximately \$11,000 per year. The total program level request for MFH programs is \$1.28 billion, 79 percent or just over \$1 billion, is for MFH Rental Assistance contract renewals. The requested rental assistance is sufficient to accommodate the expected over 230,000 rental assistance contracts that will be renewed. The 2014 budget also includes a re-proposal of legislation to gain authorities for USDA's RHS staff to have access to the Health and Human Service National Database of New Hires as well as Internal Revenue Service data, similar to what Housing and Urban Development has for its project based rent programs. This will help reduce improper payments in its means- tested programs, where the biggest benefit will most likely be in the Rental Assistance grant program.

The 2014 budget request proposes \$26 million in program level for the Section 515 direct loan program as well as about \$37.7 million in program level for the Multi-Family Preservation and Revitalization (MPR) Program. The high cost of housing replacement and the need to protect taxpayer investment in housing assets supports the request for preservation and management of RHS' existing housing portfolio. The funding of the revitalization program provides the tools needed to preserve RHS' aging portfolio of rental housing. The 2014 budget also includes a legislative proposal to provide permanent authorization for MPR tools. The MPR tools we have been using through annual demonstration program authority are a more efficient way to revitalize the existing multi-family housing portfolio. Enacting permanent authority

for the current MPR tools will provide flexible financial tools for critical multi-family housing preservation.

The budget request proposes \$32.6 million in BA for the combined MPR and Rural Housing Voucher Program. The voucher funding provides a rental subsidy to supplement the tenant's rent payment in properties that leave the portfolio either through prepayment or foreclosure. The budget requests for MFH Section 514/516 Farm Labor Housing is approximately \$32.1 million in program level funding.

Community Facilities Programs (CF)

The Community Facilities (CF) budget request will provide financing for the construction and improvement of essential community infrastructure and facilities across rural America, including hospitals, schools, libraries, clinics, child care centers, and public safety facilities. The budget proposes \$1.5 billion for direct loans, which is the optimal loan level given expected demand and underwriting ability of the RHS staff. The CF program will continue to provide critical health, public safety and educational benefits to over 9 million rural residents. The performance of these loans, coupled with the current economic assumptions and interest rate projections have translated into a negative subsidy cost for this program in FY 2014. The CF program continues to be a resource across rural America, as communities come together to modernize critical community infrastructure that is vital to improving rural health and educational outcomes and attract new businesses, quality jobs and improve economic growth. In addition, CF has been successful in leveraging direct loan funds through public private partnerships with capital credit markets and institutional investors seeking to invest in social infrastructure.

The budget proposes no funding for the CF guaranteed loan program since the direct loan program has become less costly, nor the Economic Impact Initiative (EII) Grant programs. The gradual increase in the direct loan program, coupled with private public partnerships, will more than offset the effects of the guaranteed loan program termination. For the EII grant program,

which provides assistance to rural communities with extreme unemployment and severe economic depression, the regular CF grant program can be used to fund these projects.

The 2014 budget no longer includes a CF set-aside for the Rural Community Development Initiative (RCDI). Activities similar to those provided through RCDI and the other grant programs will be consolidated and provided through the new Rural Business and Cooperative Grant program in the Rural Business and Cooperative Service. The new program will assist a wide range of recipients, including economic development organizations, business and community intermediaries, tribes and individuals. The new program will use an evidence-based model in awarding funding where grantees must meet minimum performance targets that encourage private sector growth.

In FY 2012, we invested over \$253 million of CF funding in 215 educational and cultural facilities serving a population totaling more than 3.8 million rural residents; over \$126 million in 413 public safety facilities serving a population totaling more than 2.2 million rural residents; and over \$862 million in 168 health care facilities serving a population totaling more than 4.3 million rural residents. The remaining balance was used for other essential community facilities such as food banks and other food security projects, community centers, early storm warning systems, child care centers, and homeless shelters.

Conclusion

As we consider the best way to position limited resources in 2014 to serve the complex needs of rural areas, we are confident that RHS will successfully implement the programs needed for a thriving rural America. USDA reaffirms its commitment to rural America in this budget proposal that balances the needs of the most poor, evident in the renewal of rental assistance subsidies, while still responding to the need for wealth creation in rural America, through the enormous growth and investments provided by the SFH guaranteed and CF direct programs. The budget proposal continues targeted investments that support long-term job creation and renewed economic expansion.

I appreciate the opportunity to testify before Members of the Committee and with my distinguished colleagues from RUS and RBS. We work well together, collectively serving constituents, to further support American competitiveness and growth. This budget supports our efforts and helps us fulfill the promise of rural communities. Thank you for your support of RHS programs. I am happy to answer your questions at this time.