

**Statement of Arthur A. Garcia
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**Before the
Committee on Financial Services
United States House of Representatives
Washington, DC**

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**Regarding
Fiscal Year 2004 Rural Housing Service Budget**

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Mr. Chairman and members of the Committee, thank you for this opportunity to testify on the President's Fiscal Year (FY) 2004 USDA Rural Development proposed rural housing and community program budget.

Rural Development assists in making rural America a better place to live and work. Our rural housing loan and grant programs help to revitalize small towns and rural communities. Most of our customers are first-time homebuyers who turn to us because we, in many instances, provide the only opportunity to share in the benefits of homeownership. As Secretary Veneman said last fall, "homeownership strengthens our rural communities and contributes to the overall quality of life for rural families. USDA works with community organizations, lenders and individual residents to provide opportunities to the millions who seek the dream of owning a home." We are called upon to be citizen-centered in President Bush's management agenda. We have responded to this call with programs that help rural families purchase homes and gain access to affordable rural rental housing, and we provide financing for essential community services, such as

facilities for health care, police and fire protection, adult day care, child care, and educational institutions.

For more than 50 years, Rural Development has assisted some of our Nation's poorest people who reside in the most remote areas of our country. Whether on Indian reservations in the Dakotas; the Colonias along the Mexican border; the isolated pockets of the Appalachian mountains in West Virginia; or the Mississippi Delta, our programs provide the essential link to individuals, communities, and financial markets so that all rural residents may share in our Nation's prosperity and enjoy basic human dignities of housing and community facilities.

Let me share with you how we plan to continue improving the lives of rural residents under the President's FY 2004 budget proposal for our rural housing programs.

SINGLE FAMILY HOUSING PROGRAMS

We are proposing an increase of approximately \$400 million more for Single Family Housing (SFH) direct loans. With the \$5.67 billion total program funding, more than \$4 billion will be used to make guaranteed and direct SFH loans. These funds will assist nearly 49,000 rural families to purchase homes, and most of them will be first-time homeowners. Of the SFH funds, \$2.3 billion will be available as loan guarantees with private partners to help approximately 28,500 low- and moderate-income families become new homeowners. An additional \$225 million in loan guarantees will be used to refinance loans for approximately 2,500 rural families in order to make their payments more affordable. We will fund another \$1.4 billion in direct loans and assist nearly 18,000 low and very low-income families who cannot obtain credit to purchase homes without a down

payment, or who cannot meet the loan terms offered through most lenders. In addition, the FY 2004 budget includes \$35 million in direct loans and \$31.5 million in grants to approximately 12,000 elderly and disabled families or individuals to repair or rehabilitate their homes to decent, safe, and sanitary housing.

The subsidy cost of the SFH direct loan program will be less expensive in 2004 due primarily to lower interest rates and more accurate projections of the financial status of our borrower population. This cost savings will enable Rural Development to help more families obtain homeownership and lowers the cost to taxpayers to about \$7,000 per home financed. The loans that we guarantee in the private sector cost slightly less than \$1,500 per home. For rural Americans with very-low, low, and moderate incomes, the SFH direct and guaranteed loan programs continue to be the most cost-effective housing programs available.

Five-Star Commitment to Increase Minority Homeownership

President Bush has made a commitment to remove the barriers that stand in the way of our Nation's minority families from obtaining homeownership.

According to the 2000 census data, minorities represent about 13 percent of rural Americans. Almost 24 percent of the individual home purchases and repair loans, grants and loan guarantees administered by Rural Development in FY 2002 went to minorities. In addition, more than 60 percent of the loans and grants were made to women or female-headed households. We also help disabled families remodel, build and afford barrier-free access to housing.

We can do even better.

To implement the President's vision, Rural Development's Under Secretary Tom Dorr recently announced the **USDA Five-Star Commitment** to expand rural minority homeownership. This commitment will help make housing available to all rural Americans by:

- Lowering fees to reduce barriers to minority homeownership;
- Doubling the number of Mutual Self-Help participants by 2010;
- Increasing participation by minority lenders in our rural housing programs;
- Promoting credit counseling and homeownership education; and,
- Monitoring lending activities to ensure that we attain a 10 percent increase in minority homeownership.

Lowering Fees to Reduce Barriers to Minority Homeownership

To encourage more minority participation in the guaranteed single family housing loan program, Rural Development recently reduced the guarantee fee to make homeownership more affordable. Our goal in reducing the up-front costs is to increase homeownership opportunities for low- and moderate-income borrowers, particularly minorities. The fee was reduced from 2 percent to 1.5 percent for purchasing a home, representing an average savings of \$435 per family. Also, the fee was reduced from 2 percent to 0.5 percent for refinancing a guaranteed loan, representing an average savings of \$1,305 per family.

We closely monitor the other fees charged by participating lenders in our SFH guarantee program to ensure that fees charged are reasonable. Further, we work closely on the local level with local non-profits, which provide our first-time buyers with homeowner

education training, credit counseling, and assistance in obtaining grants for closing costs and other basic homeowner assistance.

Doubling the Number of Self-Help Participants by 2010

The FY 2004 budget request includes \$34 million for the section 523 Mutual Self-Help Technical Assistance grant program. In FY 2002, Rural Development partnered with more than 140 groups to help provide homeownership opportunities to rural families through this ‘sweat equity’ program. Last year, nearly 1,500 families built their homes through the Self-Help program, representing about 10 percent of the total SFH direct loans. Self-Help grantees assist groups of six to twelve families as they work together to build their own neighborhoods. They provide homeowner education, guidance through the loan application process, and supervision and technical assistance in building their homes.

The individual successes of our Self-Help borrowers are proof of the life-altering affect of this program. One example is the Elsie and George Phillips family of Birdsong, Arkansas. This couple, now in their 80's, recently moved into the new home they helped to build – after living in a dilapidated trailer for the past 24 years.

Increasing Participation by Minority Lenders in Rural Housing Programs

Rural Development works with more than 3,000 lenders and other partners in our direct and guaranteed loan programs. Lenders in the guaranteed program range in size from small hometown banks to large nationwide lenders. One of our largest lenders, J.P. Morgan Chase (Chase), recently committed \$500 billion to increasing minority

homeownership, in part through our rural housing loan guarantees. Chase is the largest participating lender and services almost 40,000 rural housing guaranteed loans, totaling over \$3 billion.

Rural Development field employees are trained to reach out to their respective communities, develop relationships, and enhance partnerships with lenders and others serving the housing needs of minorities in rural America.

Promoting Credit Counseling and Homeownership Education

Rural Development has partnered with the FDIC to use its MoneySmart program to provide homeownership education to our applicants. FDIC has provided training to our field employees on their program. MoneySmart provides an additional tool to assist in creating successful homeowners.

Locally, rural housing partners with many federal and state agencies to assure low-income applicants have access to homebuyer education. These programs, many funded through HUD's HOME program, provide homeownership education and credit counseling. We have established effective working relationships with public and private groups offering these services to rural communities. Our goal is to assure that homebuyer education programs are available in all rural areas.

Monitoring Lending Activities

Increasing minority homeownership is a serious matter for us. We have established goals at the National and State Offices. These goals are performance-based and at each level of the organization, performance will be rated, in part, by achievement of the goals.

Rural Housing Programs More Important Than Ever Before

The Home Repair Loan and Grant Program helps very low-income families whose homes are in need of repair. The program is for those families who own a modest home in a rural area, but are unable to obtain financial assistance to repair their homes. The average annual income of households obtaining home repair assistance last year was under \$10,000. Funds are used to make substandard homes decent, safe and sanitary through repairs and rehabilitation, including installation of indoor plumbing, new furnaces, weatherization, safe wiring, new roofs, and making homes accessible for persons with disabilities.

In its October 2000 report, Opening Doors to Rural Home Ownership: Outcomes from the National Rural Housing Coalition Rural Home Symposium, the National Rural Housing Coalition stated, “Although poverty has decreased to its lowest level in 20 years, almost all of the changes occurred in central cities and metropolitan areas. Rural homeowners are more likely than homeowners as a whole to live in substandard housing.”

In its December 2002 report Taking Stock: Rural People, Poverty, and Housing at the Turn of the 21st Century, the Housing Assistance Council stated: “Minorities in rural areas are among the poorest and worst housed groups in the entire Nation, with disproportionately high levels of inadequate housing conditions. Non-white and Hispanic households are nearly three times more likely to live in substandard housing than white rural residents.”

The FY 2004 proposed budget contains \$66.5 million to assist up to 12,000 families with incomes below 50 percent of the area median income. This includes \$35

million in home repair loan funds for 6,000 very-low income families and \$31.5 million for grants to assist a comparable number of elderly homeowners.

Jaime Morales moved to the United States in 1990. In 2002, he and his wife, Maria, were able to purchase their own modest home in Horizon City -- near El Paso, Texas -- for less than \$20,000. However, as with many homes in the Colonias, their house lacked adequate plumbing and needed other repairs. Jaime could do much of the work needed on the house, but with limited income from work at a pallet shop, the plumbing would have to wait. A Rural Development grant of \$3,320 has changed that by paying for a connection to a public water system, the Lower Valley Water District. We provided funding for piping, a sink, commode, water heater inside the house, and installation of an individual septic system. This grant has truly improved the living conditions of Mr. & Mrs. Morales and their son, Jaime, Jr.

We have a very successful record of working with private and nonprofit organizations to increase homeownership in rural communities. In FY 1996, only about 8 percent of the SFH direct loans were leveraged with funds from additional sources, such as other bank loans, or obtained down payment assistance and other grants. In that year, these other funding sources provided only 3 percent of the total cost of the home purchase. Last year, more than 55 percent of the loans were leveraged, with other sources contributing more than \$120 million. This enabled us to assist an additional 2,000 families to own their home – an expansion of tax dollars of more than 12 percent.

MULTIFAMILY HOUSING PROGRAMS

Rural Development's Multi-Family Housing (MFH) program creates tremendous housing opportunities in rural America, and at the same time, stimulates local economies.

With the request of just under \$1 billion -- \$981,497,000 -- in the President's FY 2004 budget, we will use \$70.8 million of MFH direct loan funding to provide much-needed repairs or rehabilitation to approximately 5,900 of the 17,500 rental properties in the multi-family portfolio. These apartments provide decent, safe, sanitary, and affordable residences for more than 450,000 tenant households.

Since we are not proposing FY 2004 funding for new construction, our budget includes \$100 million in guaranteed loans that may be used for new construction. In addition, the request includes \$42 million in loans and \$14 million in grants for section Farm Labor Housing living units — most of which will be new construction.

Under the President's FY 2004 budget, MFH guarantee loans will build 2,400 apartments and repair, rehabilitate and pay incentives to owners on 5,900 apartments. In the Farm Labor Housing program, over 1,700 apartments will be built or repaired. These programs provide year-round homes to migrant and farm workers. Providing adequate housing to the workers who provide field labor to process agricultural products is essential to having a dependable and available workforce.

According to the National Association of Home Builders, building 100 multi-family homes generates \$5.3 million in local income in the year of construction, and \$2.2 million every year thereafter. These same 100 multi-family homes create 112 local jobs in the first year of construction, and 46 jobs every year thereafter. They contribute \$630,000 in local government revenues in the first year of construction, and \$384,000 every year

thereafter, for a total of \$4.1 million over 10 years. Investing in multi-family housing builds economic stability in rural communities.

Together, the MFH and Rental Assistance (RA) programs provide decent, safe, and affordable housing to families who need it the most. The MFH direct loan program is the largest of the MFH programs, and is a principal source of multi-family housing for the elderly in rural America. Non-elderly households making up approximately 45 percent of the residents in the MFH program. In this program, we make 1 percent interest loans to private individuals, state and local housing agencies, and non-profit organizations, who build apartments and offer them as rental housing, primarily to very low-income senior citizens and working mothers. The incomes of these households average about \$8,100, well below the poverty level.

Nearly 20 percent of our resident population – some 90,000 households -- pay more than 30 percent of their monthly income for rent. The President's FY 2004 budget requests \$740 million for RA to ensure the integrity and financial stability of MFH and Farm Labor Housing loan and grant programs. In FY 2004, well over 93 percent of the RA budget will be used to renew more than 42,000 RA contracts so that elderly, disabled, and female-headed resident households remain in safe and livable rental apartments they call home. The remainder of the RA funding will be used to keep rent affordable when repair and rehabilitation are needed for existing units. Rental assistance ensures that rural Americans have barrier-free access to affordable, decent, sanitary, and safe rental homes. Today's residents represent tomorrow's first-time homeowners who also dream the American dream of homeownership.

Preservation Strategy

This fiscal year is the first year since inception of the program in 1974, that we will direct all of the MFH direct loan program funds to the repair or rehabilitation of our aging \$11.9 billion portfolio. We have adopted this strategy to address the major preservation issues facing a significant portion of the MFH portfolio.

Approximately 70 percent, or 450,000 apartments in the portfolio are over 15 years old. For these programs to remain viable, we must now address the property's long-term physical needs.

Over the past year and a half, we have faced the possibility of losing affordable housing due to borrower prepayment. In 1979, 1988, and 1992, Congress passed legislative changes to the MFH programs to restrict a borrower's ability to prepay their loan, thereby protecting residents from displacement. With an average income of only \$8,100, MFH residents are extremely vulnerable to displacement when prepayment occurs. Recent legal actions brought by borrowers have challenged the statute that governs the MFH prepayment process. The future of the MFH program will require continued strategic and tactical planning and execution to keep affordable housing available to our residents. Our methods will include a combination of changes to the program, program incentives to owners, and the establishment of new partnerships with state and local housing agencies, non-profits, and faith-based organizations, whose commitment to rural communities is long-term.

It is more important than ever that we pursue an effective strategy for managing the MFH preservation process as the portfolio ages. We continue to examine possible solutions to these issues, including methods of protecting existing residents, reducing

barriers to non-profit and public body participation, making improvements to the regulatory process to streamline preservation activities, and further addressing prepayments. We are making decisions critically and judiciously to determine those projects that may no longer be needed in communities and allowing those to migrate from the program. In most instances, however, where we determine that MFH continues to be needed, we must fight hard to keep properties in the program and maintain the flexibility to finance housing where it is needed. We look forward to working closely with you and your colleagues as we address the MFH program needs.

Rural Development's MFH program has a long proud history of working with faith-based organizations to provide housing to rural America. In fact, since 1975, we have made 125 loans to faith-based organizations and affiliation of faith-based organizations to construct more than 4,253 units of rental-assisted properties located in 24 states. More recently, several large national faith-based housing organizations have been very active in acquiring Rural Development-financed MFH properties that were in danger of being lost as affordable housing through prepayment. We encourage nonprofit organizations such as these to take over preservation properties, as the organizations often bring additional resident services to the properties. Additionally, their charters anticipate that they will remain owners in the program for a significant time period, thereby reducing the chance that a property will, again, be taken out of the affordable rural housing portfolio.

We are also examining industry-wide asset management practices to develop our MFH property's capital needs, such as roofing, exterior siding, major mechanical systems,

window and door replacement, flooring, and rehabilitation of common areas such as laundry rooms, meeting rooms, and parking lots.

Based on housing industry standards and our own reserve requirements, owners will typically need about \$10,000 per unit in rehabilitation funds every 8 to 12 years. Reinvestment of capital in these properties assures continued modernization of multi-family housing and protects the value of the property as collateral for the loan. Timing of these investments and adequacy of additional funding sources are aspects of capital risk management that must be considered. It is important to note that capital replacement is needed due to the normal aging of the physical building. We are working to determine the best methods to achieve these housing goals and will have a one-time comprehensive study of our portfolio conducted. We anticipate that the study will allow us to develop short-term and long-term strategies to manage and protect this \$11.9 billion national asset.

COMMUNITY PROGRAMS

Along with decent and affordable housing, many communities also have a need for essential community facilities, such as educational buildings, fire, rescue, and public safety facilities; and child care centers, health care facilities, and day care and assisted living facilities for their increasing senior citizen populations. Having adequate community facilities not only impacts the quality of life for community residents, but also makes easier for communities to attract and retain businesses. Rural Development's Community Facilities (CF) direct and guaranteed loan and grant programs provide funding for these essential facilities.

The FY 2004 budget includes \$477 million for the CF program: \$250 million for direct loans, \$210 million for loan guarantees, and \$17 million for grants. This level of funding will allow us to continue the commitment to educational facilities, which are especially important in preparing rural children and adults to compete in the global economy.

In FY 2002, Rural Development assisted 134 communities by investing \$46.7 million in buildings to house public schools, charter schools, libraries, museums, colleges, vocational schools, and educational facilities for the disabled. Rural Development also helped finance the purchase of computers and other technological equipment. Public safety is often a need in rural communities. In FY 2002, we invested \$105.7 million in 537 facilities, including communications centers, police, fire and rescue stations, civil defense buildings, and related vehicles and equipment. An example is the recently opened Central Shenandoah Criminal Justice Training Academy in Virginia's Shenandoah Valley. Rural Development invested \$3.8 million in direct loan funds and \$2.3 million in guaranteed loan funds in this 56,000 square foot facility, which can train 280 students at one time. The curriculum ranges from basic law enforcement through the most technical and sensitive issues of homeland security and emergency preparedness. The academy's membership comprises 57 agencies, including local police and sheriffs' departments, emergency operations centers, regional jails, and private police departments. The facility is also made available to State and Federal agencies for independent training.

In partnership with local and state governments and Indian Tribes the CF budget will support more than 140 new or improved health care facilities, more than 130 new or improved fire and rescue facilities, and about 50 new or improved child care facilities in

FY 2004. These essential community facilities will create or preserve more than 30,000 jobs in rural America.

Centralized Service Center

The USDA Centralized Service Center (CSC) in St. Louis, Missouri, provides all written and oral communication to customers in either English or Spanish to better serve the needs of these customers. At the CSC, we have used aggressive recruitment and retention initiatives in order to create a workforce that is 11 percent bilingual. The CSC also works closely with the National Industries for the Blind and provides monthly mortgage statements in Braille for blind customers. National TDD phone service is also available from CSC, as well as e-mail customer responses for customers with hearing disabilities. Over 10 percent of the CSC employee population have a disability and are provided special equipment to enhance their productivity and ability to serve customers.

Rural Development's commitment to helping people become self-sufficient is also evident in their ongoing Welfare-to-Work initiative. CSC has worked with the St. Louis Transitional Hope House and the American Red Cross to employ former welfare recipients. Twenty-six employees referred through this effort started out as worker trainees. Eighteen have since been promoted into permanent loan processor positions. New worker trainees are provided with mentors, and may later become mentors themselves as they become proficient in the work environment. One employee who started in the Welfare-to-Work program is now enrolled in college and pursuing an accounting degree. Another has obtained rural housing financing and is now a proud single-parent homeowner.

The CSC has received several individual and Government agency awards for its initiatives. These include awards from the Council for Employment of Individuals with Disabilities, the Hispanic Employment Council, and the Black Employment Council.

eGovernment

Rural Development is actively supporting the President's eGovernment initiative. We are engaged in implementing a department-wide electronic government strategy, which calls for greater integration and collaboration across USDA and across government in developing and delivering services to citizens and businesses.

When I arrived last year at Rural Development, electronic loan processing for our SFH direct loan program was performed by a commercial, off-the-shelf software system. This software, called UniFi, improved rural housing loan processing nationwide, but was limited by requiring dedicated computers in each office.

In FY 2002, \$1 million was allocated to 'web enable' the UniFi software. The primary objective of the project was to convert the personal computer-based UniFi system to a centralized, web based server application that allows for multiple-user access and uniformed system maintenance. All field offices have successfully converted to the centralized database.

In our SFH guaranteed loan program, the primary platform that allows guaranteed lenders to interact with us is the Lender Interactive Network Connection (LINC). LINC was launched in 2001 and we are continuing with enhancements to improve the transfer of information between lender-partners and Rural Development.

Rural Development has also implemented an Electronic Data Interchange and a web- based reporting system that greatly enhances the ability of our lender-partners to report the status of the guaranteed loans they service. Lenders can report more data, more frequently, more accurately, at less expense.

We are very excited about the Automated Loss Claims system that will be implemented this spring. This web-based system significantly reduces the paperwork burden on our lenders, allowing them to submit their loss claims electronically. The Automated Loss Claims system will significantly speed up the process, saving the government interest expense. In addition, the Automated Loss Claims system will enable lenders and Rural Development to gather more comprehensive data on loss claims -- data that will be used in our risk management efforts to continually reduce the cost of our programs.

Another technology-driven development is our Automated Underwriting system for guaranteed loans, scheduled for release this summer. This web-based system will automate the property and applicant eligibility determinations, streamline the underwriting process, allow for better and more fair underwriting decisions, improve the quality of our data, increase our risk management capabilities, and decrease processing time and costs for both lenders and Rural Development. Lower processing costs will lead to more affordable mortgages for rural home loan applicants.

We have developed two databases in MFH that provide accounting and management information. In FY 2002, a major upgrade converted the existing system to a web-based format. The upgrade provided additional eGovernment capabilities by enabling borrowers to submit information electronically.

Rural Development has played an important role in the USDA's county-based agency eForm initiative. The eForms website was developed in response to the requirements of the Freedom to E-File Act (P.L. 106-222) passed by Congress in June 2000. Through collaboration with the Farm Service Agency, the Natural Resources Conservation Service, and Rural Development, customers, producers, partners, and others have electronic access to forms related to USDA programs. The website permits Rural Development customers to access and download forms to apply and participate in our programs.

Rural Development employees and management recognize the tremendous positive impact of homeownership on the economy, its impact on families' lives, and on the strength of rural communities. We recognize that Rural Development cannot address the homeownership and rural community facilities issues alone, and will continue to identify and work with partners who have joined with the President to improve the lives of rural residents. Rural Development will continue to reach out to and partner with lenders, the many faith-based groups and other non-profit organizations, as well as federal, state, local, and Indian Tribal governments to meet the housing and community needs of low income families and individuals in rural America.

I hope I have illustrated for you the many ways that Rural Development's rural housing and community programs improve lives in rural areas. Mr. Chairman and members of the Committee, with your continued support, Rural Development looks forward to improving the quality of life in rural America by providing housing opportunities and building competitive, active rural communities.