



Housing Assistance Council

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**Statement for the Record of David Lipsetz,
Chief Executive Officer, Housing Assistance Council**
House Financial Services Committee
Subcommittee on Housing, Community Development, and Insurance
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Introduction

Chairman Clay, Ranking Member Duffy and members of the Subcommittee, good morning and thank you for this opportunity to testify on the housing challenges faced by rural Americans. It gives me great hope that this Subcommittee's first hearing of the 116th Congress is shining light on this issue. My name is David Lipsetz and I am the CEO of the Housing Assistance Council, known as "HAC."

HAC helps build homes and communities across rural America. Founded in 1971, headquartered in Washington, D.C. and working in all 50 states, HAC is a national nonprofit and a certified community development financial institution (CDFI). We are dedicated to helping local rural organizations build affordable homes and vibrant communities. We provide below-market financing, technical assistance, training and information services. To learn more, please visit www.ruralhome.org.

HAC also serves as rural America's "Information Backbone" with leading public and private sector institutions relying on HAC's research and analysis to shape policy. We are independent, non-partisan and regularly respond to Congressional committees and Member offices with the research and information needed to make informed policy decisions. If you need to know how a new program or policy could impact America's smallest towns, please don't hesitate to call on us. It is an honor to be here in this capacity today, on a panel with so many distinguished rural housing advocates.

If I were to summarize my testimony, it would be to say the one thing everyone in this room agrees on — public policy plays a powerful role on life outcomes. Whether you believe there is too much regulation or not enough public and government intervention, you recognize that our nation's housing and economic policy has played a significant role creating the present rural housing crisis.

This crisis has been decades in the making. It will take us decades to undo. We will need a wide variety of answers and tools to unwind what has been done. Chief among them must be building high capacity organizations embedded in the communities we serve. HAC has been working in rural communities for nearly half a century. We have learned that federal policy programs cannot have their intended impact without local organizations doing the work on the ground. The existence of such organizations is at the heart of why some regions prosper and others fail. We must commit to building local capacity if we want all the federal finance and housing programs to work. To a large extent, we have failed to do that in and for rural America.

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HAC is an equal opportunity lender.

Rural Landscape and Capacity Building

Rural America is approximately 20 percent of the U.S. population, living in rural or small-town communities located across more than 90 percent of the U.S. landmass. In rural and small-town areas, the population grew by 3.5 million, or 5.6 percent, between 2000 and 2010 – a rate below the national level. While rural areas as a whole gained population over the past decade, many communities, especially in the rural Midwest, Central Appalachia, the South and the Midwestern and Northeastern “rust belt,” continued losing population.¹ Population loss has significant effects on these communities’ housing stock as well as their overall economic viability.

While each place is unique, trends show a rapid growth of the Hispanic population in rural areas, as well as a larger share of older residents and an outmigration of young adults.² Persistent poverty counties – those where poverty rates have exceeded 20 percent since 1990 – are predominantly rural. With respect to housing specifically, 40 percent of renters in places with populations under 10,000 pay more than 30 percent of their income for housing.³

It’s no secret that in recent decades, opportunity and wealth have clustered into a limited number of metropolitan regions, mainly along our coasts. Much of rural America has been left behind. Many rural regions have been stripped of their economic engines, financial establishments and anchor institutions.

Small towns, frontier communities and rural regions stretch across every state and most congressional districts. And it is in these places where you can find the nation’s deepest and most persistent poverty. The most challenged regions include Appalachia, Native American communities, the Mississippi Delta and southern Black Belt, farmworker communities and the Southwest border colonias. This is where HAC does some of its most important work.

In response, the importance of capacity building and access to capital cannot be overstated when it comes to rural housing. Sustained federal support for rural capacity building is what makes investments work in rural America. Strong local institutions do not happen by accident. Federal investment toward rural capacity building launched nearly all the most successful local and regional rural housing organizations that we know today. Congress has long recognized the importance of capacity building. Yet the Department of Housing and Urban Development (HUD) and programs such as Section 4, the Continuum of Care Program, and HOME’s Community Housing Development Organization (CHDO) set-aside were developed to solve problems in urban housing markets. Rural housing markets are not just smaller versions of urban ones, and these programs do not necessarily translate to the benefit of rural places. Rural-specific programs and capacity building have been more piecemeal and too often not national.

¹ Housing Assistance Council, “Taking Stock: Rural People, Poverty and Housing in the 21st Century.” December 2012. <http://www.ruralhome.org/sct-information/mn-taking-stock>

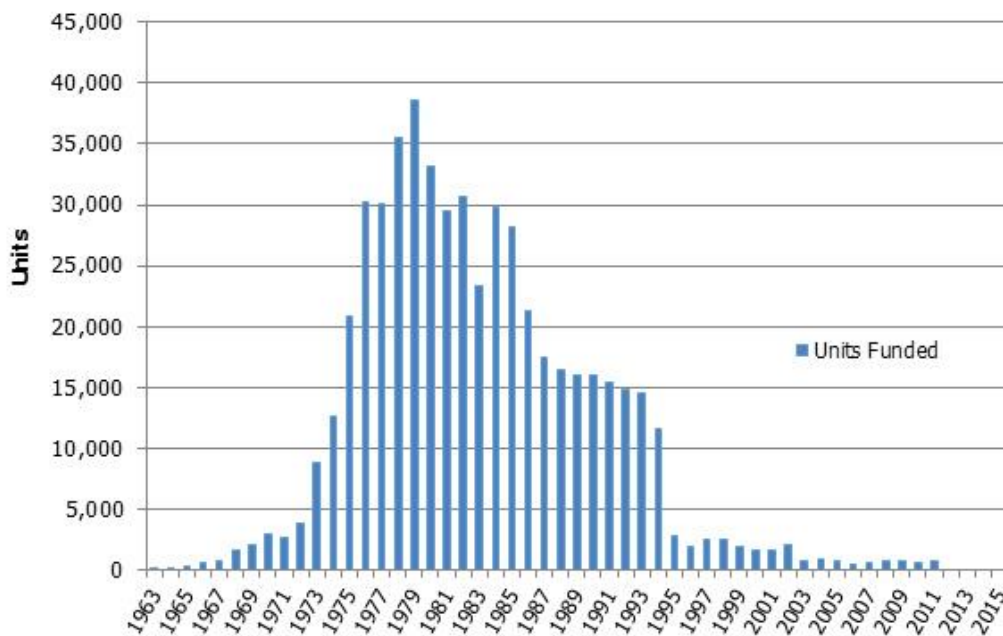
² Ibid.

³ Housing Assistance Council, “HAC: Building Rural Communities, Annual Report 2017.” December 2017. <http://www.ruralhome.org/about-hac-sect/menuabout-hac/cat-about-hac-reports>

Rural Rental Preservation

Affordable rental options in rural America are not only sparse, they are also declining. An important source of housing in many rural communities are rental homes financed by the U.S. Department of Agriculture (USDA). Today there are over 13,000 USDA Section 515 rental properties providing more than 415,000 affordable homes to families and individuals across rural America. However, funding for the Section 515 program has been cut dramatically and no new USDA direct-financed rental housing has been funded since 2011. Additionally, because Section 521 Rental Assistance is tied to the property’s mortgage in the Section 515 or 514 program, the existing properties are in danger of losing their affordability as their mortgages mature.⁴

USDA Section 515 Rural Rental Housing Loans, FY 1963 - FY 2016



Source: HAC Tabulations of RD Data

Eighty-seven percent of all counties have at least one USDA multifamily rental property.⁵ For example, Ranking Member Duffy, Wisconsin’s 7th district is home to 109 Section 515 properties with 2,234 occupied units. Five of these properties with 82 occupied units have program exit dates before 2025. Expanding the date out to 2030, there 29 properties with 471 occupied units exiting the program in your district.⁶

⁴ Housing Assistance Council, “Rental Housing for a 21st Century Rural America, A Platform for Preservation.” September 2018. <http://www.ruralhome.org/sct-information/mn-hac-research/mn-rrr/1602-rpt-platform-for-preservation>

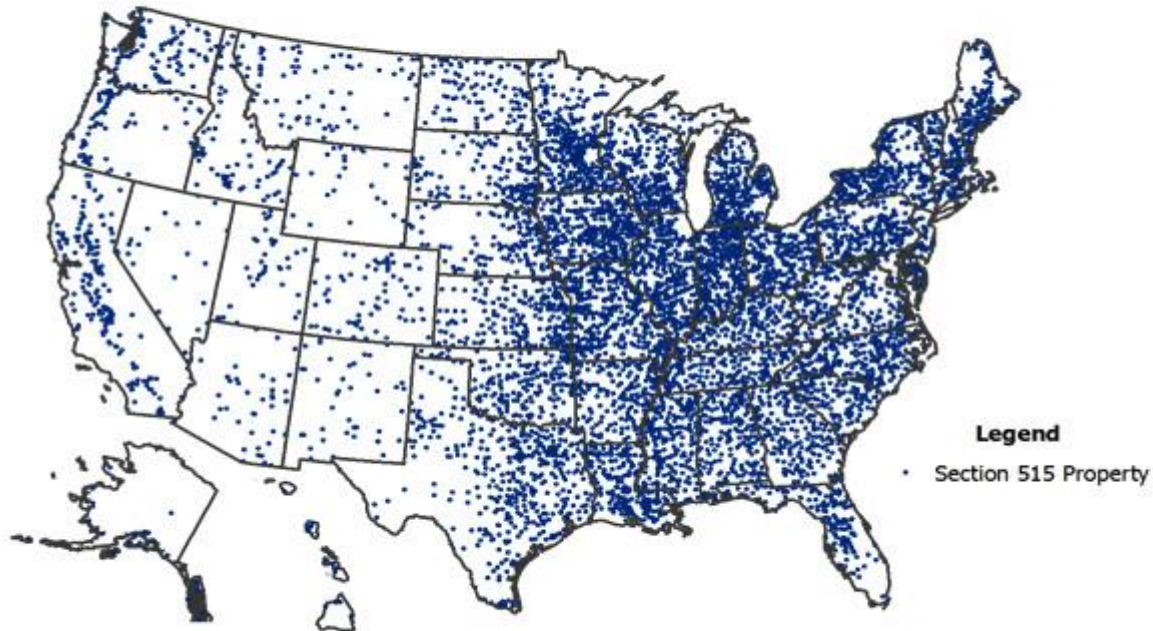
⁵ Ibid.

⁶ List of active USDA Section 515 properties from: https://www.sc.egov.usda.gov/data/MFH_section_515.html
Program exit dates from: <https://www.sc.egov.usda.gov/data/MFH.html>

And Congressman Cleaver, Missouri's 5th district is home to 18 Section 515 properties, 11 of which will have maturing loans in the 2030s. That means without action, over 60 percent of your district's Section 515 properties could leave the program in the coming years.⁷

USDA Section 515 Rural Rental Housing Properties

Properties as of June 30, 2017

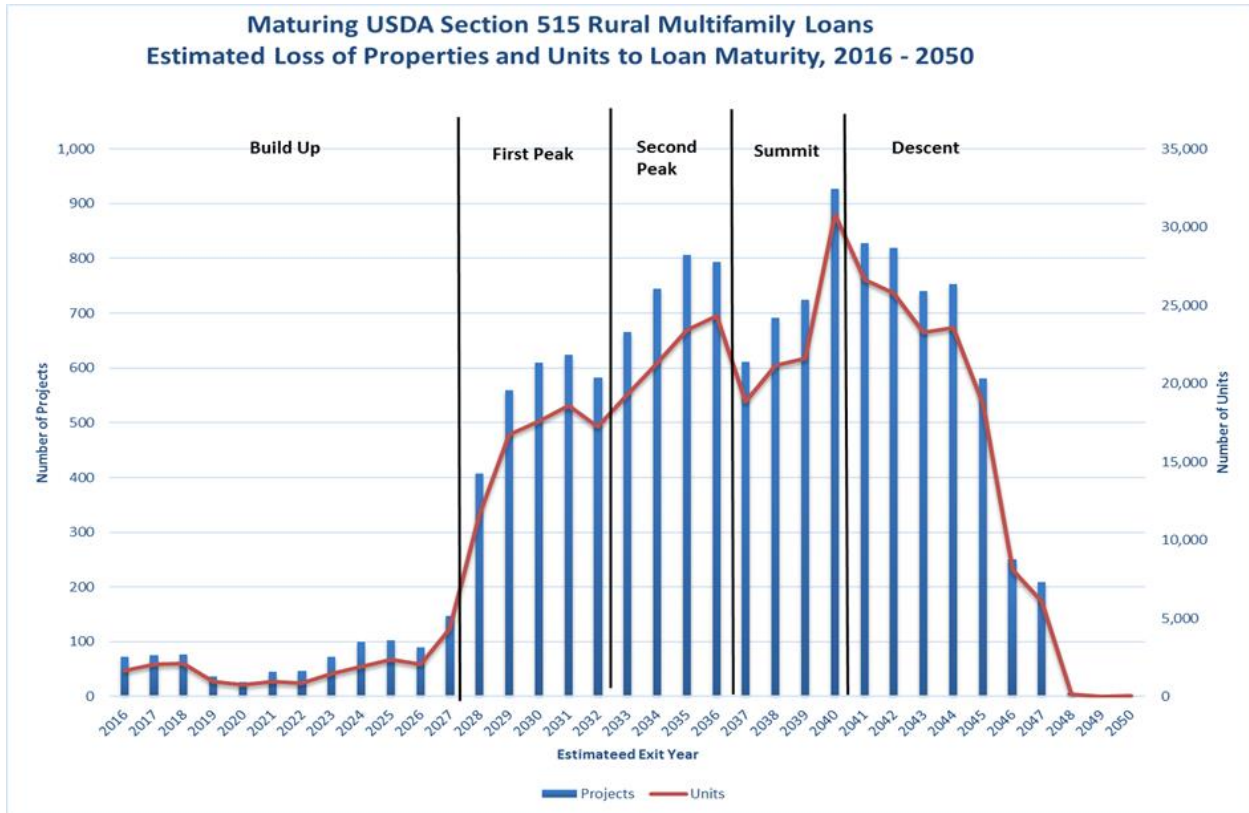


Source: Housing Assistance Council (HAC) Tabulations of USDA Data

Maturing mortgages are the most pressing preservation issue for Section 515 properties. Mortgage maturity projections indicate that an average of 74 properties (or 1,788 units) per year will leave the program from 2016 to 2027. Maturities will then continue over three phases lasting four to five years each, with each involving about 2,800 to 3,000 properties containing about 82,000 to 92,500 units. Over 20 percent of the properties are expected to exit the program during each of these three phases.⁸

⁷ Ibid.

⁸ Housing Assistance Council, "Rental Housing for a 21st Century Rural America, A Platform for Preservation." September 2018. <http://www.ruralhome.org/sct-information/mn-hac-research/mn-rrr/1602-rpt-platform-for-preservation>



In considering solutions to this crisis, HAC looks at four key interests in the Section 515 landscape: tenants, property owners, USDA and the broader public interest. Our recent report, which includes the most up-to-date data available on rural housing preservation, lays out strategies for each of these four stakeholder groups, and HAC would be happy to share that report and those recommendations with the Subcommittee. Of note in these findings is the importance of local nonprofits and other mission-focused entities in preservation, and the need for increasing their capacity. A Section 515 property is significantly more likely to be preserved in the system if in (or moving to) nonprofit ownership.

We would also like to thank Chairman Clay for his leadership on the Strategy for Rural Housing Preservation Act, which is a commonsense step toward better transparency, reporting and dialogue on the growing rural housing preservation crisis.

Rural Homeownership

Homeownership also has its fair share of unique challenges in rural areas. Contending with often inadequate access to mortgage credit, an aging rural housing stock, high construction and rehabilitation costs, small balance mortgages, complex appraisal issues and barriers to the secondary mortgage market, rural homebuyers and the small financial institutions who serve them often struggle to make deals work.

Programs like HUD's Self-Help Homeownership Opportunity Program (SHOP) and USDA's Section 523, which award competitive grants to nonprofits who use the funds to purchase home sites and develop or improve the infrastructure needed to allow for sweat equity and volunteer-based homeownership programs for low-income persons and families, help to foster both homeownership and the nonprofits that a community needs to build capacity. And HAC would like to thank Congressman Gonzalez of Texas for his strong leadership in supporting the SHOP program and rural capacity building more broadly.

USDA's flagship homeownership program, the Section 502 direct loan program, enables low- and very low-income rural residents to purchase homes with affordable, fixed-rate mortgages. The interest rate on a Section 502 loan can be as low as 1 percent, and no down payment is required. Inability to qualify for market-rate credit elsewhere is a precondition for obtaining a Section 502 direct loan – thus the program's borrowers are homebuyers who might have resorted to unsustainable predatory loans if Section 502 loans were not available.

Over two million families have become homeowners since 1950 through the Section 502 direct program. In 2018, the average income of Section 502 direct loan borrowers was about \$33,800. Over 37.5 percent of the loans went to borrowers with very low incomes (50 percent of area median or less). Yet this is a loan program, not a giveaway; the funds are repaid to USDA, with interest. In 2018, the Rural Housing Service (RHS) made about 7,200 Section 502 loans. The total cost per loan to the government for a Section 502 loan is an impressively low \$5,900 (this figure does not include salaries and expenses for USDA employees).

The 502 direct program's ability to lend at an effective rate as low as 1 percent gives homebuyers a significant amount of additional buying power for each dollar borrowed, when compared with a conventional loan. Furthermore, enabling low-income buyers to access the homeownership market helps maintain healthy local real estate markets, and it also costs less than rent support for that same household.

Housing in Indian Country

We also encourage the Subcommittee to be cognizant of how federal programs work in Indian Country. Traditional mortgage lending in tribal areas – especially on trust land – is difficult to finance. While 9.5 percent of Native Americans live on reservation lands, they receive only a 2 percent share of Native American mortgage loan activity.⁹ In addition to tribal and lender oversight, home loans on reservation lands are under federal oversight, specifically by the Department of the Interior's Bureau of Indian Affairs (BIA). The mortgage process can be prolonged because multiple entities are involved, each adding their own requirements, and government agencies can be understaffed.

Congress and the Administration should pay special attention to how programs like HUD's Section 184, USDA's Section 502, and the Department of Veterans Affairs' Native American

⁹ Housing Assistance Council, "Exploring the Challenges and Opportunities for Mortgage Finance in Indian Country." April 2018. <http://www.ruralhome.org/sct-information/mn-hac-research/mn-rrr/1565-rrr-native-mortgage-finance>

Veteran Direct Loan (NAVDL) are performing on reservation lands. More than 90 percent of Section 184 loans occur off reservation lands, for example. An average of fewer than 200 Section 184 guaranteed loans were made annually on reservation lands during the 2005 to 2016 period.¹⁰ The USDA guaranteed only 752 loans to Native American borrowers annually during the 2013 to 2015 period. This constitutes less than 1 percent of all USDA 502 guaranteed activity. And an average of just 12 USDA Section 502 direct loans were made to Native American borrowers on reservation lands each year between 2013 and 2015.

Housing Finance Reform and Duty to Serve

No discussion of homeownership in rural areas would be complete without also discussing housing finance reform. With the potential for housing finance reform on the horizon, I ask that the Subcommittee carefully consider how affordable rural housing goals fit into that puzzle. Any reform effort should make “Duty to Serve” permanent, support the Government Sponsored Enterprises’ (GSEs’) ability to make equity or equity equivalent investments in CDFIs that serve persistent poverty counties, and increase both rural credit availability and secondary market access for small financial institutions. This will ensure long-term secondary market focus on low-, very low- and moderate-income families in rural and tribal communities.

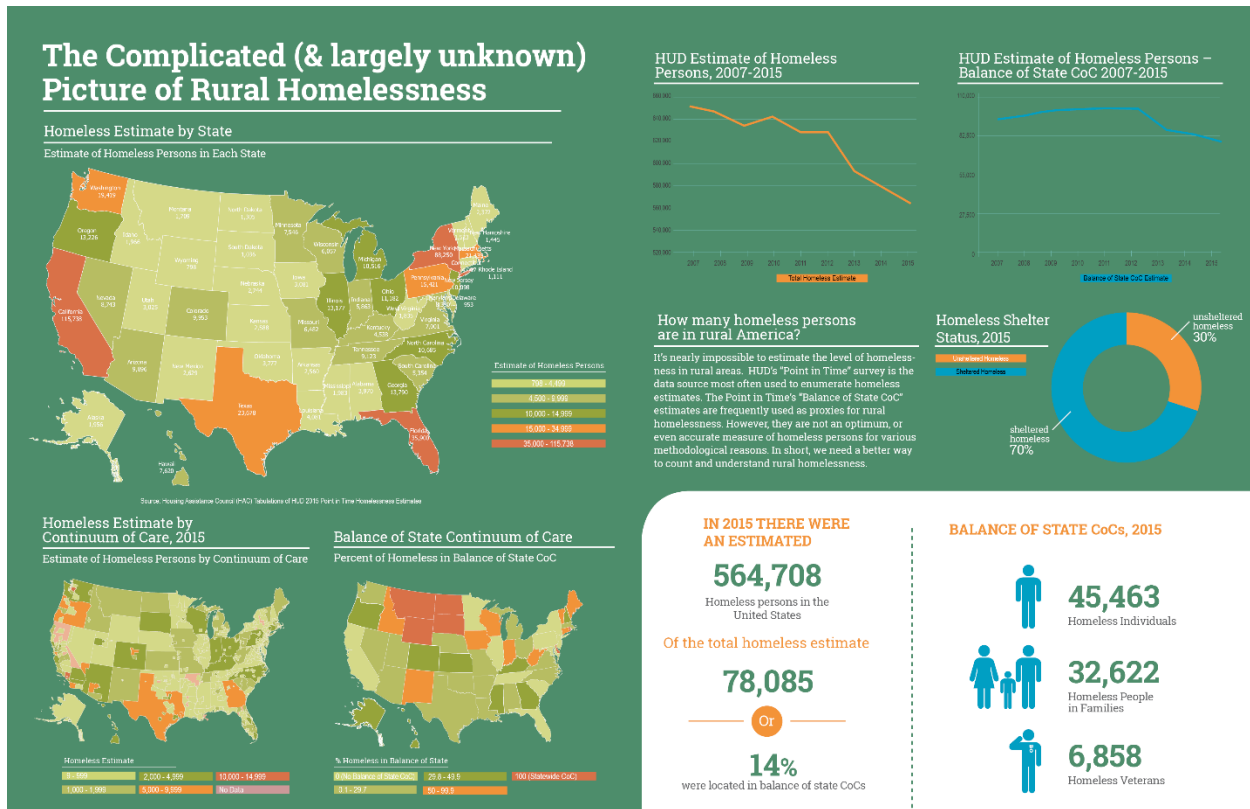
Multifamily deals in rural areas also struggle to cobble together a patchwork of funding, making the GSEs’ recent Duty to Serve-mandated return to the Low Income Housing Tax Credit (LIHTC) market all the more important. Especially given the impact of tax reform on the value of LIHTCs across the country, we need to boost its value in the rural communities where LIHTC pricing is weakest.

Rural Homelessness

Although homelessness is widely viewed as an urban problem, rural individuals and families also experience both literal homelessness and extremely precarious housing situations. Rural Continuums of Care had the highest rates of unsheltered homeless persons in 2018 (40 percent). Homeless individuals in largely rural areas were more likely to be women than those in other areas. Predominantly rural areas also had the highest rates of unsheltered homelessness among families with children.¹¹ Literal homelessness, the condition of living on the street or in a shelter, is often episodic and less common in rural areas than in cities due to kinship networks and the lack of service providers and resources. HAC’s local partners have often reported and research has shown that homeless people in rural areas typically experience unstable housing conditions – moving from one extremely substandard, overcrowded, and/or cost-burdened housing situation to another, often doubling or tripling up with friends or relatives, staying sporadically in motels or couch surfing.

¹⁰ Ibid.

¹¹ United States Department of Housing and Urban Development, “The 2018 Annual Homeless Assessment Report (AHAR) to Congress.” December 2018. <https://www.hudexchange.info/resources/documents/2018-AHAR-Part-1.pdf>



However, as a result of the lack of rural capacity and poor rural data collection from HUD’s “point-in-time” count and the American Community Survey (ACS), the rural homeless fall through the cracks – uncounted, unserved and invisible.

Information Availability

Accurate data and information, especially in rural and underserved areas like the colonias on the U.S.-Mexico border and remote tribal communities, is integral to HAC’s ability to conduct rural housing research and to addressing these issues in a substantive, effective and informed manner. Thank you for your leadership, Chairman Clay, on the importance of a fair and accurate Census – it impacts our testimony today and our continued ability to analyze and communicate these issues.

There is still much work to be done in this area. We need more sampling in the ACS, as current estimates are not statistically accurate in rural areas. This includes additional outreach to the lowest reporting areas.

Similarly, easy-to-use, accurate public data from USDA would increase transparency and help us make informed decisions. Rural places and people need to see a strong commitment from USDA to address the needs of RHS – updating systems and reporting, and more actively working to preserve and improve their programs. Recent moves by the current Administration to diminish

the role of Rural Development and RHS are not in the best interest of our country's rural communities.

Conclusion

We are a stronger and more cohesive nation when all of us are productive – when all of us have the basic necessities to contribute to the success of the whole. Core investments and available capital that outlast appropriations cycles and philanthropic whims will allow rural communities to do their part for the broader economy. Housing and finance reforms that hold competition over consolidation will give our heartland the stability to reconnect with the nation that has in many ways – both real and perceived – left them behind. High capacity local organizations know firsthand what works for rural institutions and in rural communities. A vibrant, prosperous rural America is an essential part of our nation's continued success.

Thank you again for the opportunity to testify today, and I look forward to working with the Subcommittee to tackle our nation's rural housing challenges.