NATIONAL RURAL HOUSING COALITION

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Introduction

The purpose of this paper is to provide information on the status of federal rural housing and community development programs administered by the Department of Agriculture. In many rural communities, the resources available through the Rural Housing Service and the Rural Utility Service are the only ones available to provide decent affordable housing and improved water and waste disposal systems. In the past 8 years, the Administration and Congress have dramatically reduced spending on these programs. There is little evidence that other federal programs have picked up the slack. Rural housing programs are among the most cost effective in the federal government. Rural water grants are the largest single source of grant financing in the federal system. While the central recommendation of this paper is for increased resources for meeting rural America's housing and community facilities, there are also a series of recommendation for improved policies and programs serving our small towns and farming communities.

Economic characteristics of Rural America

According to the 2000 census, approximately 55.4 million people or 20% of the population resides in non-metropolitan areas. From 1990-2000, the non-metropolitan population in the United States grew by 10%. Generally incomes in rural areas have typically been lower when compared with the rest of the country because of the high proportion of low-skill and lower paying jobs combined with a lower overall educational attainment level. The rate of poor adults living in rural areas with less than a high school education is nearly 45%, as compared to 40% in metropolitan areas. The rate of poor adults living in rural areas with no more than a high school education is 32.8%, as compared to 30.7% in metropolitan areas. As a result, workers located in rural areas in general are nearly twice as likely as their urban counterparts to earn minimum wage, are more likely to be underemployed, and are less likely to improve their job circumstances over time.

Poverty in rural America remains a persistent problem; particularly in the nation's high need rural areas such as central Appalachia, the Lower Mississippi Delta, the southern Black Belt, border colonias areas, and Native American lands. Rural counties make up the majority of the persistently poor counties in this country (340 of 386). The Economic Research Service (ERS) of the U.S. Department of Agriculture (USDA) defines counties as being persistently poor if 20 percent or more of their populations were poor over the last 30 years. Of the 386 persistently poor counties, 340 are non-metropolitan rural counties. Of this number, 280 are located in the South while the remaining 60 are located in the West and Midwest.

Rural areas continue to lag behind their urban counterparts on some indicators of economic well being. In 2005, approximately 7.5 million or 15.1% of rural Americans were living in poverty compared with 12.5% of individuals in metropolitan counties (Jensen, 2006). The poverty rate for children living in rural areas is also higher than that of metropolitan areas: 19.7% of children living in rural America are poor – nearly one in five - compared to 16% of children living in metropolitan areas. Compared to their metropolitan counterparts, households located in rural areas also have lower incomes. In 2003 the non-metropolitan median household income was $35,112 which was well below the metropolitan median of $46,060. (Rural America at A Glance, 2004)

The Need for Affordable Housing in Rural America
A disproportionate amount of the nation's substandard housing is located in rural areas. Of the approximate 106 million occupied housing units available in the United States according to the 2000 Census, 18.7 million units or 17.7% if of the occupied units are located in non-metropolitan counties. ERS recently released updated typologies for the Nation's counties. The classification includes a new typology which identifies 15 percent of non-metropolitan counties as housing stressed. In these counties, 30 percent or more of homes are considered too costly relative to household incomes, are too crowded, or lack certain basic facilities, such as a complete kitchen or bathroom. Also according to the Economic Research Service, some 4 million rural families live in "housing poverty", a multidimensional indicator that combines measures of economic need, housing quality, and neighborhood quality. The 2000 Census revealed that 5.5 million people, one-quarter of the non-metro population, face cost overburden and 1.6 million non-metro housing units are either moderately or severely substandard.

A home is the most valuable asset most Americans, especially those who are low- and moderate-income, will ever own. While homeownership is the overwhelmingly preferred standard of housing in rural America since the homeownership rate is higher in rural areas than non-metropolitan areas (76% compared to 68%), homeownership rates among poor rural Americans are nearly 20% lower than the general rural population (58.7%). While more rural than urban household owners may own their own homes, the equity they accumulate is generally less than homes in urban locales because rural houses are generally less expensive. In 2000, the nationwide median value of a home was $119,699 while the median value of a home in non-metropolitan areas was $81,000.

Of the homes owned by the poor living in rural areas, 13.3% are considered physically inadequate, meaning that the home either lacks complete plumbing facilities, has inadequate or no heat, has no or sporadic electricity or exposed wiring, and/or has maintenance and upkeep issues (for example, leaky roofs, holes in floors or walls, rodents). The rate of substandard housing in the non-metropolitan South is more than double that of any other region of the country, and 63% of all substandard housing units are located in the South. Although most

Americans take in-door plumbing and potable water at the tap for granted, 2.6% poor rural Americans cannot. In spite of these substandard conditions, about 50% of poor rural Americans still have housing expenses that exceed half of their incomes.

The emphasis placed on home ownership in many rural areas has overshadowed the needs of rural renters and the importance of maintaining a healthy rural rental stock. Some of the most significant housing problems are faced by rural rental households who tend to have lower incomes and are more likely than their owner counterparts to live in substandard housing. Even though housing costs are typically lower in rural areas, many rural households, especially renters, have difficulty meeting these expectations. Renters in rural areas are the worst housed individuals and families in the country. Thirty-five percent of rural renters are cost-burdened paying more than 30% of their income for housing costs. Almost one million rural renter households suffer from multiple housing problems, 60% of whom pay more than 70% of their income for housing. The preservation of affordable rental housing in rural areas is another crucial issue that needs to be addressed.

Foreclosure Crisis and Predatory Lending in Rural America

Over the past year and a half the mortgage crisis is one of the issues that we have seen again and again in the news headlines. While the media has concentrated their stories and reports in major metropolitan areas, rural America has been equally hard hit. Approximately 10 percent of all non-metropolitan mortgages, twice the proportion of metropolitan loans, have an interest rate of 10 percent or more. There are currently 588 micropolitan areas located throughout the United States which are defined as a population area that includes a city with 10,000 to 50,000 residents. According to the Federal Reserve loan performance data 473 out of the 588 micropolitan areas have delinquency rates of 15%; 202 of them have foreclosure rates of 8% or higher; 135 of them have subprime rates of at least 35%; and there is a total of 60,497 delinquent loans.

The foreclosure problems faced by small rural towns throughout the country may be even more detrimental since even one or two foreclosed properties can have a huge negative impact on the community. Research done by the Woodstock Institute found that a foreclosure in a community lowers the price of other nearby single-family homes by 0.9 percent on average. Many rural residents currently faced with the threat of foreclosure didn't get in over their heads because they were buying too much home, but because the loan they received was too expensive in the first place.

Increasingly, rural borrowers are subject to harsher prepayment penalties and targeted lending discrimination so the prosperity and stability of rural counties is becoming jeopardized. Pre-payment penalties in home loans are one of the most common and costly predatory practices and contribute to increased rates of foreclosures. Rural residents often have fewer banking institutions to choose from than residents who live in larger metropolitan areas and can fall victim to high interest rates and predatory lending practices. According to the Center for Responsible Lending, rural borrowers are more likely than urban borrowers to face prepayment penalties. What is worse, this disparity between rural and urban borrowers is growing. In 2000, rural borrowers were 8% more likely than urban borrowers to have prepayment penalties; and in 2002, rural borrowers were 20% more likely than urban borrowers to have this kind of penalty.

It has been estimated that as many as half of all borrowers with subprime loans could have qualified for conventional rate mortgages but were steered into loans with higher fees and interest rates. In 500 rural counties, one-third or more of all mortgages in 2006 were High APR Loans (HALs). The Carsey Institute at the University of New Hampshire has found that HALs are predominantly used to purchase manufactured housing - a key component of the rural housing market. The Carsey Institute also examined data from the Home Mortgage Disclosure Act (HMDA) and found that rural minorities who were similarly qualified to rural white borrowers received a disproportionate share of HALs.

The Need for Modern Water and Sanitation Services

Modern water and sanitation services are one of the crucial elements most people cannot live without which turns a house into a home. The United States has achieved remarkable success in improving access to modern water and sanitation services for its citizens in the past five decades. Today only 0.64 percent of U.S. households lack complete plumbing facilities. This is a monumental leap from 1950, when more than one-fourth of the nation, and more than half of all rural residents, lacked those facilities. However, there are still hundreds of rural communities nationwide that do not have access to clean residential drinking water and safe waste disposal systems.

The U.S. 2000 Census revealed that more than 1.7 million people in the United States, 670,986 households, still lack the basic plumbing facilities. Most of the people affected are the poorest of the poor or the elderly usually living in rural areas with incomes below the federal poverty level. The states with the highest percentage of residents without complete plumbing facilities according to the 2000 Census were Alaska, New Mexico, Arizona, Hawaii, West Virginia, the District of Columbia, Kentucky, Maine, Mississippi, and Arkansas. In fact, if you were born in 2000 into a family living below the poverty level in the United States, you were four times as likely as a fellow American living above the poverty level to be in a home without adequate indoor plumbing.

Water infrastructure is often taken for granted and usually goes unnoticed by the general public until something goes wrong--either the inadequate capacity to sustain growth or the need to improve water quality. Water infrastructure helps maintain environmentally healthy bodies of water, which, in turn, help stimulate rural economies providing residents with the clean water they need. The per capita cost of water investments can be very high for small, sparsely populated rural communities lacking economies of scale facing higher per capita operational, maintenance, and compliance costs once their water systems are functioning. These rural areas have limited tax bases to pay the higher per unit cost of small-scale drinking water and wastewater treatment facilities.

Most of violations of federal drinking water standards are made by small communities who have limited resources to dedicate to compliance. A U.S. Environmental Protection Agency report shows that 8.2 percent of the 48,271 community water systems in the United States that serve populations of less than 10,000 were in violation of health and safety standards for drinking water quality in 2003. Many of these small systems serve fewer than 1,000 residents which making it difficult for them to pay for full-time system operators, operator training, and advanced technology systems. To cover their costs, the water systems must charge relatively high user charges.

Trends in Federal Support
America's rural communities continue to suffer from elevated poverty rates and substandard housing and require sustained support from federal rural development programs. Currently about eight percent of non-metropolitan households, compared to one percent of all U.S. households, report receiving some type of federal housing assistance beyond the mortgage interest income tax deduction. The U.S. government has supported the production of housing for millions of low- and moderate-income Americans since the mid-1930s and continues to play a particularly important role contributing to the economic well being of rural areas through a variety of programs.

Rural America continues to be at a disadvantage in attracting federal investment dollars. For example, even though a disproportionate amount of the nation's substandard housing is located in rural areas, they are less likely to receive government-assisted mortgages. Less than 7% of all FHA assistance goes to non-metropolitan areas. On a per-capita basis, rural counties fare worse with FHA getting only $25 per capita versus $264 per capita in metropolitan counties. Non-metropolitan counties also receive only 12% of the section 8 funding and only 10% of Veterans Affairs housing programs.

In light of theses staggering statistics funding from the United States Department of Agriculture, the lead federal agency for rural development, is more important than ever. For rural communities, the USDA is the prominent federal agency for improving housing, water and waste water systems, community facilities and for providing economic opportunity through its rural development mission area. The Rural Development (RD) programs offer loans, grants and related assistance to finance housing and community development projects in America's small town and farming communities. In total these programs have financed 2,368,210 home ownership units, 721,896 rental housing units (including Section 514/516 units), 5,297 water and waste water systems and economic and community development projects. These programs have resulted in better housing, water quality, and improved opportunity in rural America.

The federal government is, however, moving away from direct spending for housing, water sewer funding, and community development activities. In the past three years spending at USDA Rural Housing programs has dropped by over 30% and a recent shift in emphasis to indirect subsidies such as loan guarantees and tax incentives have meant that the federal commitment to affordable rural housing and other community development activities has not kept pace with need. With low subsidy costs, guarantee programs provide a high level of activity for relatively little money but these savings are usually at the expense of the population targeted for assistance. Poorer households usually need more assistance than an unsubsidized loan guarantee can provide.

During the period from 2003-09, if the Administration's FY 09 budget is approved, rural water sewer funding will have been reduced by 62%; Rural Business funding by 50%; rural community facilities funding by 76%; and rural housing funding for loans and grants by 95%. In this same time period Congress has also reduced the term of rental assistance contracts from 5 years to 4 years to 2 years and finally in FY 08 to one year. By shortening the term, spending on rental assistance was reduced in FY03-FY08 and those saving were not applied to increases other rural development programs. If you take into account the increased costs for rental assistance renewals for FY 09, overall rural development spending is down by some 30% since FY 03. If rental assistance is removed from the calculation, rural development spending has decreased by 72% from the FY 03 level if the FY 09 budget is enacted.

Rural Housing and Community Development Budget Authority
FY03-FY08 Final, FY09 Budget

PROGRAM	FY03	FY04	FY05	FY06	FY07	FY 08	FY 09
Rural Development							
- Water/Sewer	723.2	605	552.1	530.1	554	539	269
-Business	87.7	76.5	74.1	89.2	51	57	44
-Community Facilities	96.8	75.9	89.1	82.6	77	69	23
Rural Housing							
Direct 502	202.3	126.1	133.1	129	113	105	0
Guaranteed 502	32.6	46	33.6	41	41	50	13#
515	54	50.1	47.1	45	45	29	0
538	4.5	5.9	3.5	5	7	12	2
504	10.9	9.6	10	10	11	10	5
Others	1.2	.7	.7	.7	.7	0	0
Rental Assistance	726	580.5	592	653.1	616	479	997

$ In millions

Balance financed by fees

Federal Programs at USDA

The Housing Act of 1949 is a landmark piece of legislation which states that every American deserves a "decent home and a suitable living environment". Title V of the act authorized the Farmers Home Administration, which has become the USDA Rural Housing Service, the authorization to grant mortgages for the purchase and repair of rural single family houses. It also insures and guarantees a variety of housing loans for home purchases, repair, and rental housing development.

The Rural Housing Service programs at USDA include Section 502 Rural Housing Direct Loans, Section 514/516 Farm Labor Housing Loans and Grants, Section 515 Multi-family Rural Rental Housing Loans, and Section 523 Mutual and Self Help Housing just to name a few. However, the USDA also has other programs to assist Rural America. There is a business lending program which provides loans and grants to help local entrepreneurs in starting up and expanding businesses that otherwise would not have access to capital. There is also a Rural Water and Waste Disposal program which provides loans and grants to public bodies, organizations operated on a nonprofit basis, and Indian tribes on federal and state reservations for the development of storage, treatment, purification, or distribution of water or for collection, treatment, and disposal of waste water in rural areas.

Key Program Profiles

Section 502 Direct Loans

Section 502 is the only federal program targeting homeownership opportunities to low- and very-low income rural households, defined as between 50 and 80 percent of area median income (AMI) for low, and below 50 percent of AMI for very-low income. The annual average income of a direct borrower is 55 percent of area median income, and some 46 percent of Section 502 families have incomes at 40 percent of area median. The average income of households assisted under Section 502 is $18,500, and about 3 percent of participating households have annual incomes of less than $10,000.

Applicants to the Section 502 Direct Loan program may obtain 100 percent financing to purchase an existing dwelling, purchase a site and construct a dwelling, or purchase newly constructed dwellings located in rural areas. Mortgage payments are based on the household's adjusted income that would not be able to obtain credit elsewhere. Loans are for up to 33 years (38 years for those with incomes below 60 percent of AMI and who cannot afford 33-year terms). The term is 30 years for manufactured homes. While the program benefits rural areas nationwide, the highest benefits (in per capita dollars) can be found in low income areas such as the South along the Delta belt and in the rapidly growing areas located in the West.

Since its inception, Section 502 has provided loans to almost two million families at an extremely low cost to the federal government of less than $10,000 in budget authority per unit. Unfortunately, while there is unprecedented demand for Section 502, actual loans made to low-income people are decreasing in number. In fiscal year (FY) 2004 RHS provided 14,641 Section 502 loans and in FY 2005 12,315. The projected number falls to 10,500 loans in FY 2008. In contrast, as of August 2008 RHS had on hand over 37,000 loan requests totaling $3.5 billion.

Section 515 Rural Rental Housing

The USDA's Section 515 Rural Rental Housing Program is an invaluable tool for rural rental housing production, repair, and preservation. The Section 515 program provides safe and affordable homes to almost a half million America's most vulnerable, low- and very low-income residents. For many rural areas, Section 515 is the only source of decent, affordable rental housing in the community. Some 57 percent of Section 515 households are elderly, handicapped, or disabled; 26 percent are headed by persons of color; 73 percent are headed by women; and the average household income of Section 515 beneficiaries is $9,000.

Under Section 515, non-profit and for-profit entities can receive 1 percent loans for acquisition, rehabilitation or construction of rental housing and related facilities. While for much of the history of Section 515 the loan term was 50 years, the term of the loan was recently reduced to 30 years in a cost cutting move. Most Section 515 loans have gone to for-profit entities such as developers, who combine the subsidized loan with rental assistance and tax subsidies to finance housing. About 75 percent of these loans are further subsidized by the RHS Section 521 Rental Assistance program and The Department of Housing and Urban Development Section 8 program, both of which provide rent subsidies to ensure that tenants pay no more than 30 percent of their income toward rent.

Historically, Section 515 has been the key tool for improving the quality and quantity of rental housing in rural areas: at its peak in the early 1980s, the program created about 1,000 new properties a year. However, since the mid-1990s the program has faced severe budget cutbacks, limiting USDA's ability to finance much-needed rehabilitation of existing properties and the construction of new properties to serve the 900,000 rural renters who live in substandard housing.

Low Income Housing Tax Credit and Rural America

The upheaval in the finance services industry has increased the difficulty of developing affordable rental housing in rural America. Investors are pulling away from only the safe Low Income Housing Tax Credit deals and rural developers report that small towns and farming communities are among the last places getting tax credit financing.

The fact is that the demise of section 515 in the mid-1990's had already made the made rental housing development in rural America an adventure. Without the availability of a financing source to go with the LIHTC, with little or no rural rental assistance available for new construction and with the term of the rental assistance contracts shrinking it is little wonder that even before the current financial services debacle, rural areas were doing poorly on Low Income Housing Tax Credits.

A recent ABT report commissioned by HUD indicates a low rate of non-metro participation in the Low Income Housing Tax Credit. During 1995-2004, non-metro communities had 25% of the projects but only 13% of the units financed by LIHTC.

While efforts are underway to revamp LIHTC, it is important to point that policymakers also clear a path for the development community to return to rural America. For this reason, Congress should provide

1. $250 million for section 515 new construction; and
2. $300 million for rural rental assistance for 5 year contracts.

The Need to Preserve Section 515
In November 2004, USDA released the *Comprehensive Property Assessment and Portfolio Analysis of Rural Rental Housing (CPA)* which assessed the status of the Section 515 portfolio in terms of prepayment options and long term rehabilitation needs.
The report had three key findings:

1. Only 10 percent of the units in the Section 515 portfolio are in 'hot markets' and could become market rate housing if the owners were to prepay;
2. 90 percent of the units are not in markets where prepayment is an option and are in need of additional funds to ensure adequate operation. The report indicated that the average age of Section 515 housing projects is 26 years, and most are in need of renovation; and
3. The projected cost for ensuring adequate operations and addressing long term rehabilitation needs is $2.6 billion for 20 years.

A Deteriorating Portfolio
In recent years the program has not been provided with adequate funding or rental assistance funds to rehabilitate the Section 515 portfolio, deliver sufficient long-term preservation incentives, or protect tenants from rent overburden. As an increasing number of owners wished to prepay their loans, Congress created a loan prepayment regulation process between 1979 and 1992 that introduced restrictions on the right to prepay. Prepayment prevention incentives were created for owners based on the amount of equity in their properties. Unfortunately, RHS did not have sufficient Section 515 or rental assistance funding to meet the demand for incentives which resulted in a number of lawsuits brought by owners seeking the right to prepay or compensation for not being allowed to prepay. The Section 515 properties in the loan portfolio are aging with 89 percent of the properties at least 10 years old and 64 percent which are at least 15 years old. Many of the properties are in desperate need of rehabilitation and infrastructure replacement.

Multi-Family Revitalization
For the last three years Congress has provided $20-28 million per year for the multi-family restructuring demonstration. This funding allows RHS to provide assistance to preserve and renovate existing section 515 developments and vouchers for families who might be displaced in the event of prepayment. As owners have seen the value of restructuring, there has been relatively little demand for vouchers. Requests for restructuring regularly total over $2 billion per year. In 2007 alone, RHS provided restructuring financing to 87 projects. The financing – mostly in the form of deferred loans – preserved over 4000 units of rental housing in rural areas. The financing also kept tenants rents stabilize and allow the projects to significantly increase reserves.

Section 514/516 Farm Labor Housing Loan and Grant Program
The driving force behind the US rural economy has traditionally been the multi-billion dollar agriculture industry. Over the past century hired farmworkers have become a vital part of the industry, especially in the production of hand harvested crops which still account for over 85% of this country's produce (NCFH 2002).

Currently there are approximately 3 million migrant and seasonal farmworkers in the United States making up about a third of the U.S. agricultural labor force located primarily in California, Florida, Washington, Texas, Oregon, and North Carolina. Farmworkers are among the most economically disadvantaged working groups in the United States and are the worst-housed of all rural people. According to the Economic Research Service, housing conditions for migrant and seasonal farmworkers have long been substandard and there has not been any improvement in recent years.

A survey conducted by the Housing Assistance Council (HAC) in 1997-2000 found that about one third of the farmworkers surveyed were cost burdened paying more than 30% of their annual incomes for housing. HAC also found that 17% of the units surveyed were severely substandard with an additional 16% moderately substandard. These included serious structural problems like sagging roofs, house frames, and porches; holes or large sections of shingles missing from the roof; and severe foundation damage. Interior problems included holes in walls and rodent or insect infestations.

The poverty rate of hired farmworkers is more than double that of all wage and salary workers. Sixty one percent of farmworkers earn incomes below the poverty line, and consequently three out of every five farmworker families live below the federal poverty line which is almost six times the national rate. In 2003, at least one-half of the individual farmworkers earned less than $7,500 annually, while one half of the farmworker families brought in less than $10,000 which is well below the 2003 poverty level of $8,980 for an individual and $18,400 for a family of four. [1] Despite this level of poverty, less than 20% of farmworker housing receives public assistance most commonly in the form of food stamps but rarely public or subsidized housing.

The Section 514/Section 516 Farm Labor Housing Loan and Grant program is the only nationwide program targeted to the housing needs of migrant and seasonal farmworkers. Loans and grants are provided to buy, build, improve, or repair housing for farm laborers. Funds can be used to purchase a site or a leasehold interest in a site; to construct or repair housing, day care facilities, or community rooms; to pay fees to purchase durable household furnishings; and to pay construction interests. While some loan funding goes to individual farmers, most of the assistance available goes to non-profit organizations and public bodies that plan, develop and manage this rental housing and related facilities in agricultural areas. Typically the loan applicants are unable to obtain credit elsewhere. Section 514 loans are for 33 years at 1 percent interest and Section 516 grants are used in conjunction with the loans to finance development costs.

Over the history of the program, USDA has financed some 36,000 units for a cost of $1.27 billion. The level of funding for farm labor housing has steadily decreased over the years. In FY 08 it was $22 million for loans and $10 million for grants and the FY 09 budget proposed to eliminate the program. This past year Congress expanded eligibility for program which has been targeted to workers in the field who work with unprocessed commodities to include workers in processing plants which will further drive up the demand. As a result, these drastic cuts come at a crucial time given the high program demand and the poor condition of farmworker occupied

[1] U.S. Poverty Guidelines are released by the U.S. Department of Health and Human Services are available online at http://aspe.hhs.gov/poverty.

housing. The current funding levels for these programs are not nearly enough to address the tremendous need for decent, affordable housing.

Section 523 Mutual and Self Help Housing

Self-Help Housing makes homes affordable by enabling future homeowners to build their homes themselves allowing very-low and low income rural Americans to use "sweat equity" to reduce the cost of homeownership by 10-15% while learning construction skills. Qualified nonprofit and local government organizations may obtain Section 523 Self Help Technical Assistance Grants to provide technical assistance to low and very low-income families who are building homes in rural areas in conjunction with the Section 502 Mutual Self-Help Housing Loan Program. The grant funds are used to assist eligible families in applying for Section 502 direct loans, provide pre-purchase homebuyer education, and supervise construction of the housing by the family.

Currently 134 organizations in 36 states, Puerto Rico and the Marshall Islands participate in the Self-Help Housing program. These organizations support groups of eight to 12 self-help families who construct each others' homes, performing approximately 65 percent of the construction labor. Through this "sweat equity", each homeowner earns equity in his or her home, decreasing the cost burden and investing in the community. This enables very-low and low-income families, defined as between 50 and 80 percent of area median income (AMI) for low, and below 50 percent of AMI for very-low income, the opportunity to own their home. At least 40 percent of the families participating in self-help housing programs have incomes at or below 50 percent of AMI.

The average number of homes built each year over the past 3 years is approximately 1,500. Some 68 percent of the participants in self-help housing are minority households. Despite the fact that families participating in self-help housing have lower incomes that others receiving Section 502 loans, default and delinquency rates for self-help families are lower. It is ironic that the Administration has cut the budget for this program dramatically year after year but due to its success in serving minority households, has included doubling the size of the self help program as one of the elements of USDA's 'Five Star Commitment to Increasing Homeownership'. Even with the proven success of the self-help model and the momentum it has built over recent years, budgetary restrictions have made it difficult for RHS to keep pace with demand for Section 523.

Rural Water and Waste Disposal Program

The USDA's water and waste loan and grant program assists eligible applicants in rural areas and cities and towns of up to 10,000 residents. Drinking water, sanitary sewage, solid waste disposal and storm drainage facilities may be financed with direct and guaranteed loans and grants. One requirement is that applicants must be unable to finance their needs through their own resources or with credit from commercial sources.

Grants are awarded for projects serving the most financially needy communities to reduce user costs to a reasonable level. The maximum grant that can be awarded is limited to 75% of eligible project costs for applicants whose service area has a median household income (MHI) of less than $36,532. The grant limit is reduced to 45% for applicants whose service area has a MHI of greater than $36,532 and least than $45,665. For communities with MHI more than

$45,665 grant funds are not available. Loans are made available to public bodies, non-profit organizations, and Indian tribes on federal and state reservations for such things as development of storage, treatment, purification, or distribution of water or for collection. Additional activities that qualify include treatment and disposal of waste in rural areas. The repayment period for the loans is the less of forty years or the useful life of the facility.

Rural Non-profit and Community Based Organizations

In many rural communities the only on the ground source of development activity are community based organizations that receive there funding from state and local government, private philanthropic organizations and some federal programs including self help housing grants. Private sector sources cannot generate the economies of scale necessary, so it is left to local non-profit organizations to meet local housing and community development needs.

Two USDA/Rural Development Programs, while extremely small, plan an important role in fostering non-profit capacity and community development services.

Rural Community Development Initiative

Rural Community Development Initiative helps community based development organizations, federally recognized Indian tribes and other groups promote economic growth in low-income, rural communities. Recipients are required to obtain matching funds, doubling the value of the grants. The grants are awarded to public or nonprofit intermediary organizations. The funds are then provided to recipients, which must be located in eligible rural areas. Funding of individual recipients is contingent upon their meeting the conditions of the grant agreement.

Tanacross village Alaska was in serious decline. However, a decision to partner with Rural Community Assistance Corporation (RCAC) helped Tanacross turn around. The 2000 U.S. Census indicates the village had 53 housing units and the unemployment rate at that time was 57.14 percent, although 79.13 percent of all adults were not in the work force. The median household income was $22,083; per capita income was $9,429; and 33.33 percent of residents were living below the poverty level. Using RCDI RCAC help the Village develop a 5 year development plan that included financing and construction of affordable housing, a new community center and improved water and waste disposal facilities.

The current funding rate for RCDI is $7 million.

The Technical and Supervisory Assistance Grant Program helps fund homeownership and financial counseling programs to reduce the potential for delinquency by USDA Rural Development loan applicants and outreach to inform low-income rural residents about the availability of housing assistance. Frontier Housing of Morehead, Kentucky has used TSA grants to further home ownership efforts in Eastern Kentucky. Some 300 household have received Frontier's help to gain or maintain their home. For example, Lorie Zientara, a single woman, had always dreamed about purchasing a home of her own. After living in the Northeast for a number of years, Lorie returned to her native Kentucky. Another non-profit agency referred her to Frontier. Through a community financial class given by Gateway Community Action Agency, where she also attended Frontier's "Realizing the American Dream" homebuyer education class. Before long, she would access nearly every training opportunity offered in this area, and purchase an existing home in Globe, Kentucky. She came to Frontier with assets to contribute, because she had saved for numerous years. She rented along the way, and didn't jump in and buy until she felt financially ready. So this home is sort of "delayed gratification" for all her hard work. She even saved and bought a car. Ann remained supportive of Lorie through the entire process, and even attended the final closing on Lorie's house.

Current funding for TSA: $1 million

Recommendations

Section 502 Direct Loans

This year USDA will originate approximately 9,800 direct loans providing borrowers in rural areas with financing where private sector financing is unavailable. As a result of flexible forbearance and communication with delinquent borrowers by the Rural Development's servicing office located in St. Louis, there is a 62% cure rate on USDA's foreclosure list. The delinquency rate for Section 502 direct loans stands near its all-time low down 17% from 2000 and 26% from 1998. USDA's direct loans now enjoy a delinquency rate that is currently 35% lower than the private sector which is significantly below that of FHA. We recommend that funding for Section 502 direct loans be increased to $2 billion. The lack of mortgage financing options in rural areas makes this program a much needed necessity for low and very low income borrowers. The USDA Section 502 direct loan program can support the markets by bringing new home purchases that can provide strength to housing prices.

Section 515 Rural Rental Housing

The Administration did not request any funding for multi-family restructuring for FY 09 even though its own report indicated that the need to repair and preserve existing multi-family exceeds $2 billion. Even worse, it proposed to rescind previously appropriated funds totaling $20 million that could have been used to assist displaced tenants or for further restructuring efforts.

We recommend that the proposed rescission of vouchers funds be rejected and the unused voucher funds be applied to further revitalization. We recommend an increase in the RHS revitalization demonstration to $50 million in budget authority. Congress currently provides $28 million for the Section 515 restructuring demonstration, and of this amount, $16 million is allocated for vouchers. Some 4,100 Section 515 developments sought assistance under this demonstration, totaling some $3 billion in debt deferral and related subsidies. We also recommend that the agency support HR 4002, the Rural Rental Housing Preservation Act of 2007. This legislation authorizes a restructuring and vouchers associated with preservation of rural rental housing units.

While the problem of subprime and predatory lending resulting in foreclosures in rural areas is not as prevalent as in our cities, there is evidence that it is becoming more of a problem and has a more devastating impact. To help acquire and rehabilitate foreclosed and abandoned properties in rural communities we recommend $50 million in rural preservation grants to be used by non-profit and public bodies to get these properties back on the market.

While efforts are underway to revamp LIHTC, it is important to point that policymakers also clear a path for the development community to return to rural America. For this reason, Congress should provide

3. $250 million for section 515 new construction; and
4. $300 million for rural rental assistance for 5 year contracts.

Section 514/516 Farm Labor Housing Loan and Grant Program
There continues to be robust demand for this program. While USDA has not complied final numbers for FY 08, organizations in California alone have applied for $27 million in loans and $4 million in grants. The current level of funding for farmworker housing is about $20 million in budget authority. The amount is a far distance from addressing the need. In recent years, due to reduced funding, some states have come forward with their own programs to finance farm labor housing; among them are Florida, Washington State, and California. In addition, Congress has facilitated the use of federal housing tax credits with farm labor housing by changing the section 514 statute. As a result it is not unusual for a project to receiving financing assistance from not only USDA, but also state and local sources and tax credit financing. For example, one non-profit organization in California received $11 million in financing from USDA. The organization raised an additional $25 million from other state and local sources and financed over 300 units of housing for migrant and seasonal farmworkers. ***Nationally, every dollar provided by USDA is leveraged with an additional dollar from another source.***

In spite of the overwhelming demand, USDA has not devoted adequate attention to this program. We recommend that they conducted an assessment of the farm labor portfolio which has never been done despite a federal investment of over $1 billion and over 36,000 units. The agency has inadequate information on the status of projects – either physical or financial. The agency also does not have a strategy to direct the program toward new construction or rehabilitation of the existing aging portfolio. We recommend USDA conduct an assessment of the farm labor portfolio with an eye towards developing a long term strategy for the future of the program.

NRHC recommends $50 million each in loans and grants for farm labor housing.

Section 523 Mutual and Self Help Housing
The recent Administration has continuously eliminated funding for Section 523 each and every despite the success of the program. While Congress has annually restored funding for the program, it has not been enough to continue funding for all expiring performing grants. In addition, budgetary restrictions have made it difficult for USDA to keep pace with demand for Section 523.

In Fiscal Year 2008, a total of $38 million is available for self help housing grants. However, the total necessary for extending grants for performing programs that expire in 2009 is $60 million. NRHC recommends an additional $35 million for the farm labor housing program.

RHS should also amend rules governing section 502 appraisals. Production-oriented 523 Grantees have found it necessary to purchase and develop land to ensure adequate sites for their programs in all real estate cycles. Inevitably, some have been "caught" in the current down market with distressed land sales as the norm. The format of the 502 appraisal focuses on comparable sales data for a completed home, not a completed lot. An interim solution to this problem would be to allow lot prices that may be considered above value in those cases where the overall value of the completed home is still viable.

Rural Water and Waste Disposal Program
For FY 09 the previous Administration proposed a reduction of almost $300 million for the rural water and waste disposal program. This amount will provide $1.269 billion in loans which is an increase of $240 million over the current rate, $75 million in guarantees, and a reduction of $320 million in grants. There was no funding provided for the small system revolver and funding for technical assistance has been reduced from $18 million to $10 million.

For many small rural communities located throughout the country, they look to the USDA Rural Water and Waste Disposal program as their sole source of affordable financing. These communities are in desperate need of the grant funding provided under the program to help defray a portion of the costs associated with financing some of their drinking water and sewage projects.

NRHC recommends an additional appropriation of $500 million for water-sewer financing.

Support for Non-Profit Organizations

Section 525 -- $10 million
RCDI – $10 million
Rural Water-Sewer Regional Technical Assistance -- $10 million

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