EXPLORING USDA RD'S RELEVANCE AND DIRECTION

Since 1949, USDA Rural Development (RD) has helped to construct, finance, or repair more than 3.48 million units of affordable housing in rural communities across the United States. RD programs are a critical financing source in many rural communities, providing development resources as well as mortgage products and rental subsidies for low-income residents.

In recent years, funding for some of RD's most popular programs has been cut substantially and the agency has shifted its emphasis from direct lending programs that more effectively serve very low-income households to guaranteed programs that serve more moderate-income groups. Further, many local offices that provide county level support to meet housing and community development needs have been closed, leading to greater questions about the agency's service and capacity. These trends create significant challenges for rural communities and potentially threaten the future of RD.

HAC staff interviewed Marty Miller, Office of Rural and Farmworker Housing, a nonprofit housing producer in Washington state, and Selvin McGahee, Florida Non-Profit Housing, to discuss the future of RD programs and USDA's service to rural America.

Question: ***What should Rural Development's role be as it relates to affordable housing development?***

McGahee: Rural Development should be the lender of last resort. Statutorily, RD is restricted to serving low- to very low income households. As a result, the agency should focus on providing housing opportunities for low-income groups. However, there has been an effort lately to mimic traditional financing, making it much more difficult for RD to serve low-income populations

Miller: I agree. RD should serve households that the private market has difficulty reaching, with a focus on very low income rural residents. To the agency's credit, the loans in RD's portfolio have fared very well as compared to market rate loans, because they were done in a responsible manner.

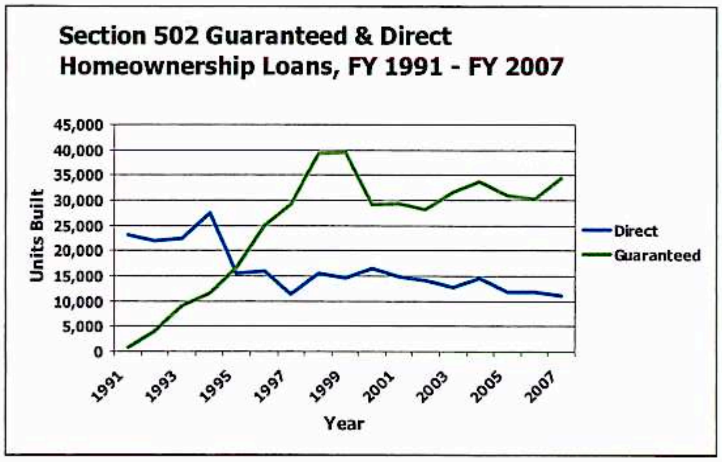
Question: ***In your opinion, is Rural Development currently fulfilling that role?***

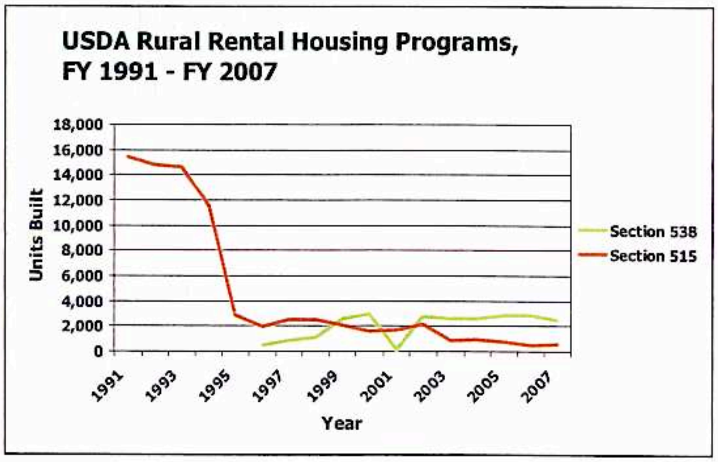
McGahee: No, not as well as they have in the past. This is due primarily to the recent reorganization that has reduced the number of field offices. RD has moved from having a county-level presence to a two-tier system with only state and regional offices. This change has created hardships for intended participants, making it tougher to have access to office locations. Consequently, it is much more difficult for the agency to fulfill its role.

Miller: I would say historically, yes, RD has fulfilled its role, but currently no. The farmworker housing and rental housing programs are good examples of where there is a strong push within the agency to move toward guaranteed loans. This shift is moving RD from its core mission and creates a problem for those households without adequate income to support the income requirement of guaranteed loans. For a family with an annual income of $17,500, rent would have to be $430 a month to be considered affordable. It would be difficult, if not impossible, to get unit rents to this level of affordability given the current rates being offered by the guarantee program.

USDA RD appears more focused on its budget than on the original intent or purpose of programs. It seems that the budget drives the mission and direction of RD. The agency would be well served if it were to take a more balanced approach between the two.

McGahee: The agency seems to be moving in a direction that uses guaranteed loans as a replacement for direct lending – perhaps because guarantees take less money and less budget authority. This move to the guarantee programs hurts low-income families; they cannot be adequately served through the guarantee programs.





Source: HAC tabulations of USDA program data.

Miller: The agency's structural issues contribute to another layer of difficulty. Staffing reductions, unclear decision making responsibilities, internal disagreement within agencies – all contribute to delays that are problematic to housing development.

I would also add that USDA does not adequately promote some of its programs. There is little outreach and education by the agency to Congress or the general public and there is little to no advocacy for funding or increased funding for its programs.

Question: ***What has been the impact of USDA's current direction on families and housing practitioners over the last two to three years?***

McGahee: The reorganization and reduction in staff and local offices has had a major impact on families. Without access to local offices, fewer families are able to access information and RD programs.

Number of USDA Rural Development Offices

	December 1994*	March 1998*	December 2008**	Change
USDA Rural Development	1,627	815	800	-827

* GAO Report, *Status of Closing and Consolidating County Offices, 1998.*

*** December 2008 Office numbers are a reported estimate.*

The direct impacts of the funding reductions can be seen in looking at the self-help program. The level of funding and support has simply not remained on pace with the demand. As a result of the reduction in funding levels, many housing practitioners are unable to access the program, and for those that are able to access the program, there is not enough money to go around. Currently, only those self-help grantees who are already program participants are able to access funding, and this is only at reduced levels from previous years.

There are fewer new Section 515 and 514/516 construction projects and, beyond the lack of new units, in many cases, this reduction limits new job creation in rural communities due to the lack of affordable housing. Without adequate, affordable housing, many employers will not move their businesses into small, rural communities.

Miller: First and foremost, fewer multifamily units are developed that are affordable to those with the lowest incomes and those rental units that are developed will likely serve higher-income households than they have in the past. This is compounded by the removal of Rental Assistance for new construction, which has led to fewer housing providers willing to undertake new rental construction.

Second, we've seen that other public/private financing sources are reluctant to invest in projects with RD funding due to timing delays that are associated with the recent restructuring. RD is trying to do more with fewer people and this is creating timing issues and delays that can be critical in a development project.

It's important to note that the current trend does not have to continue; with proper program structure and appropriate prioritization the program should be able to serve its intended purpose.. The program just needs to get back to the basics.

Question: ***What are some of the critical challenges to maintaining the impact of Rural Development's housing programs?***

McGahee: Certainly there is a need for increased funding levels to adequately address needs and to restore service or field office locations. Let me be clear, the need is not necessarily for increased funding, but for restoring funding to a level that would allow the agency to meet direct lending and grant needs.

Lastly, I would say there is a need to do better and more extensive outreach and marketing of RD programs. Low-income people and communities need to know what's available through RD and RD needs to better advocate for itself.

Miller: I would agree that restoring the basic funding levels is critical.

Leveraging issues are a significant challenge to using RD programs effectively in rural areas. USDA financing does not always work well with other funding requirements, specifically in terms of timing and decision making. Multiple sources of financing or leveraging funding are fundamental and, in order for RD to remain relevant, the agency needs to fix the problems that make it difficult to use their products with other resources.

Question: ***What are your overall recommendations for maintaining USDA RD's relevance and fostering a positive direction for these programs?***

Miller: RD needs to return to the intended purpose and mission of the agency. They need to maintain a simple focus on program purpose that drives the budget rather than the other way around.

The agency also needs to engage in increased marketing and program advocacy, which will put them in a better place to advocate for increased funding.

There needs to be an analysis done to effectively demonstrate who is left out in the shift from direct to guarantee lending, providing a clear illustration to RD and the Congress making the case for program refinement so that programs are properly structured to meet the intended populations not being served by the private market.

The agency needs to increase coordination between multiple funding sources in order to achieve more highly leveraged units. RD could achieve this by participating in or coordinating shared underwriting between the different agencies to gain efficiency without risking public investments.

McGahee: I agree with all of Marty's recommendations. The agency also needs to strengthen relationships and partnerships with other funding agencies, both state and federal, in order to better coordinate program requirements, funding cycles, and loan products. They also need to understand that the guaranteed loan programs, as currently structured, can't effectively serve the low and very-low income population without subsidies similar to the subsidies provided by their direct loan programs. They must develop realistic budget requests and ask congress to give them the funding needed to meet the programs' needs.