LISC
LOCAL INITIATIVES
SUPPORT CORPORATION

March 31, 2023

The Honorable Debbie Stabenow & The Honorable John Boozman
Chair & Ranking Member
U.S. Senate Committee on Agriculture, Nutrition, & Forestry
328A Russell Senate Office Building
Washington, D.C. 20510

RE: 2023 Farm Bill Rural Housing and Capacity Building Priorities

Dear Chair Stabenow and Ranking Member Boozman,

The Local Initiatives Support Corporation (LISC) appreciates the opportunity to offer our rural affordable housing and capacity building priorities for the 2023 Farm Bill.

Established in 1979, LISC is a national nonprofit housing and community development organization and certified community development financial institution (CDFI) dedicated to helping community residents transform distressed neighborhoods into healthy and sustainable communities of choice and opportunity. LISC mobilizes corporate, government, and philanthropic support to provide local community development organizations with loans, grants, and equity investments; as well as technical and management assistance. Our organization has a nationwide footprint, with local offices in 38 cities. In 2022, LISC invested more than $2.8 billion in these communities. Our work covers a wide range of activities, including housing, economic development, building family wealth and incomes, education, and creating healthy and sustainable communities.

In 1995, LISC launched Rural LISC, a national program to expand LISC's reach beyond urban areas to include rural communities. Today, Rural LISC partners with more than 140 rural community-based organizations, including five financial intermediaries, helping them identify challenges and opportunities and delivering the most appropriate support to meet local needs. Rural LISC transforming communities in more than 2,400 counties in 49 states and Puerto Rico.

Background

Affordable, quality housing options are foundational for communities to thrive. Yet, a historic lack of access to adequate housing continues to plague rural America. Small towns and rural regions are diverse demographically and economically and face a wide array of local challenges and opportunities associated with the development of their communities and housing. While each place is unique, there are themes that are present across many rural communities. These include a lack of basic infrastructure and high-capacity local services, and often longstanding poverty.

Persistent poverty is a predominantly rural condition — 81 percent of persistent poverty counties are rural. Habitable rural housing is in severely short supply, and the adequate housing that does exist is

often unaffordable because rural incomes average well below the national median. Rural housing lacks adequate plumbing and kitchen facilities at a rate well above the national average, and overcrowding is not uncommon in some rural regions. Decades of stagnant rural house prices, especially in high-poverty areas, have denied owners the wealth and mobility so often associated with buying a home. And racial inequity is endemic as the result of housing policies and banking practices that excluded rural people of color.

The USDA's Rural Development (RD) programs are critical to the future of rural communities. These programs have suffered from decades of funding cuts and lack of modernization. The rural housing programs administered by RD's Rural Housing Service (RHS) fall within the jurisdiction of the Senate Banking Committee, but LISC encourages the Committees to work together to include commonsense improvements to the RHS programs in the Farm Bill. We have also highlighted these proposals with the Banking Committee. The following are some policy proposals that would help address some of the challenges and inequities we see in rural America.

CAPACITY BUILDING PROGRAMS

Geographic equity for rural places is a stated priority for the Administration but no amount of federal investment will succeed in creating lasting rural equity if not paired with robust capacity building to ensure the most underserved and persistently poor rural places are in a position to access available federal resources. LISC supports efforts to provide communities with much needed capacity building support, including the proposed Rural Investment Initiative.

Authorize the Rural Investment Initiative

The Rural Investment Initiative (RII) is a legislative proposal to empower rural regions by supporting locally led planning and capacity building efforts and providing flexible funding to meet critical needs. The proposed program would have two types of funding: grants for direct activities and projects and resources for organizations providing technical assistance. Having funds dedicated to capacity building and technical assistance would allow organizations to better support their communities. Authorizing RII and ensuring that it is structured in a way that will proactively and equitably serve historically underserved communities would help transform the capacity of rural places to improve housing conditions.

MULTIFAMILY PROGRAMS

Although homeownership is more common in rural areas than in urban and suburban communities, rental options remain a crucial part of the affordable housing landscape. RHS's Section 515 program provides an especially important housing opportunity for many rural communities. Since the program's inception in 1963, Section 515 Rural Rental Housing Loans have financed nearly 28,000 properties containing over 533,000 affordable apartment homes across rural America. The average annual income of people living in Section 515 properties is only $14,665.[1] For many low-income rural residents, purchasing a home is not an option, and the Section 515 program provides them with affordable rental units.

Despite the importance of the Section 515 program for creating and maintaining multifamily rural housing, many of these properties are aging out of the program through mortgage maturations, resulting in the loss of thousands of rural affordable rental units each year. Between 2016 and 2021, 921

[1] 2021 Rural Development Multi-Family Housing (MFH) Annual Fair Housing Occupancy Report, https://www.rd.usda.gov/sites/default/files/RDUL-MFHreport_0.pdf

properties, which contained 21,693 units, left the Section 515 program.[2] And due to lack of appropriated funding, no new Section 515 units have been added to the program in over a decade. When properties leave the program, the owners are no longer required to maintain the affordability of the units or otherwise comply with the standards of the program.

The preservation of affordable housing options is critical to ensuring the well-being of rural communities across the country. For this reason, LISC is recommending several policy changes that would support the preservation of multifamily housing options.

Authorize the Multifamily Preservation and Revitalization Program

The Multifamily Preservation and Revitalization (MPR) program is funded through appropriations although not authorized. Authorizing this program is a critical step in ensuring it's stably funded into the future.

The MPR program allows existing properties in the Section 515 rental housing and Section 514/516 farmworker housing programs to refinance their loans and receive more funding to help revitalize their properties and maintain affordability. This program not only preserves the affordability of rental housing through continued government oversight but also provides owners with the capital they need to maintain and repair their aging properties. Recent estimates indicate that $30 billion in funding for the MPR program is needed over the next 30 years to preserve 80 percent of the existing Section 515 portfolio.

Increase Data Transparency

Despite the importance of USDA properties, there is limited data on them accessible to the public. This makes it challenging for organizations to aid in the preservation of this affordable housing. Releasing more data on the current housing stock, including information on why properties leave the programs (maturation, prepayment, foreclosure, or other servicing issues) and risk rankings for properties, would improve preservation outcomes and stakeholder understanding of the issues.

Establishing a preservation advisory committee to work with USDA to develop a plan to ensure the long-term preservation of rural housing options, as laid out in the Strategy and Investment in Rural Housing Preservation Act (H.R. 1728), would also improve communication and allow for better stakeholder involvement.

Extend Section 521 Rental Assistance for All Units

Approximately 20 percent of the families living in USDA rental housing do not receive rental assistance from USDA, HUD, or state sources. Most of these 67,000 unassisted households are paying more than 30 percent of their income in rent and include the elderly, disabled, and children.

To address this, Section 521 Rental Assistance should be extended to all Section 515 units to help families in need. This will also stabilize the finances of many developments, encouraging preservation.

Decoupling Rental Assistance and RHS Mortgages

Under current law, the availability of Section 521 Rental Assistance to residents of a Section 515 or 514/516 property is tied to the term of the mortgage. When the mortgage is paid off, the property loses

[2] Housing Assistance Council, An Update on Maturing Mortgages in USDA's Section 515 Rural Rental Housing Program, March 2, 2022, https://ruralhome.org/update-maturing-mortgages-usda-section-515-rural-rental-housing-program/

its rental assistance. Decoupling the mortgage and the rental assistance is an essential tool to help preservation of these properties.

RHS needs a suite of preservation strategies to be available in the absence of adequate funding. This is why LISC supports the Strategy and Investment in Rural Housing Preservation Act (H.R. 1728) and it's provision to allow ongoing Rental Assistance at properties without a mortgage if they sign a restrictive use agreement and are offered 20-year Rental Assistance contract (subject to annual appropriations), to maintain long-term affordability.

Strengthen the Rural Voucher Program

Under the current appropriations, the RHS Section 542 rural housing voucher subsidy is set at the time of prepayment and never changes as rents increase or household income decreases. As a result, voucher holders face displacement from their housing if they have a loss of income or their rents are increased. This issue could be resolved by making the RHS voucher subsidy identical to the HUD housing choice voucher subsidy.

SINGLE-FAMILY PROGRAMS

In recent years, homeownership nationwide, including in rural areas, has become more expensive and harder to maintain. 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, all contribute to the difficulties rural homebuyers and the small financial institutions who serve them often face. USDA programs play an important role in making homeownership a viable option for rural communities.

Improve the Section 504 Program

Aging housing stock is a significant challenge for many rural areas, and homeowners are often older and on a fixed income, making home repair a challenge. The RHS's Section 504 Single Family Repair Loans and Grants program provides direct loan and/or grant funds for home repair to very low-income applicants who do not qualify for conventional bank financing. However, inefficiencies in the program have deterred potential applicants and have even resulted in funds left on the table in some years, despite huge need on the ground. Some potential Section 504 improvements include:

- Encourage RHS to streamline the 504 process. USDA has begun some of this already, but it is often as onerous to complete a $20,000 Section 504 loan/grant as a $150,000 Section 502 mortgage.
- Increase the threshold for the mortgage requirement on a 504 loan above $7,500. The current threshold was set 22 years ago, in 2000, and has never been adjusted for inflation. A promissory note would be appropriate security for loans under $15,000.
- Reinstate "packaging grants" through the Section 525 Technical and Supervisory Assistance Grant Program so that nonprofits can help USDA offices process Section 504 applications. Using nonprofits to assist with packaging has been a helpful tool in the Section 502 direct program.
- Allow loans under $25,000 to be closed without a title company so that title insurance, escrow, and similar processes would not be needed.

RHS STAFFING AND OPERATIONS

RHS plays a unique role in rural communities as a service provider and a connector to funding and program opportunities. Well-trained and community-focused staff is critical to RHS best supporting rural communities. Current staffing shortages and uncertainty about processes and the chain of command, particularly as transactions move across branches within the multifamily housing division, have real

implications for organizations and individuals trying to work with RHS programs. Bureaucracy and lack of clear guidance from RHS slow down the application process for many organizations and individuals. Additionally, because after decades of consolidating and closing offices there are fewer staff in rural communities, people are less likely to be connected to USDA programs that could address their needs. Better training for field staff and a clearer chain of command/order of operations could help lessen these slowdowns and help better serve rural communities. To this end, assigning an application "relationship manager" who is accountable for an application or transaction through the process and across branches from start to finish could help resolve uncertainty and improve processing times.

Technological updates are also a critical element of improving the RHS services. Current technology at RHS is vastly out of date, slowing down processing times. Using newer technology could also improve data collection, which could better inform which programs should be funded and where funds should go.

RHS should also be encouraged to proactively explore ways to better serve historically underserved areas through delegated authority of their programs. Proposals like the Native CDFI Section 502 direct intermediary re-lender concept from the Native American Rural Homeownership Improvement Act (S. 2092), which was also included in the Administration's FY 2023 budget and the House FY 2023 Agriculture Appropriations bill, should be used as models for improving RHS program impact in Indian Country and other underserved regions.

CONCLUSION

High quality rural housing is critical to maintain the health and well-being of communities across the U.S. USDA programs make renting and owning feasible options for people through rental assistance, financing options, and capacity building opportunities. RHS has had a major impact on rural communities despite its ever-shrinking budget. The age of the housing stock in many rural areas is beginning to show, and with shifts in Section 515 availability and other USDA programs, the future health of rural communities is at risk. Improving multifamily options and rental assistance would help people who cannot afford to buy a home stay in their communities. Reinvesting in single-family housing support would help current and future homeowners improve their homes. Strengthening capacity building programs would help communities develop in sustainable and impactful ways. Finally, improving staff training and upgrading technology at RHS would help USDA better serve rural communities. The shifts outlined above would improve the quality of housing options and the quality of life for many rural Americans.

We thank you for the opportunity to offer suggestions on how to improve RHS programs through the Farm Bill and please contact Mark Kudlowitz (mkudlowitz@lisc.org), LISC's Senior Director of Policy, if you have any questions.

Sincerely,

Matthew Josephs
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