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**Testimony of Marcia Erickson
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**before the
United States Senate Committee on Banking, Housing, and Urban Affairs
Housing, Transportation, and Community Development Subcommittee**

**Hearing on
Examining the U.S. Department of Agriculture’s Rural Housing Service:
Stakeholder Perspectives
September 20, 2022**

INTRODUCTION

Thank you, Chairwoman Smith, Ranking Member Rounds, and members of the Subcommittee. I am Marcia Erickson, Chief Executive Officer for GROW South Dakota. Thank you for the opportunity to provide testimony on Examining the U.S. Department of Agriculture’s Rural Housing Service: Stakeholder Perspectives.

I started my career over 30 years ago working at GROW South Dakota and have been the Chief Executive Officer for more than half of that time. I carry a Master of Science Degree in Community Economic Development from Southern New Hampshire University. I am also a graduate of Achieving Excellence in Community Development from Harvard’s Kennedy School of Government. Some of my current affiliations are National NeighborWorks Association (NNA) Board President, Rural Local Initiative Support Corporation (Rural LISC) Rural Advisory Committee, Small Business Development Center Advisory Board (South Dakota), South Dakota Community Action Partnership President, and NeighborWorks America Rural Advisory Committee. Past affiliations include the Chair of the Federal Home Loan Bank of Des Moines Advisory Council, Langford Community Foundation Advisory Board Member and Founder, and Marshall County Healthcare Board Chair.



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My testimony draws on these experiences and a diverse set of programs delivered by GROW South Dakota. GROW South Dakota is a statewide organization that administers several federal, state, and local programs through three separate private non-profit organizations under our GROW South Dakota branding umbrella. Our organization assists South Dakota residents and communities in community, housing, and economic development. GROW South Dakota has two certified Community Development Financial Institutions (CDFIs) within our purview. We also are a designated Community Action Agency, a partner of Rural LISC, and an exemplary rated member of NeighborWorks America. Together with our fellow South Dakota NeighborWorks organizations, in 2021 we leveraged an additional \$66 in public and private investment for every \$1 of NeighborWorks America grant funding awarded to organizations in our state. I share the Subcommittee's perspective that the current state of the housing programs offered by USDA Rural Housing Services (RHS) is crucial to rural communities across the country, yet challenges to the successful implementation of these programs remain.

I have worked with both the National NeighborWorks Association, the trade association representing NeighborWorks affiliate organizations, and Rural LISC to survey organizations across the nation to gather recommendations on improving USDA RHS programs and operations. These surveys found that community-based organizations consider RHS resources vital for their affordable housing and community development work. Respondents also reported that USDA RHS needs additional staffing and resources to oversee and administer their programs.

Section 502 Direct Loan Program

The 502 Direct Loan Program is a great option and asset for rural families to secure an affordable mortgage. This program allows USDA to provide single-family direct housing loans in rural areas to eligible low- and very-low-income applicants who are unable to obtain credit elsewhere. The 502 Direct Loan Program provides decent, safe and sanitary single-family housing in eligible rural areas by providing payment assistance to increase an applicant's repayment ability. Payment assistance is a type of subsidy that reduces mortgage payments, easing the financial burden on the household. The amount of assistance is determined by the adjusted family income. Borrowers are required to repay all or a portion of the payment subsidy received over the life of the loan when the title to the property transfers or the borrower is no longer living in the dwelling¹.

GROW South Dakota recommends relaxing or eliminating the repayment of subsidies under the 502 Direct Loan Program. The subsidy payback at the end of the amortization can negatively

¹ U.S. Department of Agriculture Rural Development. *Single Family Housing Direct Home Loans*. n.d. 11 September 2022. <https://www.rd.usda.gov/programs-services/single-family-housing-programs/single-family-housing-direct-home-loans>.

impact the ability of low-income families to gain generational wealth. According to CNBC, in 2019, homeowners in the U.S. had a median net worth of \$255,000, while renters had a net worth of just \$6,300.²

The interest rate of the 502 Direct Loan Program can also increase each year based on household income increases. This can be problematic. If a low-income homeowner receives a pay increase, their loan payment becomes higher, making it less advantageous to seek career development or other job advancement opportunities. We recommend examining both the subsidy payback and considering adjusting the increments on increases of income to a higher level.

In addition, the length of time for the direct home loan approval process can be discouraging to potential low-income homebuyers. A shortened application process, staffing levels sufficient to address the need, and improved technology would greatly improve the Section 502 Direct Loan Program and ultimately serve more rural families.

Native American Rural Homeownership Improvement Act

GROW South Dakota appreciates and applauds the leadership of Senator Rounds and Senator Smith in introducing the Native American Rural Homeownership Improvement Act (S.2092). This legislation will expand an existing USDA 502 Direct Native Relending Program which allows the USDA to partner with Native CDFIs, informed by a successful demonstration implemented by two Native CDFIs in South Dakota – Four Bands Community Fund on the Cheyenne River Indian Reservation and Mazaska Owecaso Otipi Financial on the Pine Ridge Reservation.

This pilot made Native CDFIs eligible borrowers under the Section 502 Direct Loan Program, allowing these entities to relend to families for the rehabilitation, construction, and acquisition of affordable housing on trust land. Native CDFIs throughout the country work daily in their communities and have the background and experience needed to close first mortgage loans with Native borrowers. Their administration of these funds will improve the deployment of the 502 loan funds to assist a greater number of Native families and households. This is a prime example of a federal program that works, should be expanded, and be permanently authorized. GROW South Dakota supports the passage of this bipartisan legislation, as well as the inclusion of annual funding for these purposes beginning in the Fiscal Year 2023 appropriations bill.

Providing this authority for Native CDFIs to lend Section 502 loan funds is a similar model to USDA Rural Development's Intermediary Relending Program (IRP), which has been a successful business lending program for many years. The IRP program provides loans to local

² CNBC. *Here's the average net worth of homeowners and renters.* 24 August 2021. 11 September 2022. <https://www.cnbc.com/select/average-net-worth-homeowners-renters>.

intermediaries to re-lend to businesses. This is an efficient and effective method to deliver essential USDA resources to local economies to create and retain jobs. We believe that delegating more responsibilities to mission-based lenders such as CDFIs is an important way for USDA to meet its mission of serving low-income families in often hard-to-serve small communities.

Finally, the responsiveness of USDA's loan servicing center could be improved and enhanced. Foreclosed homes by USDA Rural Development may sit empty for significant lengths of time before they are made available for resale due to the inability of partners to effectively communicate with the loan servicing center. If communication lines were improved, GROW South Dakota could also be more efficient and successful in helping homeowners with financial education and possibly providing assistance to bring their loans current.

Section 515 Rural Rental Housing Program

For many rural communities, the Section 515 Rural Rental Housing Program provides the only decent and affordable rental housing in the community. This program provides necessary rental housing options for low-income households. Tenants in Section 515 properties have an annual average income of only \$14,665³, with many units occupied by seniors and people with disabilities.

According to Mills Property Management – a property management contractor with GROW South Dakota – reduced USDA staffing and a reorganization to more regional offices have lengthened response times and led to processing delays over the last few years. USDA servicing agents have become overloaded and unable to respond to questions, reserve for replacement requests, conduct budget approvals, and complete other programmatic tasks in a timely manner.⁴ These communication delays have also contributed to the transfer of unused Section 521 rental assistance out of the state, hurting small-town rural properties in our communities as these resources are vital for preserving property affordability and ensuring tenants are not cost-burdened. We support increased staffing resources for USDA, additional Section 521 Rental Assistance funding, and the full renewal of existing resources, including those provided in the American Rescue Plan.

Many Section 515 multi-family projects are in need of additional repairs and major renovations due to deferred maintenance. We support increased resources for the Multifamily Preservation

³ United States Department of Agriculture Rural Development. *Results of the 2021 Multi-Family Housing Annual Fair Housing Occupancy Report*. 12 May 2022. 18 September 2022.
https://www.rd.usda.gov/sites/default/files/RDUL-MFHreport_0.pdf

⁴ Lamfers, Jessica. *Mills Property Management Finance Director* Maureen Nelson. 13 September 2022. Email.

and Revitalization Program (MPR) since it provides USDA the ability to defer existing loans and provide “soft second” loans and grants.

Projects in rural communities are not only in need of structural capital needs. Projects that are over 30-40 years old are in competition with newly constructed units that have amenities such as dishwashers, in-unit washers/dryers, garages, and updated security systems. Some of these quality-of-life items require a full renovation of the USDA Rural Development 515 projects in order to be considered.

When an owner considers additional financing for 515 properties for substantial renovation in the form of a loan, it is difficult to finance as the amount of rent allowed is limited. If a loan is approved with an increase in rent, the USDA Rural Development subsidy typically will be increased to offset the difference between the tenant’s ability to pay only 30% of their income and the higher rent. In essence, the subsidy may be assisting with making the loan payment. If USDA provides a loan to the project and also provides an increase in subsidy due to increased rent, it may be more effective and efficient to provide the project grant funding.

Appraisals that are necessary when considering USDA Rural Development or third-party loans are an added expense to the project. While USDA Rural Development may consider the tax-assessed value of a property, it can be difficult to approve if the valuation is low. In rural areas, it is challenging for the property to meet the appraised value after renovation when taking into consideration the additional and existing debt of the property. GROW South Dakota would support creating a capital pool for experienced nonprofits in the lending field to finance Section 515 projects requiring renovations and to support the preservation of these properties. Nonprofits have greater regulatory flexibility with lending requirements and can serve as a conduit to fill this void. Congress should consider providing appropriations for the USDA Multifamily Housing Preservation Loan Fund program, which previously provided support through a delegated lending structure.

Finally, for 515 projects, USDA Rural Development properties are difficult to transfer to new ownership due to pre-payment debt covenants on the project. Potential buyers interested in affordable multi-family housing solutions may be forced to assume USDA Rural Development debt in order to maintain access to subsidies. GROW South Dakota welcomes any legislative intervention available to ease the burden from non-profits during these difficult transfers. Access to subsidies continues to be critical for non-profits like GROW South Dakota to serve our communities by providing and preserving affordable multifamily units. Non-profits that own 515 projects also have limited funding and revenue to complete the necessary updates for deferred maintenance. Because of this, these organizations are being forced to sell projects to private parties who remove the units from the USDA Rural Development program and increase rents.

504 Single Family Repair Loans and Grants

The staff of GROW South Dakota work daily in our rural communities and see firsthand the need for home repairs. When driving through a rural community, it is easy to see the need for shingles and siding from property to property, but there is also a need for health and safety issues that may be causing risks inside the home. Further, when GROW South Dakota has peer-to-peer meetings with groups and organizations deteriorating housing is always at the forefront of the discussions. This is clearly displayed in our organization, as GROW South Dakota has 151 families on our waitlist pending home improvements, and unfortunately, our funding is limited to address these needs.

The USDA 504 program provides direct loans and/or grant funds to very low-income applicants to repair their homes. GROW South Dakota often refers homeowners to the USDA 504 program. However, many of our low-income clients looking for home improvement assistance are not comfortable taking out a loan, even with the very favorable interest rate. This program would benefit from greater regulatory flexibility and an increase in the grant funds per household. This grant currently allows a maximum grant award of \$10,000⁵ for those over 62 and with very-low income. GROW South Dakota's home improvement project costs have increased beyond this award ceiling, even for one major improvement, such as shingling, while many homes need more than one home repair item completed. GROW South Dakota supports increasing the total grant funds awarded to households, expanding the eligibility of grant recipients and the use of funds, and raising Average Median Income eligibility limits. With rising repair costs, broader eligibility flexibilities, and higher awards per household, rural residents will have better access to funds for needed home repairs.

Housing Preservation Grant (HPG)

The HPG program helps to repair or provide rehabilitation of housing owned by low-income rural households. The USDA Housing Preservation Grant (HPG) is both complex and difficult to administer. Reducing regulatory barriers from the grant application stage to the assistance provided to low-income families will increase the program's impact.

During the application stage, GROW South Dakota asks for the public comment process to be removed from the HPG process. The 15-day comment period window is often shortened by the notice of available funding listings being close to the submission date. Although we have not administered this program for some time, we never received a public comment as a result of this requirement, and it has only added to our administrative burden in issuing this program.

⁵ USDA Rural Development. "Together, America Prospers." n.d. *Single Family Housing Repair Loans and Grants*. 19 September 2022. https://www.rd.usda.gov/sites/default/files/508_rd_fs_rhs_sfh504homerepair.pdf.

The HPG program also requires the State Housing Preservation Offices (SHPOs) to review and approve preservation activities, such as replacing windows, while other federal programs such as the Department of Energy's Weatherization Assistance Program have negotiated streamlined processes with little or no consultation with the SHPO to comply with the National Historic Preservation Act⁶. USDA Rural Development would further its impact under HPG by modeling the Department of Energy's streamlined process for review and approval. Therefore, we recommend Congress expand resources for HPG since these activities are needed in our communities while also incorporating administrative reforms to increase the program's impact.

Rural Community Development Initiative

The Rural Community Development Initiative (RCDI) is the only specific capacity-building program offered through USDA's RD Programs. This program helps scale the ability of nonprofits to further their affordable housing and community development work in rural areas. GROW South Dakota recommends changing the RCDI grant scoring on the median household income for the communities where the recipients are physically located⁷. Many times, local partnering development groups or recipients are physically located in an area where the median household income levels are higher than allowed for scoring the maximum points in the grant application, but they are serving communities that are less than or equal to 70 percent of the state or national median household income. This change would allow RCDI resources to better reach all low-income communities. We also support increased funding for RCDI.

Tribal Trust Land Homeownership Act

The South Dakota Native Homeownership Coalition is a collaborative group of key agencies dedicated to increasing homeownership opportunities for Native Americans in the state of South Dakota. GROW South Dakota has worked closely with the South Dakota Native Homeownership Coalition since its inception, initially securing and administering a USDA RCDI grant to help set roots for this successful coalition. However, homeownership continues to be a major challenge on trust land.

Mortgage lending on Tribal Trust and Restricted Land is a challenge to homeownership in part caused by delays in the processing of title and mortgage-related documents by the Department of Interior Bureau of Indian Affairs (BIA). The loans involving property on trust land must be reviewed and processed by the BIA before the mortgage can be finalized and guaranteed by the relevant federal agency.

⁶ Office of Energy Efficiency & Renewable Energy. *Historic Preservation - Executed Programmatic Agreements*. n.d. 18 September 2022. <https://www.energy.gov/eere/wipo/historic-preservation-executed-programmatic-agreements>.

⁷ Department of Agriculture. *Federal Register*. Vol. 87. 8 February 2022. 18 September 2022. <https://www.govinfo.gov/content/pkg/FR-2022-02-08/pdf/2022-02624.pdf>.

The unintended consequences of these delays have resulted in large financial institutions exiting this market, loss of capital flowing into Tribal Communities, Tribal members with homesite leases opting for higher-cost chattel loans, frustration by lenders needing to refresh documents due to time delays, and tribal populations not able to access affordable mortgage products.

To the BIA's credit over the past three years, they have made mortgages a priority in their title work and have created an Indian Affairs Mortgage Handbook to standardize mortgage package processing across their 12 Regions. The Handbook is a step in the right direction as it provides guidance related to timelines, but more work must be done to ensure the BIA adheres to its timelines. Given the disparities in obtaining access to home loans on trust land compared to fee simple, we support the Tribal Trust Land Homeownership Act (S.3381). This bill would codify the mortgage document processing times included in the Mortgage Handbook, promote better communication between the BIA and the lending industry, and require the GAO to report on the BIA's efforts at digitizing documents for the purpose of streamlining and expediting the completion of mortgage packages for residential mortgages on trust land.

This legislation is of critical importance as we collectively strive to provide Native Americans wishing to live on their land the same access to home loans available to any American citizen purchasing or renovating their home on fee simple lands. GROW South Dakota appreciates Senators Thune, Smith, Rounds, and Tester for their leadership in introducing this legislation to address this need.

Other

As a nonprofit CDFI partnering with USDA Rural Development through several programs, flexible program design and capital to address a variety of rural affordable housing and community development remain a core need. When local leaders have the resources, along with effective regulations informed by community practitioners, we can make substantial progress in serving rural households. GROW South Dakota recognizes that federal funding needs parameters and grantees require accountability, yet burdensome regulations often hinder our progress in delivering critical assistance. I have seen that type of funding, I have worked with that type of funding, and the cost to administer such programs sometimes exceeds the value. I applaud the efforts being made in Congress to increase resources for USDA RHS and to ensure that programs are structured so that CDFIs and other recipients can use them flexibly to meet local needs.

Summary

GROW South Dakota's aim is to help find solutions together with our community members to address the housing problems we face and put forward comprehensive, implementable solutions using a unified voice. However, we recognize each community has different needs and strengths

– effective policy does not always mean one-size-fits-all, but we do know that housing impacts every single community. This is where we start.

Thank you for working on creating solutions in a bipartisan manner and for looking to stakeholders like myself and my fellow witnesses to inform those solutions. I look forward to working with each of you to promote legislation that will change the future of housing and our families across the state and the nation. Thank you for your time and I look forward to answering any questions you may have.