HAC
Housing Assistance Council

We help build homes and communities across rural America.

Statement for the Record of Lance George,
Director of Research and Information, Housing Assistance Council
U.S. Senate Committee on Banking, Housing, and Urban Affairs
February 9, 2023

INTRODUCTION

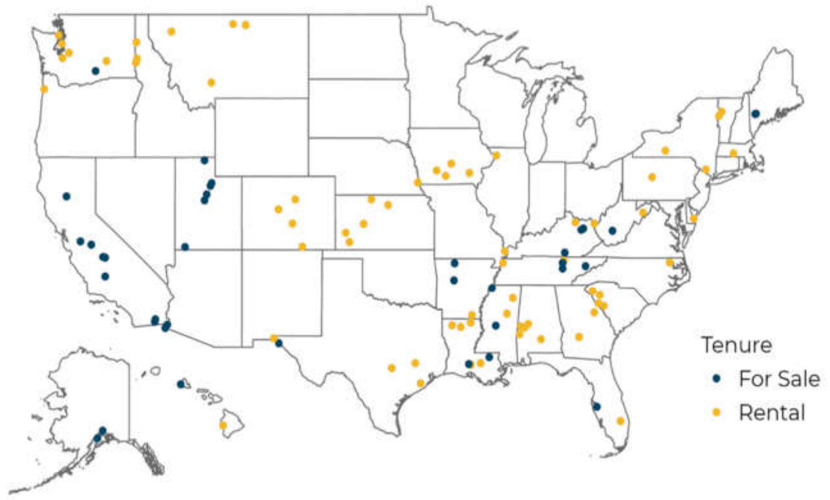
Chairman Brown, Ranking Member Scott, and Members of the Committee, greetings and thank you for this opportunity to testify on the state of housing in rural America. My name is Lance George, and I am the Director of Research and Information at the Housing Assistance Council (HAC).

HAC is a national nonprofit that helps build homes and communities across rural America. Founded in 1971, headquartered in Washington, DC, and working in all 50 states, we provide technical assistance to community-based organizations, loans for affordable housing development, and in-depth research on rural community economics. HAC has a specific focus on high-needs rural regions and areas of persistent poverty, including rural Appalachia, Native American communities, the Mississippi Delta and southern Black Belt, farmworker communities, and the Southwest border colonias. Our current lending portfolio is helping to construct, preserve, or renovate over 3,000 homes, spread across 27 states and concentrated in communities of economic distress and majority non-white census tracts with persistently high poverty.

HAC also produces robust research on rural housing, demographics, and poverty, with leading public and private sector institutions relying on HAC's research and analysis to shape policy. We are independent and assiduously nonpartisan and regularly respond to Congressional committees and Member offices with the research and information needed to make informed policy decisions. To learn more, please visit www.ruralhome.org.

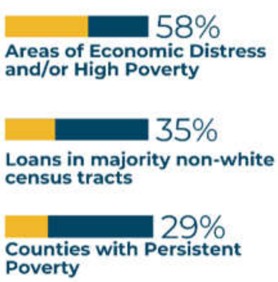
If you need to know how a new program or policy could impact America's smallest towns, please do not hesitate to call on us. It is an honor to be here in this capacity today, on a panel alongside two such distinguished experts.

Housing Assistance Council Loans, December 31, 2022



Source: Tabulations of HAC Loan Fund Data

Loans by Geographies Served



STATE OF RURAL HOUSING 2023

The people of rural America reside in approximately one quarter of the United States' homes and occupy 97 percent of our nation's landmass. There is immense diversity among its towns and small settlements, yet there is also a set of community and market conditions that tie this vast landscape together.

Rural America represents 18 percent of America's population, but one of every 12 jobs in the American economy is connected in some way to what happens in rural America. It's one of the few parts of our economy that still has a trade surplus. Rural places launch over half of our small businesses, provide nearly all of the fiber and minerals for our industries, and produce nearly all of the renewable and fossil fuels that power our homes, cars, and infrastructure. Rural places hold 88 percent of our clean and renewable water, steward nearly all our natural lands, and manage many of the world's most popular outdoor recreation destinations. Despite these essential roles in the life and economy of the nation, rural places are being systematically starved of investment and opportunity.

With the continuing outmigration of working age residents, rural communities contain larger shares of older residents. Racial and ethnic diversity is also increasing in rural America, as it is throughout the country. These demographic drivers are important bellwethers of housing markets and demand. An older, less mobile, yet more diverse rural population will require housing options and solutions currently not available in many rural communities across the nation. While housing issues from the pandemic are not to be overlooked, far too many rural residents struggled with housing problems and inadequacies for years, if not decades, before COVID-19.

THE PANDEMIC LEFT ITS MARK ON RURAL AMERICA AND HOUSING MARKETS REMAIN UNCERTAIN

The pandemic revealed uneven and tumultuous economic circumstances and labor markets across the nation. These conditions spilled over into the housing world including housing price increases at all-time highs, limited housing supply, and millions in tenuous housing situations of eviction or foreclosure. Supply chain problems and building material shortages have only served to exacerbate these shortages and rising prices.

Many Americans were buoyed by large scale federal unemployment benefits and economic stimulus. Some of that federal investment is still making its way into many rural communities, while other pandemic-related resources have ended. There were, and still are, substantial potential collateral impacts to almost all sectors of the housing market.

Housing instability is particularly concerning for rural renters who typically have lower incomes, less savings, employment uncertainty or safety due to COVID, fewer protections, and less ability to weather economic shocks compared to homeowners. Throughout the pandemic, the U.S.

Census Bureau's Pulse Survey has consistently revealed that renters nationally have been more likely to be behind on their house payments and have had less confidence in their ability to make next month's rent than homeowners.[1]

There are also concerns on the supply side of rural housing markets. Many landlords have declining or uncertain rental income because of policies and adjustments related to the pandemic. Rural housing market dynamics are also distinct in this realm. On one hand, the levels of "free and clear" homeownership without a mortgage are highest in rural America and this could help provide stability for many homeowners during the economic crisis. But rural rental properties tend to be smaller and are also more likely to be owned by individuals who may be less able to weather a loss of rental income than corporations can.

The process of creating a "new normal" has only just gotten underway. It is not yet clear whether the pandemic-induced housing supply shortage will fizzle or will create long-term changes in some rural economies or will land somewhere in between.

WE ARE A NATION OF HOMEOWNERS – ESPECIALLY IN RURAL AMERICA

Owning a home has traditionally been the bedrock of the "American Dream," conveying prosperity, financial security, and upward mobility. The United States is largely a nation of homeowners and homeownership is more prevalent in rural areas. But many rural households still face challenges in accessing, attaining, and affording the purchase of a home. Lack of available stock, high housing costs relative to incomes, and high-cost loans are barriers to homeownership.

In 2020, 64.4 percent of U.S. homes were owner-occupied. This rate is lower than the 2010 homeownership level of 66.6 percent, but homeowner rates have consistently been above 60 percent since the 1960s. In rural and small-town communities, homeownership rates are even higher than the national level. Approximately 16.8 million, or 72 percent of occupied homes in rural communities are owned by their inhabitants. Consistent with national trends, homeownership rates declined slightly between 2010 and 2020.[2]

Rural America also has a higher level of "true homeownership." True homeownership describes homeowners who own their homes without a mortgage. This is often referred to as "free and clear" ownership. Nearly half of rural and small-town homeowners own their properties with no mortgage debt, compared to about 37 percent of all U.S. homeowners.[3] There are several reasons for the higher rate of true homeownership in rural and small town areas. These include the presence of manufactured homes and the age of the residents. Manufactured homes are

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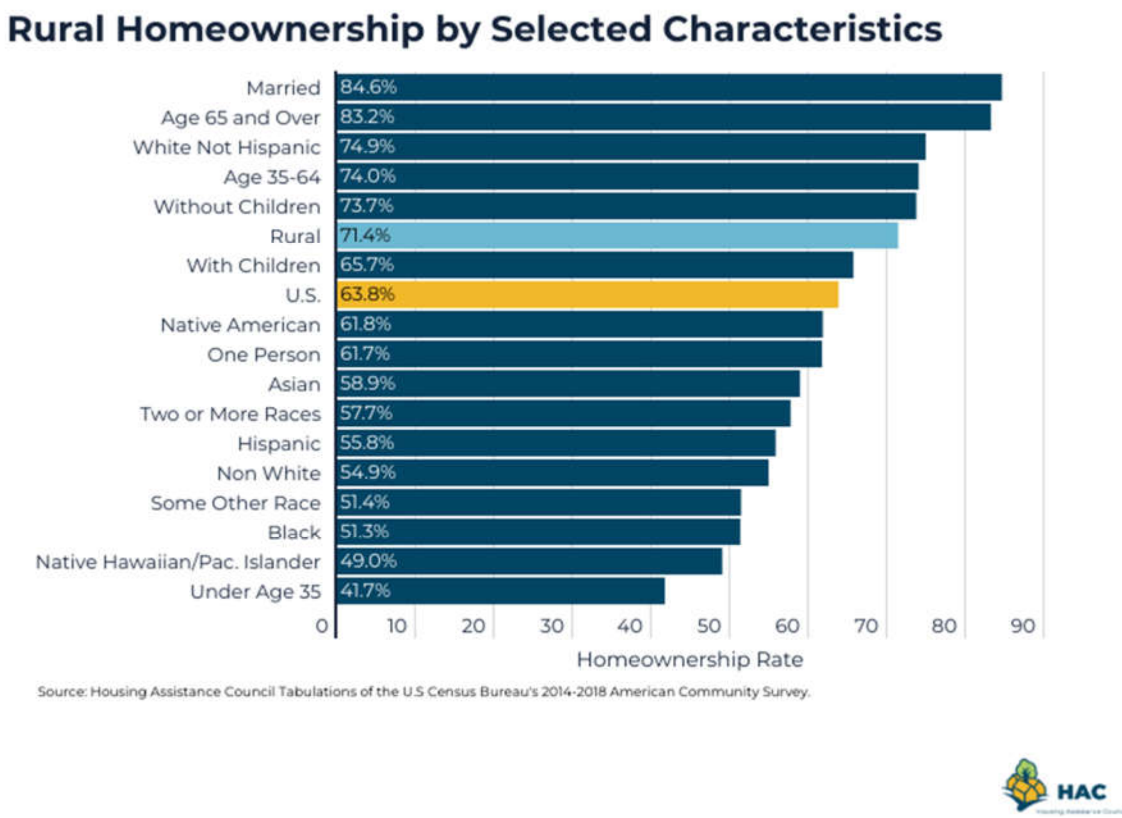
[1] "Measuring Household Experiences during the Coronavirus Pandemic," U.S. Census Bureau, January 5, 2023, https://www.census.gov/data/experimental-data-products/household-pulse-survey.html.

[2] Housing Assistance Council tabulations of the U.S. Census Bureau's 2016-2020 American Community Survey 5-Year Estimates.

[3] Housing Assistance Council, *Rural Research Brief: Homeownership in Rural America,* June 29, 2020, https://ruralhome.org/homeownership-in-rural-america/.

often financed with personal property loans which have shorter loan terms than typical mortgages. In addition, the population in rural areas tends to be older than the nation as a whole and, as homeowners age, their mortgage debt typically decreases.



But ownership of housing also varies across geography, age, and racial and ethnic groups in rural and small-town communities. Similar to national characteristics, non-white and Hispanic rural and small-town residents have substantially lower homeownership rates than white non-Hispanic households. Approximately 75 percent of rural and small town white non-Hispanics own their homes while only 55 percent of minority households own their homes. Black rural and small-town households (51 percent) and Native Hawaiian and Pacific Islanders (49 percent) are the least likely groups to own their homes.[4] But non-white and Hispanic rural residents are nearly 8 percent more likely to own their homes than minorities in the nation as a whole.

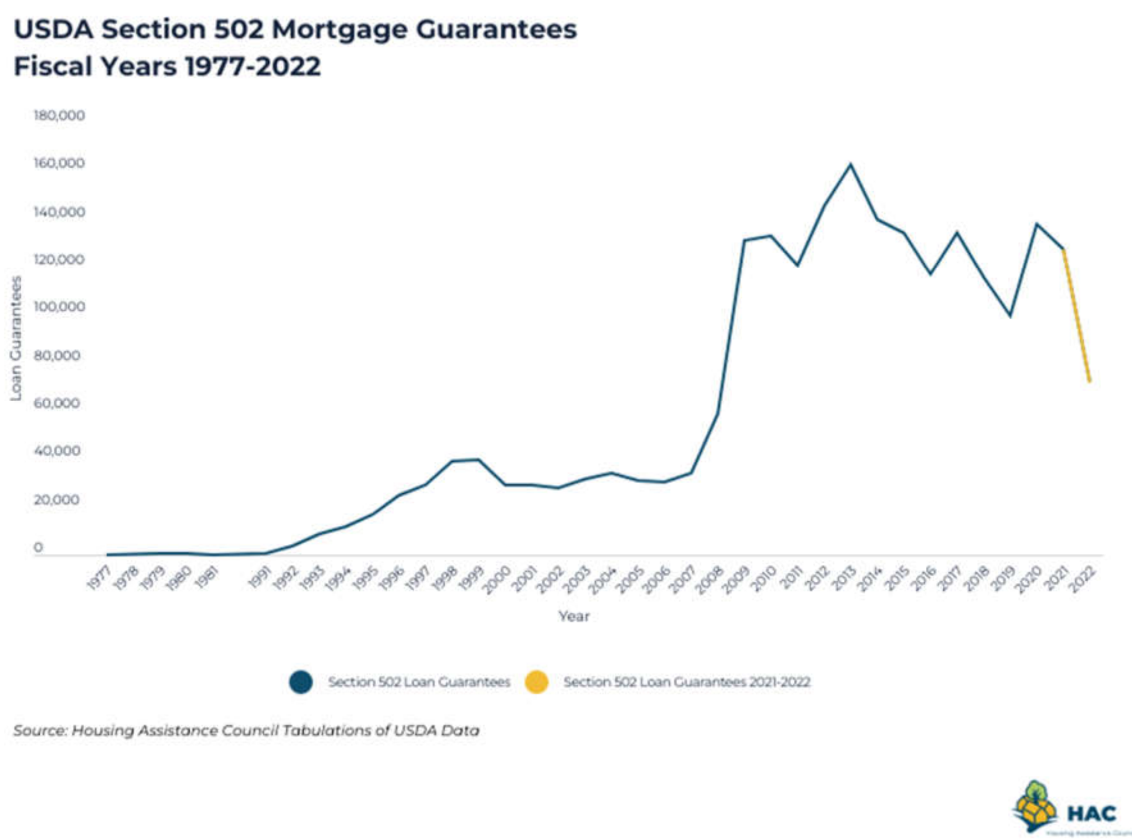
RURAL MORTGAGE MARKETS ARE BEING IMPACTED BY INTEREST RATES AND PRICES TOO

There have been numerous research and business reports on the slowdown in homebuying and mortgage activity in recent months. This market response is largely related to recent interest rate increases for 30-year fixed mortgages spurred by the Federal Reserve raising its benchmark

[4] HAC, *Homeownership.*

rates. According to some estimates, the rate of mortgage applications nationally fell by half in 2022, and refinancings plummeted even more.

Housing finance dynamics in rural areas often mirror national trends – but with a few differences. Due to underlying economic and demographic characteristics, rural finance dynamics sometimes lag suburban and urban trends and experience less volatility generally. Data from the Department of Agriculture (USDA) on its Guaranteed Home Loan product signals that rural homebuyers hit the brakes in 2022 as well. USDA provides a federal loan guarantee to borrowers seeking to purchase or rehabilitate a home in rural communities. In many respects USDA's loan guarantees are like Federal Housing Administration (FHA) loans in which the mortgage is originated by a private market lender and insured against default by the U.S. government.



Over 2 million homes have been financed with USDA loan guarantees since the product's inception, and the agency guaranteed more than 100,000 mortgages each year from 2009 to 2021. But in 2022 USDA loan guarantees plummeted by more than 40 percent from their 2021 level and dropped well below the 100,000-loan mark to guarantee 72,000 loans.[5] The decline in USDA's guarantees is generally consistent across the nation. All states experienced a decline in USDA mortgage guarantees and the declines were substantial. Between January 2022 and

[5] Housing Assistance Council, *Rural Research Note: Home Mortgage Demand Declined in Rural America Too,* February 6, 2023, https://ruralhome.org/information-center/rural-research-notes/.

January 2023 all but four states and territories had declines of 50 percent or more in this loan product. Montana, Hawaii, Massachusetts, and Rhode Island all experienced more than an 80 percent decline in their USDA loan guarantees over this time.[6]

AFFORDABILITY IS THE GREATEST HOUSING CHALLENGE IN RURAL AMERICA (BY FAR)

Housing costs nominally tend to be lower in rural areas than within suburbs and cities. Despite these cost dynamics, an increasing number of rural households find it challenging to pay their monthly housing expenses. Over 5.6 million – or one quarter of rural households – pay more than 30 percent of their monthly income toward housing costs and are considered cost-burdened. The incidence of housing cost burden has increased markedly for rural households over the past few decades. Housing affordability problems are especially problematic for rural renters. A full 44 percent of rural renters are cost-burdened, and nearly half of these renters are paying more than 50 percent of their monthly income toward housing costs.[7] Almost 40 percent of cost-burdened rural households are renters – a much higher proportion than the overall housing stock.[8]

Housing affordability problems are not limited to rural renters. The majority of rural cost-burdened households are actually homeowners. Similar to national trends, home purchase prices have escalated unabated in many rural communities, making home purchase options largely unaffordable to many low- and moderate-income rural Americans. Nationally, the average price of a new single-family home in the United States has skyrocketed over the past few years. According to the most recent Census Bureau and U.S. Department of Housing and Urban Development (HUD) reporting, the median sales price for a new home sold in the United States in the last quarter of 2022 was $467,700.[9]

Relatedly, the Federal Housing Finance Authority's Housing Price Index reached its highest level since 1980 in the third quarter of 2022.[10] The price of new homes financed with USDA's home loan guarantee has witnessed similar increases and spikes in prices to those national trends. In fiscal year 2022, the average loan amount for a USDA guaranteed loan was $185,241 – up 31 percent from the 2019 average loan amount with this product.[11] While median housing prices

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[6] HAC, *Home Mortgage Demand.*

[7] Housing Assistance Council tabulations of the U.S. Census Bureau's 2016-2020 American Community Survey 5-Year Estimates.

[8] Housing Assistance Council tabulations of the U.S. Census Bureau's 2016-2020 American Community Survey 5-Year Estimates.

[9] U.S. Census Bureau and U.S. Department of Housing and Urban Development, "Median Sales Price of Houses Sold for the United States [MSPUS]," FRED, Federal Reserve Bank of St. Louis, January 30, 2023, https://fred.stlouisfed.org/series/MSPUS.

[10] U.S. Federal Housing Finance Agency, "All-Transactions House Price Index for the United States [USSTHPI]," FRED, Federal Reserve Bank of St. Louis, January 31, 2023, https://fred.stlouisfed.org/series/USSTHPI.

[11] Housing Assistance Council, *USDA Rural Development Housing Activity: Fiscal Year 2021 Year End Report* (Washington, DC: Housing Assistance Council, 2022), https://ruralhome.org/wp-content/uploads/2022/04/USDA-Housing-Activity-Report-FY-2021.pdf.

have increased nationally over the past 10 years, income growth in many rural communities has remained stagnant, also exacerbating the affordability challenges in rural markets.

RENTAL HOUSING IS ESSENTIAL TO HEALTHY COMMUNITIES, BUT OPTIONS ARE OFTEN LIMITED AND EXPENSIVE FOR RURAL RENTERS

While homeownership is often described as an important part of the American Dream, rental housing is also essential because many households cannot or choose not to own a home. Some of the most economically vulnerable rural residents rent their homes. Yet far too many of them live with rental costs they cannot afford, physically inadequate homes, or overcrowding. At the same time, the supply of affordable rural rentals is shrinking.

About 28 percent of rural households (and the same proportion of suburban residents) rent their homes, compared to just over half (52 percent) in urban places. In keeping with the less dense nature of rural areas, rural renters are likely to live in much smaller buildings than their urban and suburban counterparts. Almost three-quarters (73 percent) of rural renters occupy detached single-family homes and less than 3 percent live in properties with 20 or more apartments. Rural renters are also far more likely to live in manufactured homes than are renters in other places: 13 percent compared to 5 percent in suburbs and 1 percent in cities.

Housing costs are a significant problem for rural renters, as they are for urban and suburban residents. More than 45 percent of renters in rural America (over 2.5 million households) pay more than 30 percent of their income for rent and utilities, and nearly half of those (1.2 million) pay more than 50 percent of their income for shelter. Cost-burden rates are even higher in rural census tracts where the majority of the population is Black or Hispanic. In Black-majority rural census tracts, 55 percent of renters pay more than 30 percent of income for housing, as do 47 percent in Hispanic-majority tracts.[12]

RURAL AMERICA IS LOSING AFFORDABLE RENTAL HOUSING AT AN ALARMING RATE

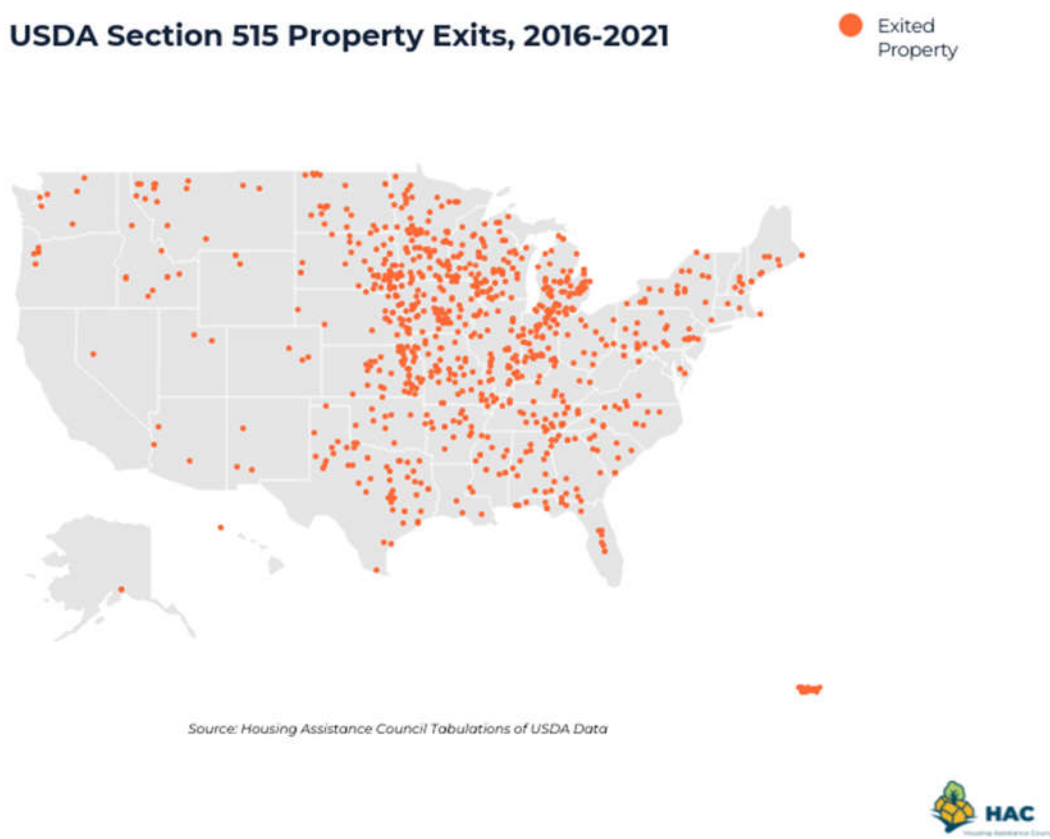
Rental properties financed by USDA Section 515 loans are an important source of rental housing in many rural communities. Since the program's inception in 1963, Section 515 Rural Rental Housing loans have financed nearly 28,000 rental properties containing over 533,000 affordable apartment homes across rural America. With just under 400,000 affordable apartments in USDA's current Section 515 Rural Rental Housing portfolio, there is at least one USDA Section 515 property in 87 percent of all U.S. counties.

No new construction of Section 515 properties has been financed since 2012 and, because most of these properties are several decades old, their original mortgages are reaching the ends of their terms. As the Senate report on the fiscal year 2018 agriculture appropriations bill noted, there is an "alarming number of multi-family housing mortgages scheduled to mature in the next few years. As these mortgages mature, projects and units will be removed from USDA's

[12] Housing Assistance Council tabulations of the U.S. Census Bureau's 2015-2019 American Community Survey 5-Year Estimates.

affordable rural housing program, placing very low income rural residents in jeopardy of untenable rent increases and possible eviction."[13]

HAC recently determined that from 2016 through mid-2021 maturing mortgages removed these properties from USDA's Section 515 portfolio slightly more slowly than previously predicted. Far more properties than expected, however, left the program for reasons unrelated to mortgage maturity. HAC identified 921 Section 515 properties that left the portfolio between 2016 and July 2021 – nearly three times more than USDA had projected for maturing mortgages alone during the five-year period.[14]



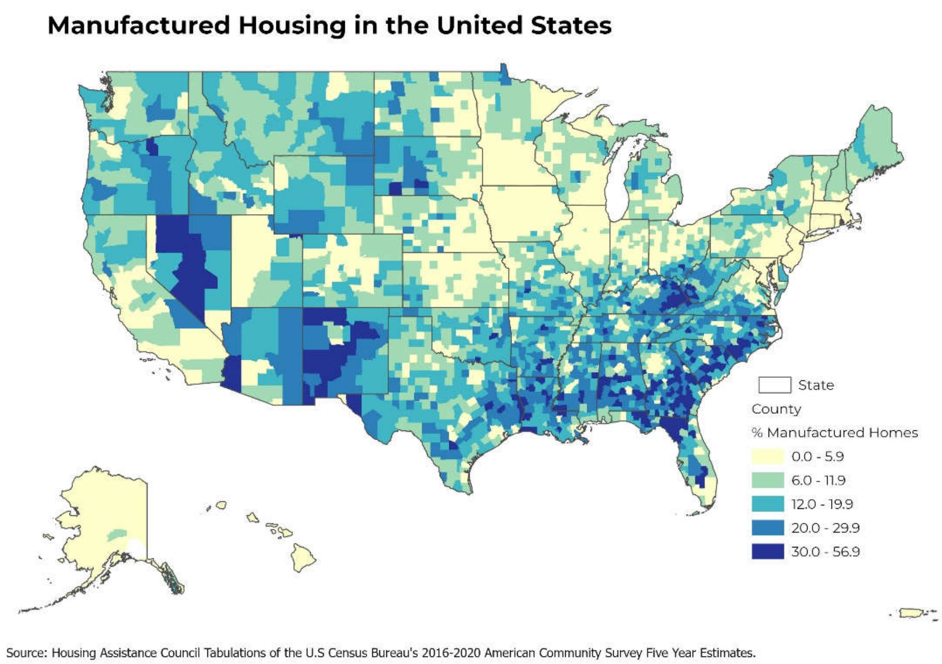
The residual impacts of this trend are exponential. Once the USDA mortgage has ended, the property owner is generally no longer subject to government oversight or regulations on use of their property (unless the project has other subsidies still in place), the federal government is no longer paying to support that housing, any remaining or replacement financing has a higher

[13] Committee on Appropriations, U.S. Senate, *Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Bill 2018, Report S. 115-131,* July 20, 2017, https://www.congress.gov/115/crpt/srpt131/CRPT-115srpt131.pdf.
[14] Housing Assistance Council, *Rural Research Brief: 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/.

interest rate than the USDA loan, the tenants are no longer eligible for USDA Rental Assistance, and in some instances, the homes may no longer be affordable for their tenants.

MANUFACTURED HOUSING IS AN OFTEN OVERLOOKED BUT IMPORTANT SOURCE OF HOUSING – ESPECIALLY IN RURAL AMERICA

There are approximately 6.7 million occupied manufactured homes in the United States, comprising about 6 percent of the nation's housing stock. More than half of all manufactured homes are located in rural areas around the country and manufactured homes make up 13 percent of all occupied homes in rural and small-town communities. Manufactured housing accounts for about 10 percent of all new single-family housing starts in the U.S.[15]



Living in manufactured homes is often characterized by unique financing and land tenure challenges. While the purchase price of manufactured homes can be relatively affordable, financing costs can be much greater than for conventional housing mortgages. The majority of manufactured homes are financed with personal property, or "chattel," loans. These types of loans are more similar to automobile loans than to conventional mortgage loans and have their roots in the manufactured homes' growth out of the travel trailer industry. With shorter terms and higher interest rates, personal property loans are generally less beneficial for consumers

[15] Housing Assistance Council, *Rural Research Brief: Manufactured Housing in Rural America,* July 2020, https://ruralhome.org/wp-content/uploads/2021/05/Manufactured_Housing_RRB.pdf.

than conventional mortgage financing, putting vulnerable, low-income borrowers at risk. Approximately 66 percent of manufactured home loans in 2018 were classified as high cost (having a substantially high interest rate), which is more than five times the level of high-cost lending for all homes nationally. And for manufactured home loans secured by the manufactured home only (without land), that figure jumps to a staggering 90 percent high-cost loan rate.[16]

Land tenure status is another unique characteristic for many manufactured homes. Manufactured housing units are often located in land lease communities, where residents own their unit but pay rent to a landlord for the lot on which it is located. Though about three quarters of manufactured homes are owner-occupied, estimates suggest that approximately 40 percent of all manufactured homes are in land lease communities. There are around 45,000 of these communities across the nation.[17]

In addition to the longstanding challenges of high-cost financing and land tenure status, newer issues have also arisen such as the emergence of private equity investment in manufactured housing communities. These investments can be among the most profitable in the already-hot real estate sector, but they often come at the expense of residents in the communities being purchased. Private equity investors purchase manufactured housing communities and profit by increasing lot rents for residents, often significantly. This practice can lead to reduced affordability, eviction, or displacement for these families – even when they own the unit itself. There is little federal or local regulation to prevent this practice, and nearly no public funding to counter this growing issue.

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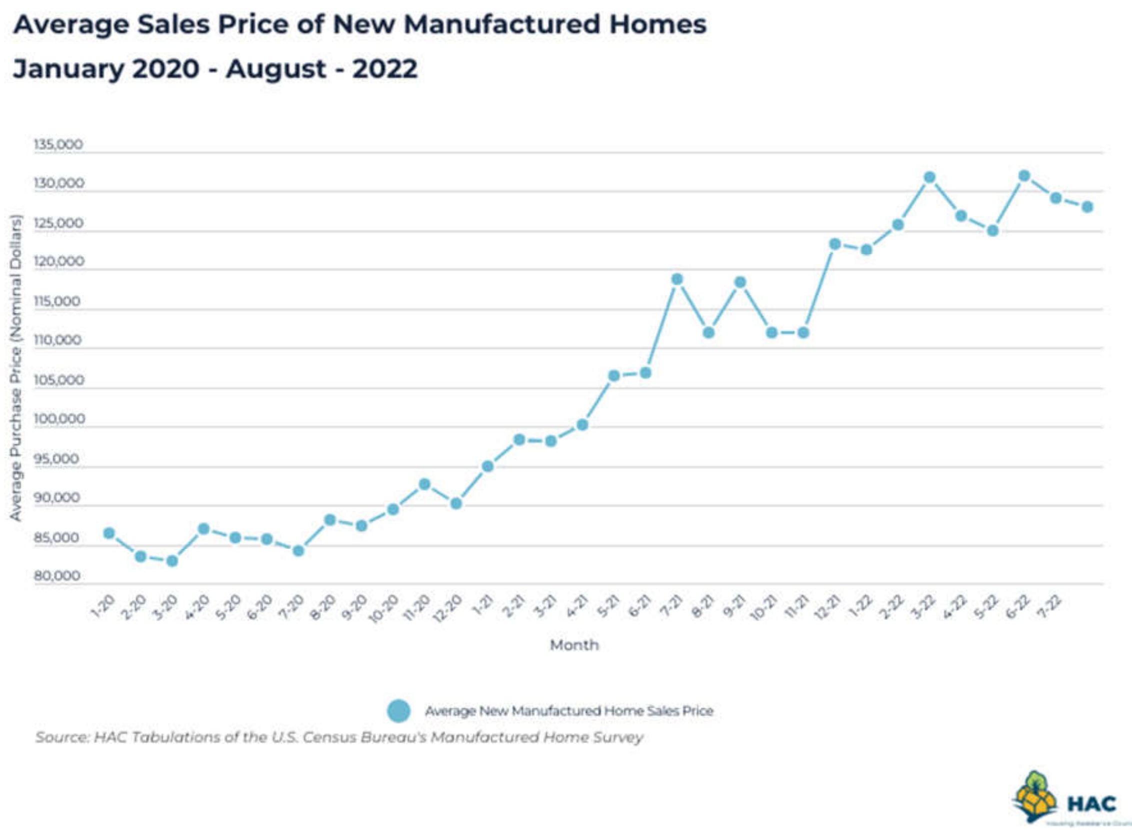
[16] Housing Assistance Council tabulations of Consumer Financial Protection Bureau 2018 Home Mortgage Disclosure Act data.
[17] HAC, *Manufactured Housing.*



The cost increases, supply chain delays, and materials and labor shortages that have impacted the broader housing market in recent years have also impacted manufactured housing. The average sales price of a new manufactured home (excluding land) in 2019 was $81,700.[18] As of August 2022 (the most recent data available), that average sales price had jumped to $128,000 – an increase of 56 percent.[19] Because affordability is the most significant housing issue facing rural residents, these cost increases – both for manufactured housing and more broadly – are a significant added barrier to homeownership in rural communities.

RACE MATTERS ACROSS THE RURAL SPECTRUM – ESPECIALLY IN HOUSING

Race and ethnicity are central but often complex components of our national identity, history, and struggles. Racial dynamics also manifest themselves in our geographies and communities. While rural America is becoming more diverse, non-white and Hispanic groups comprise a relatively smaller proportion of rural populations than for the nation as a whole. For example, in 87 percent of counties in the nation, white non-Hispanics are the most prevalent racial or

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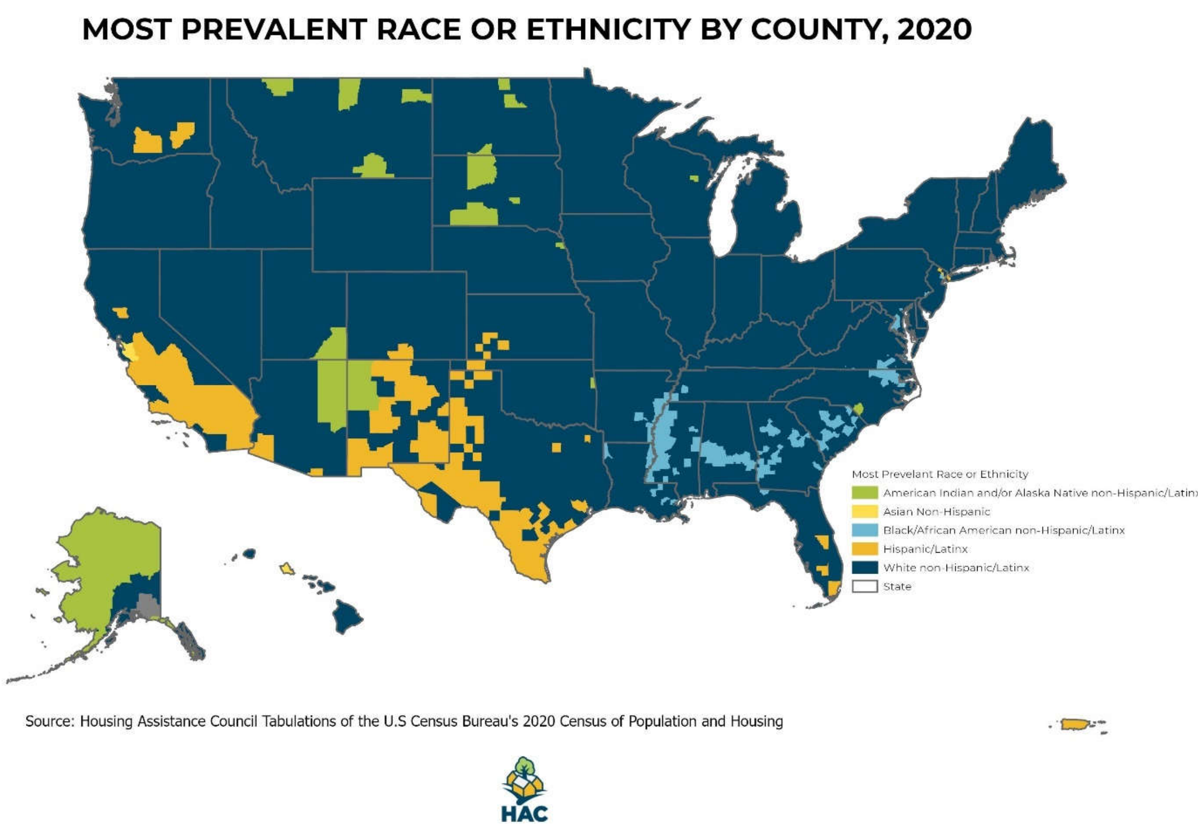
[18] Housing Assistance Council tabulations of the U.S. Census Bureau's Manufactured Home Survey, https://www.census.gov/data/tables/time-series/econ/mhs/latest-data.html.

[19] Housing Assistance Council tabulations of the U.S. Census Bureau's Manufactured Home Survey, https://www.census.gov/data/tables/time-series/econ/mhs/latest-data.html.

ethnic group. These residential patterns are partly a combination of demographic trends and events such as the "Great Migration" by Blacks from the rural South, but also historic and enduring factors of exploitation, relocation, exclusion, and segregation.[20]

Geographic clustering of groups in regions and communities can be exemplified by the statistic that over 85 percent of rural Blacks reside in the Southern region of the United States. Black residents comprise an even larger portion of the population in the southern "Black Belt" communities of Alabama, Georgia, Mississippi, North Carolina, South Carolina, and Virginia, as well as the Lower Mississippi Delta states of Arkansas, Mississippi, and Louisiana. Large numbers of rural Native Americans reside on or near Native American reservations and trust lands in the Midwest plains, the Southwest, and Alaska. Nearly half of all rural Hispanics reside in the four states of Texas, California, New Mexico, and Arizona. Over one-fifth of all rural Hispanics live in Texas alone.[21]



Across the country, rural social and economic conditions generally lag in comparison to many urban and suburban areas. In addition, rural communities with large non-white populations are

[20] Housing Assistance Council, *Rural Research Brief: The United States is Becoming More Racially Diverse – And So is Rural America,* September 28, 2021, https://ruralhome.org/united-states-becoming-more-racially-diverse-so-is-rural-america/.
[21] HAC, *More Racially Diverse.*

in comparably worse social and economic conditions in comparison to white non-Hispanic communities. Racial and ethnic minority populations and communities have historically and systemically been excluded from pathways to adequate housing. Racial discrimination results in substandard and inaccessible housing that perpetuates economic distress in many racial/ethnic minority communities. Geographic isolation and relative segregation continue to be important components of poverty and substandard housing in many rural communities.

RACE AND HOUSING DISPARITIES ARE MOST ACUTE IN RURAL PERSISTENT POVERTY COUNTIES

The issue of poverty is complex, but it is much more than an abstract condition for the over 37 million Americans who face daily struggles with food insecurity, access to health care, and search for basic shelter. Poverty is often imagined as an urban issue in the national discourse, but some of the country's deepest and most persistent poverty can be found in rural areas. Identified as "Persistent Poverty Counties," these communities are generally rural, isolated geographically, lack resources and economic opportunities, and suffer from decades of disinvestment and double-digit poverty rates.

Persistently poor counties are classified as having poverty rates of 20 percent or more for three consecutive decades. Using this metric, the Housing Assistance Council estimates there were 377 persistently poor counties in 2020.[22] For the first time, HAC also calculated persistent poverty status for Puerto Rico. All 78 of Puerto Rico's municipios (county equivalents) were classified as having persistent poverty status as of the 2020 data. With the island territory included, there are a total of 455 Persistent Poverty Counties.[23]

One of the consistent features of many Persistent Poverty Counties is their clustering within several rural geographic regions that have a large footprint over the United States. Persistent Poverty Counties make up one-tenth of all U.S. counties, or county equivalents, and 15 percent of the U.S. landmass. They are concentrated in rural regions, including the Mississippi Delta or Black Belt, central Appalachia, and Native lands. Sixty percent of people living in Persistent Poverty Counties are people of color and 42 percent of Persistent Poverty Counties have majority populations of color.[24]

One highly visible impact of this economic distress can be seen in these areas' housing conditions. The incidence of housing units lacking adequate plumbing is twice the national rate, and over 380,000 households in Persistent Poverty Counties live in crowded conditions. Additionally, while housing costs are relatively low in many of these communities, more than

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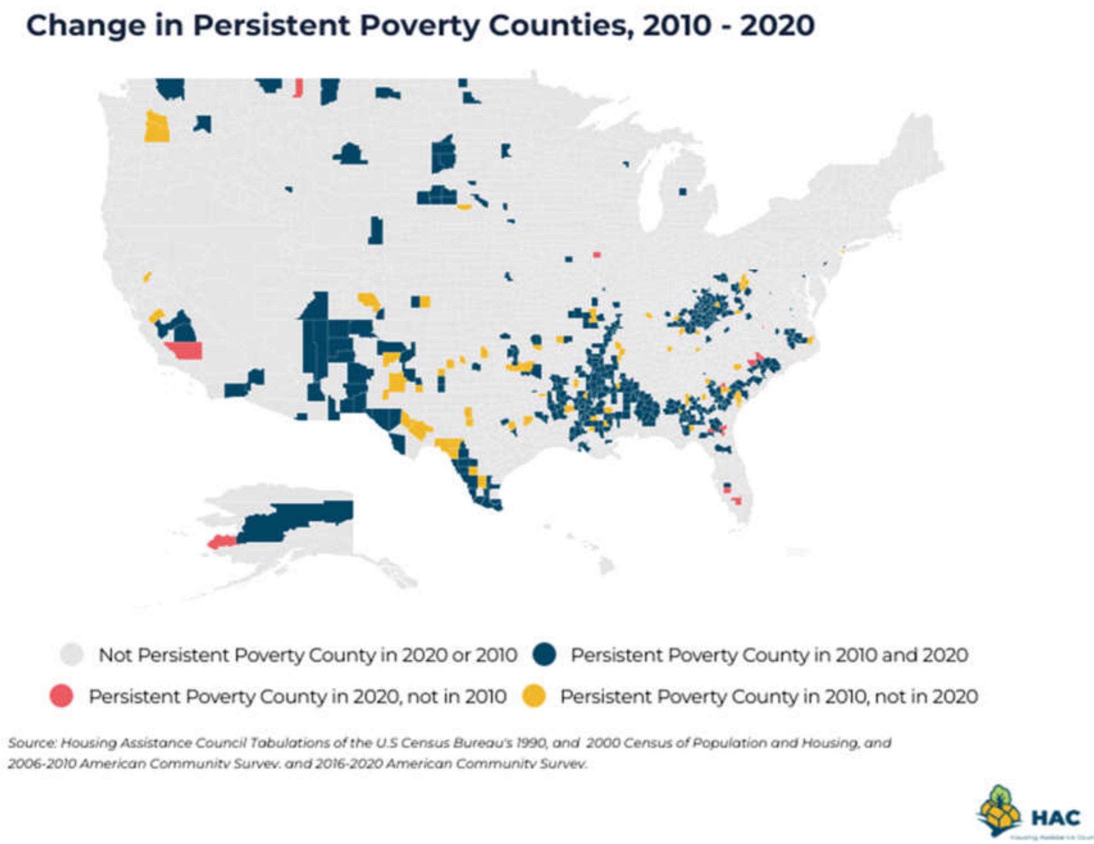
[22] Housing Assistance Council, *Rural Research Brief, The Persistence of Poverty in Rural America,* April 2022, https://ruralhome.org/wp-content/uploads/2022/04/rural-research-brief-persistent-poverty-2021.pdf.

[23] HAC, *The Persistence of Poverty.*

[24] "Persistent Poverty in America," Partners for Rural Transformation, accessed November 9, 2022, https://www.ruraltransformation.org/persistent-poverty/.

half of Persistent Poverty County renters encounter affordability problems and are considered housing cost-burdened (defined as paying more than 30 percent of income in rent).[25]



Mortgage and housing finance are similarly unbalanced in persistently poor communities. Mortgage activity including applications and loan originations are substantially low in many Persistent Poverty Counties. Likewise, more than one-quarter of mortgage applications were denied in these communities – more than six percentage points higher than the national rate. And when loans are made in persistently poor communities, they tend to have higher interest rates. The level of "high-cost mortgages"[26] in these counties is two-thirds higher than the rate for all mortgage loans in the United States.[27]

[25] Housing Assistance Council tabulations of the U.S. Census Bureau's 2016-2020 American Community Survey 5-Year Estimates and Consumer Financial Protection Bureau 2021 Home Mortgage Disclosure Act data.
[26] A higher-priced mortgage loan is defined by the Consumer Financial Protection Bureau's regulations as a consumer credit transaction secured by the consumer's principal dwelling with an annual percentage rate that exceeds the average prime offer rate for a comparable transaction as of the date the interest rate is set by 1.5 or more percentage points for loans secured by a first lien on a dwelling, or by 3.5 or more percentage points for loans secured by a subordinate lien on a dwelling. "Requirements for Higher-Priced Mortgage Loans," 12 CFR §1026.35, CFPB, https://www.consumerfinance.gov/rules-policy/regulations/1026/35/.
[27] Housing Assistance Council tabulations of Consumer Financial Protection Bureau 2021 Home Mortgage Disclosure Act data.

POLICY RECOMMENDATIONS

Too many federal policies and programs benefit some areas of the United States while harming others. Focusing the benefits of government on a handful of thriving metropolitan regions, while overlooking the needs of underserved rural regions, is driving economic, social, and political problems that the nation ignores at its peril. In previous eras, the United States promoted geographic dispersion in economic activity. Legislative and regulatory policies in the areas of transportation, communications, housing, trade, and antitrust helped construct an era of geographic convergence in the mid-twentieth century. Wealth was less concentrated, and opportunity more evenly distributed. The unraveling of this regulatory order around 1980 coincided with the beginning of an era of growing divergence between the economic fates of urban/suburban metropolitan areas and rural communities.

To be sure, America's small towns and rural regions are diverse demographically and economically and face a wide and differing array of local challenges and opportunities for community and housing development. While each place is unique, the data explored above demonstrate the existence of common themes.

At the same time as rural communities face challenges related to housing conditions and poverty, they often struggle to access federal tax and spending subsidies. Distribution of the nation's largest housing subsidy, the mortgage interest deduction, is skewed toward metropolitan areas. And many federal formula grants make direct allocations to cities and larger suburbs but force rural communities to go through bureaucratic hoops – and in many instances compete with other rural communities – because state government controls "balance of state" formula funding. This is fundamentally a question of equity, which is why HAC has consistently urged Congress and the Administration to take geographic equity into account in all federal policy and funding decisions.[28]

HAC was encouraged that the Administration's Executive Order on Advancing Racial Equity and Support for Underserved Communities Through the Federal Government includes "persons who live in rural areas" in the list of groups who need to be granted "consistent and systematic fair, just, and impartial treatment" and identifies "geographic communities" as a category that the Administration intends to consider in determining an "underserved community." [29] The

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[28] See, e.g., HAC comments submitted in response to OMB Request for Information on "Methods and Leading Practices for Advancing Equity and Support for Underserved Communities Through Government," July 6, 2021, https://ruralhome.org/hac-recommends-federal-actions-for-rural-equity/; HAC comments in response to Interagency Community Investment Committee Request for Information on "Opportunities and Challenges in Federal Community Investment Programs," December 19, 2022, https://ruralhome.org/hac-comments-on-community-investment-focus-on-capacity-building-and-capital-access/.

[29] Joseph R. Biden Jr., "Executive Order on Advancing Racial Equity and Support for Underserved Communities Through the Federal Government," January 20, 2021, https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/20/executive-order-advancing-racial-equity-and-support-for-underserved-communities-through-the-federal-government/.

recommendations below outline policy reforms Congress can undertake that can help provide rural communities the resources they need to address their housing needs and determine their own economic destinies.

HOMEOWNERSHIP

As detailed above, homeownership 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. The current rising interest rate environment is just the latest in a series of challenges confronting current and aspiring rural homeowners.

Federal programs administered by USDA's Rural Housing Service (RHS) and HUD play an essential role in making homeownership a viable option for rural communities. Congress can help thousands more rural families achieve homeownership by investing in and modernizing these programs, particularly:

- the Self-Help Homeownership Opportunity Program (SHOP);
- the Section 502 Direct Loan program; and
- the Section 504 Single-Family Repair Loans and Grants program.

Fully Fund the Self-Help Homeownership Opportunity Program (SHOP)

Since its beginnings in 1996, HUD's Self-Help Homeownership Opportunity Program (SHOP) has leveraged $3 billion in outside funding and helped create more than 35,000 homes, half of which are in rural areas. SHOP helps hardworking low- and moderate-income families achieve homeownership through sweat equity. These families do not just complete the program with a new home. The at least 100 hours they worked building their home (though many families invest more than 500 hours) equip them with the ability to better maintain their homes and with valuable, employable skills. SHOP funds pay for land and infrastructure costs, which are often some of the most difficult items for local nonprofits to finance. By increasing funding for SHOP, Congress would help thousands more rural families build a better future, one nail at a time.

Improve the Section 504 Single-Family Repair Loan and Grant 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 Section 504 application 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 Section 504 loan above $7,500. The current threshold was set 23 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.

Fully Fund the Section 502 Direct Loan Program to Respond to the Current Mortgage Market
The above-mentioned data from the USDA Section 502 loan ***guarantee*** program illustrates the challenges low- and very low-income rural families are having entering homeownership in the current high interest rate environment. USDA's Section 502 ***direct*** loan program is specifically designed to respond to such circumstances, enabling low- and very low-income rural residents to purchase homes with affordable mortgages at fixed rates as low as 1 percent and no down payment is required. Because inability to qualify for market-rate credit elsewhere is a precondition for obtaining a Section 502 direct loan, the program's borrowers are homebuyers who could not otherwise access homeownership if Section 502 loans were not available. Over two million families have become homeowners since 1950 through the Section 502 direct program. In 2021, the average income of Section 502 direct loan borrowers was about $40,000.[30] Importantly, this is a loan program, not a giveaway; the funds are repaid to USDA, with interest. In 2019, the total cost per loan to the government for a Section 502 direct loan averaged $7,066.[31] Increased funding for the Section 502 direct loan program would help more low- and very low-income rural households achieve homeownership while building a history of successful borrowing.

Increase Access to Credit and Capital by Rural Communities Generated by the Community Reinvestment Act (CRA) and GSE Duty To Serve (DTS) Plans
Without access to financial services and capital, individuals cannot access safe credit and financial literacy resources, businesses cannot grow and serve the needs of their communities, and ultimately the communities' economies cannot thrive. Unfortunately, there are around 150 rural counties that have one or no bank branches to serve their residents. Building access to capital in underserved rural regions is not just critical for the long-term viability of rural communities. It is the foundation of building a robust system of homeownership across rural America. Congress can work to solve this problem by making bank lending and investments under CRA and the Government Sponsored Enterprises' (Fannie Mae and Freddie Mac) activities under their DTS plans more responsive to the needs of rural communities.

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[30] HAC, *USDA Rural Development Housing Activity: Fiscal Year 2021.*
[31] "Fast Facts! Section 502 Direct Loans Open Doors to Rural Homeownership," National Rural Housing Coalition, accessed February 6, 2023, https://ruralhousingcoalition.org/section-502/.

CRA
The Community Reinvestment Act (CRA), adopted in 1977, requires federally insured depository institutions to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods. While HAC has applauded the Federal Reserve, FDIC, and OCC for their proposed changes to CRA regulations last year, there are still more improvements to be made. Specifically, Congress should urge the regulators to create an additional impact factor for rural activities, use a more precise definition of "rural," maintain a lower asset threshold for defining small and intermediate banks, and increase the weight of community development financing and services in CRA ratings.[32]

Duty to Serve
The DTS obligation enacted on a bipartisan basis in the Housing and Economic Recovery Act of 2008 (HERA) requires the GSEs to provide a more proactive secondary market for mortgages in three focus areas: manufactured housing, affordable housing preservation, and rural housing. By building a more robust secondary mortgage market for rural communities, DTS makes it easier for small financial institutions to lend, improving the overall liquidity available in these communities. While the latest DTS plans from the GSEs show important improvements, the true yet-untapped potential of Duty to Serve requires the Enterprises to set ambitious goals. By supporting the preservation and expansion of DTS requirements and deliberate consideration of rural conditions in all FHFA rulemaking, Congress can improve access to mortgage lending nationwide.

Authorize the PRICE Fund to Preserve and Revitalize the Nation's Affordable Manufactured Housing Stock
The FY2023 omnibus appropriations act funded the first federal program specifically targeted to manufactured housing, an essential housing stock in rural America. The program – named the Preservation and Reinvestment Initiative for Community Enhancement (PRICE) – received $225 million. HUD will competitively award grants to be distributed over five years to states, local governments, resident-owned manufactured housing communities, cooperatives, nonprofits, CDFIs, Tribes, and other entities designated by HUD.

PRICE Fund monies can be used outside manufactured home communities or in communities that are owned by residents or are legally required to remain affordable for the long term. Eligible uses of funds include infrastructure, planning, resident and community services, resiliency activities, and assistance for land and site acquisition. Within the $225 million total, $25 million is set aside for a pilot program to provide grants to assist in the redevelopment of manufactured housing communities as affordable replacement housing. Eligible activities include relocation assistance or buy-outs for residents of a manufactured housing community or downpayment assistance for the residents.

[32] HAC comments submitted in response to Joint Notice of Proposed Rulemaking on "Community Reinvestment Act," August 5, 2022, https://ruralhome.org/hac-submits-cra-comments/.

While it provides a critical momentum boost to public and private sector actors seeking solutions to address the challenges described above in maintaining and revitalizing affordable manufactured housing, this one-time funding will not solve the problem. Accordingly, legislation permanently authorizing the PRICE Fund should be enacted in the 118th Congress**.**

Enact the Neighborhoods Homes Investment Act

As noted, relative to urban and suburban markets, homeownership is more common in rural communities. And single-family homes are typically the predominate form of housing used. Across much of rural America, communities struggle to retain or attract growing businesses in the absence of high quality, affordable homeownership opportunities for workers. The private sector alone, however, is unable to revitalize single-family homes that are in poor condition in many of these markets because the cost of rehabilitating them or building new homes exceeds their market value – a challenge known as the “appraisal” or “value” gap. No current government tax or spending subsidy is specifically designed to fill this gap.

The bipartisan Neighborhood Homes Investment Act (NHIA) (S. 98 in the 117th Congress) would address this issue by establishing a tax credit carefully targeted to include low-income rural communities with elevated poverty and low home values. Approximately 27 percent of nonmetro census tracts would be automatically eligible, with additional flexibility for certain other nonmetro census tracts. If enacted, the NHIA is projected to produce 500,000 homes over 10 years, generating $100 billion in development activity, nearly 800,000 jobs, $43 billion in wages and business income, and $29 billion in tax revenue.[33]

The NHIA is well-designed to meet the needs of rural communities. This tax credit is flexible – usable to build new homes, to acquire and rehabilitate homes for sale, and to rehabilitate homes for current homeowners. It can be used for detached homes, townhomes, two- to four-unit homes, condominiums, and cooperatives. Manufactured homes are eligible, provided they are permanently attached to a foundation and are titled as real property. Thus, it aligns with the housing types and scale of development most common in rural communities.

The credit is also structured to avoid abuse or unintended negative consequences. A minimum level of rehabilitation prevents merely superficial improvements. Only 35 percent of development costs for starter homes can be covered by the credit. Finally, to prevent revitalization from tipping into rapid gentrification, sale prices would be limited to ensure broad affordability and high-income and high-income buyers would be excluded.

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[33] *Neighborhood Homes Investment Act* (Washington, DC: Neighborhood Homes Coalition, March 9, 2022), https://static1.squarespace.com/static/589b48fbe3df28f7ed63b31b/t/622909ff205750275598eb8d/1646856704390/NHIA%2BSummary%2BMarch%2B2022.pdf.

RENTAL HOUSING

Strengthen Essential USDA Multifamily Housing 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. As described above, USDA's Section 515 program provides an especially important housing opportunity for many rural communities.

Section 515 rental units house an economically vulnerable population – two thirds are occupied by seniors and people with disabilities and tenants' annual income averages only $13,600. Yet not all tenants in Section 515 properties receive rental assistance that limits their rent to 30 percent of household income. Approximately three quarters of all Section 515 tenant households live in units that are rent subsidized through USDA's Section 521 Rental Assistance (RA) program. Another 15 percent receive some other help with their rent, such as Housing Choice Vouchers, Project-Based Rental Assistance (PBRA) or HOME program rental assistance administered by HUD. The remaining 15 percent receive no rental subsidy, with the result that more than one-third of these unassisted tenants are cost-burdened.

The preservation of affordable housing options is critical to ensuring the well-being of rural communities across the country. For this reason, HAC respectfully urges the Committee to build on the work begun in the 117th Congress by Housing, Transportation, and Community Development Subcommittee Chair Smith and Ranking Member Rounds, and Senator Shaheen, to craft legislation that would preserve critical federal multifamily preservation funding and programs.

Include Funding for Section 521 Rental Assistance to Cover ARPA Units in the FY2024 Appropriation for USDA

The most immediate, high impact need we see in the USDA multifamily portfolio right now is the need to renew Section 521 Rental Assistance for the 27,000 families covered under the American Rescue Plan Act (ARPA), who are set to lose their assistance at the end of this month. ARPA included $100 million in funding for Section 521 Rental Assistance for previously unassisted units.[34] This funding allowed USDA to extend Rental Assistance coverage to an estimated 27,000 units in 3,700 properties. This funding expired at the end of Fiscal Year 2023. ARPA included no language suggesting that this 521 Rental Assistance was not to be included in the broader Section 521 appropriations account which Congress annually renews at its full level of need. This is in marked contrast to the Emergency Housing Vouchers (EHVs) provision of ARPA,[35] which included a clear expiration date for the issuance/reissuance of EHVs, explicitly segregated EHVs from the broader Housing Choice Voucher renewal account, and included dedicated funding for the full anticipated renewal amount.

The Administration clearly expected that ARPA Section 521 Rental Assistance would be

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[34] American Rescue Plan Act, Section 3203, P.L. 117-2, March 11, 2021, https://www.congress.gov/117/plaws/publ2/PLAW-117publ2.pdf.
[35] American Rescue Plan Act, Section 3202.

renewed, as its FY2023 proposed budget specifically included additional Section 521 Rental Assistance to continue coverage for these units. RHS was able to delay the day of reckoning to FY2024 by extending these subsidies with existing funds. But allowing these units to fall out of the system would be disastrous for the families who are currently receiving that Rental Assistance, and would have deeply troubling implications for the prospects of preserving the quality and affordability of the essential USDA multifamily portfolio for the long term.

Below is a state-by-state chart showing how many units will lose their Section 521 Rental Assistance at the end of FY2023 without Congressional action to renew this funding through the appropriations process.

ARPA Section 521 Rental Assistance Number of Projects and Units		
State	**Number of Projects**	**Number of Families Losing Rental Assistance**
Alabama	184	1,710
Alaska	0	0
Arizona	7	45
Arkansas	77	353
California	175	1,369
Colorado	22	136
Connecticut	33	166
Delaware	13	51
Florida	144	1,178
Georgia	253	3,206
Hawaii	0	0
Idaho	6	6
Illinois	90	222
Indiana	170	442
Iowa	15	18
Kansas	38	76
Kentucky	195	1,654
Louisiana	138	1,826
Maine	60	153
Maryland	76	711
Massachusetts	16	28
Michigan	232	1,041
Minnesota	109	204
Mississippi	118	1,447

Missouri	197	641
Montana	11	17
Nebraska	7	8
Nevada	10	77
New Hampshire	22	72
New Jersey	29	187
New Mexico	18	55
New York	30	118
North Carolina	102	664
Ohio	140	634
Oklahoma	57	496
Oregon	44	142
Pennsylvania	73	640
Puerto Rico	0	0
Rhode Island	3	7
South Carolina	138	1,659
South Dakota	15	18
Tennessee	125	1,291
Texas	266	1,704
Utah	15	67
Vermont	10	31
Virgin Islands	0	0
Virginia	104	1,290
Washington	90	512
West Virginia	66	369
Wisconsin	44	70
Wyoming	6	15
Grand Total	3,793	26,826

Extend Section 521 Rental Assistance for All Units

The looming expiration of ARPA-provided 521 Rental Assistance simply spotlights the underlying problem within the 515 portfolio, namely that a fifth of the vulnerable families living in USDA rental housing do not receive rental assistance from USDA, HUD, or state sources. Most of these 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. Not only is this clearly the right thing to do, but it will also stabilize the finances of many developments, encouraging preservation and enabling owners to seek additional financing sources.

Authorize Important Multifamily Preservation Programs

Several of the current USDA preservation programs are funded through appropriations but are not authorized. The Multifamily Preservation and Revitalization (MPR) program, the Preservation Revolving Loan Fund (PRLF), and the Multifamily Preservation Technical Assistance (MFTA) program all play key roles in addressing the preservation crisis but, because they are not authorized, their status is instable. Authorizing these three programs is a critical step in ensuring they are 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. USDA estimates 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.

The PRLF program was funded through appropriations for several years between 2005 and 2011. It allowed RHS to make long term (30 years), very low interest (1 percent) loans to private nonprofit organizations, and state and local housing finance agencies, to provide revolving loans for the preservation and revitalization of Section 515 and 514/516 properties. HAC alone has used PRLF funding to preserve over 1,300 units in 18 states, but the program has been unfunded since FY2011. (USDA continued issuing NOFAs through 2014 using unobligated funds.)

To help address the growing crisis of multifamily maturing mortgages, the MFTA program was first funded through Congressional appropriations in FY2017. The program provides competitive grants to eligible nonprofit organizations and public housing authorities (PHAs) to provide technical assistance and other services to enable affordable housing preservation through the transfer of Section 515 properties from current owners to nonprofits or PHAs. The original intent of the program was two pronged: to subsidize preservation transactions by providing individual property owners with technical assistance in the sale, restructuring, or acquisition of properties; and to focus on transforming the program through research and policy development. To date, only the first intent has been funded in the first two program rounds.

Authorizing these three programs will help ensure they are stably funded into the future, that the intent of the programs is better reflected in use of funds, and that they remain part of the suite of preservation tools available at RHS.

Improve Opportunities for Mission-Focused Nonprofits to Preserve Maturing Properties

Preserving the Section 515 portfolio requires collaboration with RHS, current owners, and public and private sector purchasers. However, the current process for transferring properties is overly burdensome and prohibitively difficult for small, mission-focused nonprofits. Many of these properties are aging and in need of repair. When new buyers want to purchase Section

515 properties, all immediate and long-term repair and rehabilitation needs must be identified by a Capital Needs Assessment (CNA). The nonprofit purchaser must demonstrate the availability of reserves to adequately cover the cost of addressing the property's capital needs – an often insurmountably high bar.

Instituting a "two-step" transfer process for nonprofits trying to maintain the affordability of multifamily housing could streamline the process and increase preservation of properties. If properties could be transferred to a new nonprofit owner prior to the identification of funding sources for all repairs identified in the CNA and the reserve requirements adjustment, a significant administrative barrier to preservation could be removed. RHS is currently piloting its "Simple Transfer Program"[36] which may prove helpful for this process.

Nonprofit preservation efforts could also be enhanced by setting aside funding in both the Section 515 and MPR programs for smaller and lower capacity organizations. These nonprofits often struggle to be competitive with the larger and more powerful organizations, but these smaller organizations often work in areas that have the deepest need, specifically persistently poor communities. Preservation funding needs to be equitably distributed to ensure that geographies are not being left out due to lack of capacity.

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.

Increasing data transparency would also make rural housing research more robust and could help USDA identify which properties are working best and which programs are most helpful. Nongovernmental research offers a different perspective and would help USDA and other agencies work more efficiently.

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 (S. 4872 in the 117th Congress), would also improve communication and allow for better stakeholder involvement.

Decouple Rental Assistance from RHS Mortgages Under Certain Parameters

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

[36] USDA Rural Housing Service, "Multi-Family Housing Simple Transfer Pilot Program," 87 FR 75457, December 9, 2022, https://www.federalregister.gov/documents/2022/12/09/2022-26726/multi-family-housing-simple-transfer-pilot-program.

property loses its Rental Assistance. Decoupling the mortgage and the Rental Assistance has been considered as a solution to this situation. HAC would prefer to see RHS's multifamily programs funded at a level that would adequately meet the portfolio's preservation needs. However, thousands of units are leaving the program each year and that funding has not materialized to meet the need.

As a result, RHS needs a suite of preservation strategies to be available in the absence of adequate funding. If decoupling is considered, it should be paired with increased funding for preservation programs and a few parameters should be met in order to ensure long-term affordability for the properties:

- Properties looking to decouple should have to sign a restrictive use agreement and a 20-year Rental Assistance contract (subject to annual appropriations), to maintain long-term affordability.
- Properties looking to decouple should have to demonstrate that they have tried to access other preservation funding before pursuing decoupling as a last resort.
- Nonprofit transfers should be incentivized, as covered earlier in these comments.

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.

Enact the Affordable Housing Tax Credit Improvement Act (AHCIA)

The Low Income Housing Tax Credit (LIHTC) program is the nation's most successful tool for creating and preserving affordable housing. Often deployed in conjunction with other housing subsidies administered by USDA and HUD, state, and local governments, it is responsible for the majority of production and preservation of rental housing dedicated to low-income households in the United States.

LIHTC's contribution to affordable housing production and preservation in rural communities has been essential.[37] HAC estimates that of the over 13,000 properties that received LIHTC allocations from 2006 to 2016, over one quarter were located in census tracts defined by the Federal Housing Finance Agency (FHFA) as rural. Notably, rural LIHTC properties were substantially smaller (44 units versus 88 units on average) and served a poorer population (94 percent low-income versus 86 percent low-income) than non-rural properties.

Unfortunately, the program is vastly oversubscribed, with states able to fund only about one

[37] Andrew M. Dumont, "Rural Affordable Rental Housing: Quantifying Need, Reviewing Recent Federal Support, and Assessing the Use of Low Income Housing Tax Credits in Rural Areas," Finance and Economics Discussion Series 2018-077 (Washington, DC: Board of Governors of the Federal Reserve System, 2018), https://doi.org/10.17016/FEDS.2018.077.

in three qualified applications for 9 percent credits, which have not received a permanent boost in authority in over two decades.[38] The bipartisan Affordable Housing Improvement Act (S. 1136 in the 117th Congress) would dramatically expand and improve this already highly successful subsidy.

The AHCIA includes two provisions that would be especially helpful to deployment of housing credits in rural communities. First, rural areas would be added to the definition of Difficult Development Areas, thus allowing states to provide up to a 30 percent basis boost to rural properties if needed for financial feasibility. Second, the AHCIA builds on an important 2018 programmatic change that allowed new 9 percent LIHTC developments to serve households earning up to 80 percent of area median income (AMI), so long as the average income in the low-income units in any given property would be no higher than 60 percent of AMI. This flexibility – often referred to as the Average Income Test or colloquially as "income averaging" – makes projects more feasible in areas where incomes are depressed, which is very common in rural areas. The AHCIA would extend income averaging to the housing bond program, which triggers 4 percent credits.[39]

CAPACITY BUILDING

Geographic equity for rural places cannot be achieved unless federal investments in economic development, housing and other infrastructure are paired with robust capacity building to ensure the most underserved and persistently poor rural places are in a position to access these resources. Many rural regions have been stripped of their economic engines, financial establishments, and anchor institutions with devastating impact on public and private sector capacity.

The degree of difficulty rural communities confront in preserving and developing affordable housing is compounded by: 1) challenges within their local markets that make it difficult for even the most sophisticated lenders and project sponsors to make a deal "pencil out"; and 2) smaller projects and transactions that often do not mesh easily with tax subsidies and secondary markets that typically operate at scale.

Simply put, the importance of capacity building and access to capital cannot be overstated when it comes to rural housing. Strong local institutions do not happen by accident. The good news is that Congress has long recognized the importance of capacity building and established a track record of success: federal investment toward rural capacity building launched nearly all the most successful local and regional rural housing organizations that HAC works with today. There are several actions this Committee and Congress should take that could begin to scale this progress across rural America.

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[38] *Detailed Bill Summary: The Affordable Housing Credit Improvement Act* (Washington, DC: The ACTION Campaign, September 2021), https://rentalhousingaction.org/wp-content/uploads/2021/10/AHCIA-Detailed-Bill-Summary-September-2021.pdf.

[39] The ACTION Campaign, *Detailed Bill Summary.*

Authorize the Powerful Rural Community Development Initiative

USDA's Rural Community Development Initiative (RCDI) provides funding to nonprofits, public bodies, and qualified for-profit groups to support housing, community facilities, and community and economic development projects in rural areas. The funds can go towards homeownership education, technical assistance to sub-grantees, and other programming to build local organizations' capacity and technical knowledge.

Unlike the Rural Capacity Building program administered by HUD, RCDI lacks authorization and its very existence is subject to the annual appropriations process. Authorizing RCDI would provide the program with the long-term stability it needs. Other improvements to the program could also help it be even more effective. There is currently a $250,000 per-awardee cap, which is not statutory. This cap limits how much organizations can do with their funds, specifically larger groups that may have the capacity to do more. Additionally, RCDI's 1:1 match requirement can be challenging for organizations to meet, especially those serving the most persistently poor rural regions. These regions are the most in need of capacity building, but requirement for matching funds can make it difficult to deploy these investments in exactly the type of place that needs it the most. And finally, recent additions to the RCDI funding notice – specifically the requirement that applicants proposing to serve one or more federally recognized tribes must include a resolution of support with its application from the Tribes it proposes to serve – can also make it unduly burdensome to serve the communities who need it most. Actions by the Committee to encourage or direct RHS to increase the per-awardee cap, waive or rebalance the matching requirement, and eliminate burdensome application requirements would help the program serve persistently poor communities more robustly.

Authorize a Large Cross-Sectoral, Flexible Capacity Building Rural Investment Initiative

While smaller sector-targeted capacity building programs such as RCB and RCDI are crucial, the need to build capacity in rural communities extends across the board and therefore demands large cross-sectoral policy interventions. Accordingly, HAC and many other rural stakeholders' groups have for the past several years advocated for a multi-billion-dollar initiative to provide flexible funding that enables multi-year grants and ongoing support so that rural communities can attract the necessary investment, including from federal programs, and manage implementation of locally led solutions that lead to economic impact.

This dedicated program would empower rural regions by supporting locally led planning and capacity building efforts and providing flexible funding to meet critical needs. It would consist of two funding streams: grants for direct activities and projects and grants for organizations providing technical assistance. Having funds dedicated to capacity building and technical assistance would allow organizations to better support their communities. Just as Congress moved in a bipartisan fashion to enact the Infrastructure Investment and Jobs Act (IIJA), so must it authorize this transformative program to ensure that rural communities – especially historically underserved and persistently poor communities – have the capacity infrastructure to transform the capacity of rural places to improve housing conditions.

Ensure that RHS has Sufficient Staff and Operational Capacity

RHS plays a unique role in rural communities as a service provider and a connector to funding and program opportunities. Unlike some resource and expertise-rich urban counterparts, rural areas cannot overcome capacity gaps at the agency administering the lion's share of federal housing funds in their communities.

First and foremost, a well-trained, experienced, and community-focused workforce is essential 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.

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.

CONCLUSION

High quality rural housing is critical to maintain the health and well-being of communities across the United States. 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. These shifts would improve the quality of housing options and the quality of life for many rural Americans.