



**Statement of the National Association of REALTORS®  
To The  
House Financial Services Subcommittee on Housing and Community Opportunity  
On  
Rural Housing in America  
June 19, 2003**

On behalf of more than 900,000 members of the NATIONAL ASSOCIATION of REALTORS®, we are pleased to submit this testimony on rural housing. The NATIONAL ASSOCIATION of REALTORS® represents a wide variety of housing industry professionals committed to developing and preserving the nation's housing stock and making it available to the widest range of potential homebuyers. The Association has a long tradition of support for innovative and effective Federal housing programs and we work diligently with the Committee and the Congress to fashion housing policies that ensure Federal housing programs meet their mission responsibly and efficiently.

Nearly 20% of the U.S. population lives in non-metropolitan areas. Housing conditions in rural areas are generally worse than in urban or suburban neighborhoods. Federal rural housing programs are instrumental in providing affordable housing opportunities to low- and moderate-income rural homebuyers. The NATIONAL ASSOCIATION of REALTORS® strongly supports the Department of Agriculture's Rural Housing Service (RHS) housing programs and maintains that sufficient federal assistance be preserved under each program to meet the overwhelming housing needs of rural communities.

June is national homeownership month, and we applaud the Committee for recognizing the unique needs of our rural communities. Chairman Ney, and members of the Subcommittee, the NATIONAL ASSOCIATION of REALTORS® is committed to working with you to ensure that our industry is positioned to expand and deliver broader housing opportunities benefiting all Americans. For our part, we have launched a new Housing Opportunity Program aimed at making a commitment and sharing responsibility for the health and well-being of our communities nationwide. Soaring housing values have made the housing sector the brightest light in a gloomy economy. But, it has also put affordable housing beyond the reach of millions of American families. Today's housing costs are dividing America into two nations, one of "housing haves" – families that purchased property before the price explosion or who can afford high prices – and another of "housing have-nots", families who must scale down their expectations and make lifestyle sacrifices to afford adequate shelter. Despite steady growth in rural housing availability when compared with central cities, there continues to be an overwhelming demand for federal homeownership assistance in rural areas because private sources of mortgage credit are not readily available due to profitability concerns. Additionally, cost problems constrain new development in rural communities placing an increasing demand on the availability of existing housing.

In many rural communities, the Section 502 direct loan program is the only housing assistance available. Section 502 Homeownership Direct Loan Program loans are used primarily to help low-income households purchase homes. They can be used to build, repair, renovate, or relocate homes, or to purchase and prepare sites, including providing water and sewage facilities. They may also be used to refinance debts when necessary to avoid losing a home or when required to make necessary rehabilitation of a house affordable. At least 40 percent of appropriated funds must be used to assist families with incomes less than 50 percent of area median income (AMI). Frankly, the Section 502 direct loan program is the basic RHS individual

homeownership loan program that has consistently and successfully afforded housing opportunities to low- and very-low-income, rural homebuyers. We strongly support the availability of sufficient federal assistance to ensure the Section 502 Direct Loan program responsibly addresses the housing needs of rural families.

Rental housing is also an important need in our rural communities. Approximately 2.4 million rural renters have housing problems; the majority of whom are spending more than 30% of their incomes for housing. The section 515 Rural Rental Housing Loans are direct, competitive mortgage loans made to provide affordable multifamily rental housing for very low-, low-, and moderate-income families, elderly persons, and persons with disabilities. Since 1994, this program has faced severe budget cuts. In FY03 the program is only expected to support the development of 1,450 units. For FY04, the Administration has proposed no new construction funding. Instead, the Administration requested \$70.83 million for servicing and rehabilitation. While we certainly support the need for servicing and rehabilitation of the aged multifamily portfolio stock, the lack of supply of multifamily units coupled with overwhelming demand for affordable rental housing in rural communities necessitate funding for new construction. We urge Congress to restore construction funding for the Section 515 program to enable low-income rural families to find decent, safe, and affordable housing.

Additionally, in light of the age of the multifamily portfolio and its need for rehabilitation, we support prepayment of RHS loans. Passed in 1990, the Low-Income Housing Preservation Act eliminated a multifamily owner's right to prepay their loan. Restoring the right to prepay will allow for refinancing and refurbishment of these aging properties with little risk of removing them from the affordable housing stock. While the goal of the ban is to maintain the low-income nature of the properties, the current restriction is a barrier to improving this type of housing stock.

The Section 521 Rural Rental Assistance (RA) program provides an additional subsidy for households with incomes too low to pay the RHS subsidized (basic) rent from their own resources. RHS pays the owner the difference between the tenant's contribution (30 percent of adjusted income) and the monthly rental rate, including the cost of all utilities and services. The FY04 Budget for rural housing proposes no rental assistance in new construction. However, the Administration provides funding for new farm labor housing. Residents in these units generally require rental assistance. Without providing that assistance, these units are useless. We urge Congress to increase funding for the Section 521 program to cover the needed rental assistance for the farm labor housing construction, and also for new construction under the Section 515 program. Last year Congress funded new construction under the Section 515 program, but did not provide corresponding rental assistance monies. Both new construction *and* new rental assistance funding is needed to sustain these programs.

The Section 538 program has been designed to increase the supply of affordable multifamily housing through partnerships between RHS and major lending sources, as well as State and local housing finance agencies and bond insurers. The program provides effective new forms of Federal credit enhancement for the development of affordable multifamily housing by lenders. Under the Section 538 program, RHS guarantees loans made by private lenders – generally banks and savings and loans institutions – for the development of affordable rural rental housing with at least five units. The program can be used to guarantee permanent financing, or a combination comprising construction and permanent loans. It cannot be used for a loan that covers only construction. A Section 538 guaranteed loan can be combined with other financing sources such as Low Income Housing Tax Credits, a HOME grant or loan, state or local assistance (including tax-exempt bond financing), or a second bank loan. We support the continued funding for this program, which leverages private investment with public funding.

The NATIONAL ASSOCIATION of REALTORS® also supports H.R. 1722, the "Rural Rental Housing Act". This legislation, introduced by Representatives Ruben Hinojosa (D-TX) and Artur Davis (D-AL) would create a new \$250 million fund to supplement the Section 515 program. Funds would be available for the acquisition, rehabilitation, or construction of rural rental housing for low-income families. USDA would administer loans, grants, interest subsidies,

annuities, and other forms of financing assistance to public agencies, Indian tribes, for-profit corporations, or private nonprofit corporations that have a record of accomplishment in housing or community development. Housing that is financed under this legislation must remain affordable for low-income families for not less than 30 years. This program could spur the creation of an additional 5000 units of affordable housing every year in rural America.

Although not under the jurisdiction of this Committee, we call to your attention to H.R. 839, the "Renewing the Dream Tax Credit". This legislation, introduced by Congressmen Portman (R-OH), Cardin (D-MD), Bonilla (R-TX) and Tubbs-Jones (D-OH), provides a new, innovative tool for increasing the supply of affordable housing. This legislation builds on a framework provided in each Bush Administration budget since 2001. It provides a substantial tax credit for developers and investors who construct or rehabilitate housing for low- and moderate-income families to purchase. Two targets of the credit are rural communities and Indian reservations, where access to capital is a serious problem and where the existing housing stock is often quite old and in need of rehabilitation. The homeownership credit will fill the gap between development costs and home prices, promoting home ownership and halting further neighborhood deterioration by providing both new and rehabilitated homes. In rural communities and on Indian reservations the credit will attract development investment, create jobs, enhance housing capacity and improve its quality.

In closing, the NATIONAL ASSOCIATION of REALTORS® appreciates this opportunity to comment on the needs for rural housing. Many of our rural citizens face a serious housing crisis. All but 11 of the 200 counties with the highest poverty rates in America are rural, and housing assistance for these areas is sorely needed. We thank the Subcommittee for its attention to rural housing, and we urge your strong support of our policy and funding recommendations improving rural housing opportunities.

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