



NATIONAL  
ASSOCIATION *of*  
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**STATEMENT OF THE**

**NATIONAL ASSOCIATION OF REALTORS®**

**SUBMITTED FOR THE RECORD TO**

**THE UNITED STATES HOUSE OF REPRESENTATIVES  
COMMITTEE ON AGRICULTURE SUBCOMMITTEE ON  
LIVESTOCK, RURAL DEVELOPMENT, AND CREDIT**

**HEARING TITLED**

**A REVIEW OF CREDIT IN RURAL AMERICA**

**JUNE 24, 2014**

## **INTRODUCTION**

The National Association of REALTORS® (NAR) offers this statement on the importance of access to credit in rural areas. NAR represents a wide variety of housing industry professionals committed to the development and preservation of the nation's housing stock and making it available to the widest range of potential American households. The Association has a long tradition of support for innovative and effective federal housing programs and has worked diligently with the Congress to fashion housing policies that ensure federal housing programs meet their missions responsibly and efficiently.

Prospective homebuyers nationwide have found significant barriers to obtaining mortgage financing. Credit standards remain very tight, and those wishing to purchase a home – especially first-time buyers – are facing many obstacles to finding a safe, affordable home loan. The situation is especially difficult in rural areas, where rental housing is often lacking and access to mortgage finance is challenging. Nearly all of the counties with the highest poverty rates in America are rural. The lack of multi-family and other rental units in rural communities means families have few options other than to purchase a home. As a result, access to safe, affordable mortgage financing is important in these areas. NAR thanks you for holding this hearing to discuss these issues.

## **HOUSING IN RURAL COMMUNITIES**

Nearly 20 percent of the U.S. population lives in rural areas or small towns. Many jobs in these communities are low-wage, and incomes in rural areas are often lower than national averages. According to the US Census, the number of rural citizens living in poverty increased to 8.5 million in 2012, from 8.0 million in 2011. Overall, in 2012, rural median household incomes (\$41,198) were about 20 percent lower than national median household incomes (\$51,017) and 22 percent less than median urban household incomes (\$52,988)<sup>1</sup>.

Housing conditions in rural areas can be inferior to homes in urban or suburban neighborhoods. Housing choices can be limited due to differences in infrastructure requirements, lack of public transit, and access to other amenities. The availability of rental housing is often scarce. The approximately 7.1 million renter-occupied units in rural communities comprise only 28.4 percent of the rural and small town housing stock<sup>2</sup>.

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<sup>1</sup> Income, Poverty, and Health Insurance Coverage in the United States: 2012, Issued September 2013, By Carmen DeNavas-Walt, Bernadette D. Proctor, Jessica C. Smith, P60-245

<sup>2</sup> Housing Assistance Council, Taking Stock: Rural People, Poverty And Housing In The 21st Century, December 2012

The lack of rental housing means homeownership is frequently the only option for rural families. Although homeownership rates are higher in rural areas than the national average, many rural families face significant obstacles in finding safe, affordable, decent housing. According to a report by NeighborWorks, in rural areas, “the housing stock itself varies as greatly as the character of rural areas, but two common trends are that (1) it is overwhelmingly comprised of single-family homes; and (2) a higher percentage of the stock is in substandard condition compared to metropolitan areas.”<sup>3</sup>

These findings make it even more important to help rural families find quality housing.

### **FEDERAL HOUSING PROGRAMS**

Federal housing programs are instrumental in providing affordable housing opportunities to low- and moderate-income rural homebuyers. The National Association of REALTORS® strongly supports federal housing programs that target rural communities and provide sufficient federal assistance needed to meet the housing needs of rural communities.

The Rural Housing Service (RHS) 502 loan program provides opportunities for homeownership for these families. In FY 2013, the RHS helped nearly 170,000 rural American families become homeowners, nearly 80 percent of whom were first- time homebuyers. The program includes guaranteed and direct loans. Section 502 loans can be used to build, repair, renovate or relocate a home, or to purchase and prepare sites, including providing water and sewage facilities. The guaranteed loans are funded by private lenders and insured by the RHS.

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. These loans may also be used to refinance debts when necessary to avoid foreclosure, or when required to make necessary house repairs affordable. NAR strongly supports the availability of sufficient federal resources to ensure the Section 502 direct loan program responsibly addresses the housing needs of low- and moderate income<sup>4</sup> rural families.

In recent years, the Section 502 program has been in jeopardy of depleted funding or commitment authority before the end of the fiscal year. NAR would encourage Congress to provide adequate funding and commitment authority to meet the needs of rural communities.

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<sup>3</sup> Landscapes of Foreclosure: The Foreclosure Crisis in Rural America, Adam Wodka, The Edward M. Gramlich Fellowship in Community Development, November 2009

<sup>4</sup> At least 40 percent of appropriated Section 502 direct loan funds must be used to assist families with incomes less than 50 percent of area median income (AMI).

It also should be noted that FHA is also a very valuable program for families living in rural areas. Some homes, due to their rural nature, do not meet FHA standards and are more appropriately suited to the programs of the RHS. But for others, FHA has been a very important option for home buying families. FHA provided the majority of mortgage financing options during the housing crisis, and continues to be a critical tool for affordable, safe housing. FHA's countercyclical role allowed more than four million families to purchase a home during the height of the economic crisis.

### **SUGGESTIONS TO EXPAND ACCESS**

#### **Update Definition**

NAR was pleased that Congress approved language as part of the Farm Bill to grandfather existing communities currently participating in the RHS programs as eligible for continued participation. Without that language, more than 900 communities would have lost access to these valuable housing programs. The definition of "rural" used by RHS has not been changed since 1974, despite the rapidly changing demographics of our country. The existing definition requires communities to: 1) be outside of a metropolitan statistical area (MSA), 2) be "rural in character", 2) have a serious lack of mortgage credit, and 3) have a population under 20,000. Communities and populations have changed dramatically in the last 80 years. Relying on a decades old definition is unrealistic and won't meet the needs of rural communities. NAR urges Congress to look at ways to update this definition, and ensure that our rural communities have access to the programs they need.

#### **Direct Endorsement for 502 Guaranteed Loans**

RHS has proposed language to make the Section 502 Guaranteed loan program a direct endorsement program. Today, every loan must be approved by staff of the Rural Housing Service. In recent years, staffing has been dramatically reduced, and borrowers are now experiencing significant delays in loan approval. Both the Veterans Affairs loan guaranty and the FHA mortgage insurance program utilize private lenders for direct endorsement. Adding RHS to this list would create great efficiencies for the Service and for homebuyers. RHS, in turn, would have additional staff time to focus on a strengthened lender monitoring process and risk management. We strongly urge Congress to provide RHS with direct endorsement authority to ease burdens on the agency and accelerate processing for borrowers.

## **Resist Calls to Limit Access**

Since the beginning of the economic recovery, there have been calls to restrict the role of the federal government in housing programs. Both RHS and FHA have been shown to provide great benefits to American families, and our economy as a whole. Since its inception in 1949, RHS has provided more than 3.69 million families with the ability to obtain the dream of homeownership. FHA was a driving force pulling our nation out of the economic recession. Moody's has estimated that without FHA's role during the housing crisis, housing prices would have dropped an additional 25 percent, and American families would have lost more than \$3 trillion of home wealth.

These programs offer significant benefits to American families, with little cost to the taxpayer. Changes to these programs should only be made to enhance access for more qualified buyers. NAR strongly opposes any changes that further constrain mortgage financing.

## **CONCLUSION**

Rural families face unique challenges in accessing mortgage credit. NAR encourages you to consider changes to programs that will make it easier for these families to obtain safe, affordable, decent homes in the communities in which they chose to live, and looks forward to working with you to achieve that goal.