

May 7, 2012

The Honorable Tim Johnson  
Chairman, Senate Committee on Banking,  
Housing, & Urban Affairs  
534 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable Richard C. Shelby  
Ranking Member, Senate Committee on  
Banking, Housing & Urban Affairs  
534 Dirksen Senate Office Building  
Washington, DC 20510

Dear Chairman Johnson:

Rural housing programs serve the needs of families in communities nationwide. But the population requirement under the definition of “rural” has not changed since 1974, and families who rely on these products are now finding themselves ineligible for the program due to the results of the 2010 census. The undersigned organizations, representing the housing industry, urge you to update the definition of rural to meet the needs of today’s families.

Programs like the Rural Housing Section 502 loan program are instrumental in providing opportunities for homeownership for families living in rural communities. 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. These loans are funded by private lenders, and insured by the Rural Housing Service (RHS). In 2011, the RHS helped nearly 140,000 rural American families become homeowners, with 130,415 of those families being served through the USDA Section 502 Guarantee Program.

The 2010 census has resulted in many localities being declared ineligible under the statutory definition of valuable rural programs- like the 502 loan program. That definition requires that: rural communities must be outside of a metropolitan statistical area (MSA); be “rural in character”; have a serious lack of mortgage credit; and have a population under 20,000. Or for those counties that are part of an MSA, the population limit is capped at only 10,000. Over the last 38 years, Congress has passed legislation to grandfather communities as the populations have grown. This would be helpful now as a stop-gap measure, but we urge Congress to consider updating the definition to reflect current trends.

An analysis by the Housing Assistance Council showed that more than 500 communities, with a population of more than 9.1 million people, could be determined to be ineligible for rural

housing programs based on the 2010 census. We urge you to review this delineation, and consider increasing the population cap. Our nation's population has certainly changed since 1974, and this definition needs updating. As an important note, the USDA Section 502 Guaranteed Program is self-funded and budget neutral. Therefore, broadening the population definition will not place additional financial burden on American taxpayers.

In addition, we support the existing grandfathering of communities that have risen above the cap, and urge that it continue. Representative Fortenberry (R-NE) and Senator Nelson (D-NE) have introduced the Rural Housing Preservation Act (H.R. 273 and S. 878), which would extend the grandfather provisions through the next census. Populations change – people come and go. Communities should not be immediately excluded from the rural housing program because they outgrew the cap. There should, at a minimum, be a multi-year phase in period, and review to make sure that any growth was not temporary. We support both these bills and urge their passage.

The population cap is not the only problem with the above definition. Other requirements, such as that a community must be outside an MSA, could also be updated. This requirement has eliminated many needy communities (some with populations even below 10,000 residents) from eligibility for the program. Today's MSAs are no longer the compact geographical areas that they once were and include communities located far from the urban core. We urge Congress to eliminate this requirement.

Our country has changed dramatically in the last 38 years. Continuing to use an antiquated definition hurts rural communities, which rely on these programs. We urge you to update the definition of “rural” to better serve the needs of our changing communities.

Mortgage Bankers Association  
National Association of Home Builders  
National Association of REALTORS®

cc: Members, Senate Committee on Banking, Housing & Urban Affairs; Chairman and Ranking Member, Senate Committee on Agriculture; Chairman and Ranking Member, Senate Committee on Appropriations, Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies.