

# **STATEMENT OF PAMELA HUGHES PATENAUDE**

Assistant Secretary for Community Planning and Development  
U.S. Department of Housing and Urban Development

Hearing before the Committee on Financial Services  
Subcommittee on Housing and Community Development

United States House of Representatives



**RURAL HOUSING PROGRAMS: REVIEW FISCAL YEAR 2008  
BUDGET AND PENDING RURAL HOUSING LEGISLATION**

MAY 8, 2007

Thank you Chairwoman Waters, Ranking Member Biggert, and Members of the Subcommittee. On behalf of Secretary Jackson, I am pleased to appear before you this afternoon. My name is Pamela Hughes Patenaude. As the Assistant Secretary for HUD's Office of Community Planning and Development, I am responsible for the administration of the Rural Housing and Economic Development program.

In 1998, Congress established the Office of Rural Housing and Economic Development under Public Law 105-276. The law contained three congressional directives: first, establish an office called the "Office of Rural Housing and Economic Development;" second, administer a competitive program called the "Rural Housing and Economic Development Program," with a congressionally mandated announcement deadline of June 1 or September 1 of each year; and finally, develop a clearinghouse of ideas for innovative strategies for rural housing and economic development and revitalization. The purpose of the Rural Housing and Economic Development program is to develop capacity at the state and local level for producing housing and for economic development in rural areas.

The Rural Housing and Economic Development program is designed to address the problems of rural poverty, inadequate housing, and lack of economic opportunity with a specific focus on high-need rural areas, including the Lower Mississippi Delta Region (8 states and 240 counties), Appalachia's Distressed Counties, federally recognized Indian tribes, seasonal farm workers, and the Colonias. Under the Rural Housing and Economic Development program, the Colonias are defined as any identifiable rural communities that are: located in the states of Arizona, California, New Mexico, or Texas; within 150 miles of the U.S.-Mexico border; and determined to be a colonia on the basis of objective need criteria, such as a lack of potable water supply, lack of adequate sewage systems, and lack of decent, safe, sanitary, and accessible housing.

Two types of grants – capacity building and innovation – are awarded to local rural nonprofits, community development corporations, federally recognized Indian tribes, state housing finance agencies, and state community and/or economic development agencies.

Since Fiscal Year 1999, the Rural Housing and Economic Development program has awarded 760 grants totaling \$189.6 million. These grants have resulted in the construction of 7,605 housing units, rehabilitation of 11,924 housing units, creation of 12,134 jobs, job training for 34,299 people, creation of 2,205 businesses, and assistance for 5,959 existing businesses through nonprofit organizations for people who live in rural America's poverty-stricken communities – the poorest of the poor.

President Bush's FY 2008 budget does not request new funding for the Rural Housing and Economic Development program. Since FY 2003, the Administration has consistently proposed to consolidate the program's activities within the Community Development Block Grant (CDBG) program. The fiscal impact of the Rural Housing and Economic Development program upon rural America is limited and many of the activities can be funded through the state CDBG program. Furthermore, USDA's Rural Housing

Service and Rural Business and Community Development programs are specifically intended to address these needs.

For the past 25 years, HUD's State Community Development Block Grant program has funded affordable housing activities in non-metropolitan and rural areas. For FY 2007, the total State CDBG allocation is approximately \$1.1 billion, the same amount provided for FY 2006. States distribute these funds to units of general local government by a "method of distribution" that describes the state's funding priorities. States are free, within the context of the CDBG program, to fund any eligible activity that meet their particular needs, including rural housing.

The CDBG program also addresses housing needs in two specific rural areas. One area is along the U.S.-Mexico border: the Colonias. Each year, the four states containing Colonias are required by statute to allocate up to 10 percent of their State CDBG allocations to address needs in this region. Historically, approximately 70 percent of Colonias set-aside funds are spent on basic infrastructure activities that are a prerequisite to improving housing and general conditions. While CDBG funds are occasionally used for housing rehabilitation, they are often used in conjunction with HOME program dollars to provide a complete rehabilitation funding package.

The second specific rural area in which CDBG has a role is Appalachia. HUD partners with the Appalachian Regional Commission (ARC) to provide administration for the ARC program. ARC funds are used to meet basic development needs throughout Appalachia and, in many cases, are paired with CDBG funds to ensure adequate financing for projects that contribute to the economic well-being of these communities. As with the Colonias, most of these projects involve infrastructure, but housing is occasionally the primary activity.

Another HUD program assisting rural areas is the Self-Help Homeownership Opportunity Program (SHOP). SHOP funds national and regional nonprofit organizations that facilitate small, local sweat equity homeownership programs in rural areas across the country. President Bush's FY 2008 budget request of \$40 million for SHOP attempts to build upon the growing capacity of self-help housing organizations and to expand upon successes in making homeownership a viable option for low-income families who otherwise would not have the resources to acquire a home.

The SHOP program embodies HUD's focus on nurturing partnerships with non-profit organizations by providing competitive grants to national and regional non-profit housing organizations and consortia that specialize in self-help homeownership where the homebuyer contributes a significant amount of sweat equity to the construction. Current SHOP grantees include Habitat for Humanity International and the Housing Assistance Council (HAC).

Since FY 1996, SHOP grantees have been awarded \$235 million and have completed construction on almost 17,000 housing units with the typical new homebuyer having an average income between 50 to 65 percent of area median income. The

homebuyer's sweat equity contribution reduces the cost of construction, and has resulted in purchase prices as low as \$31,000. For every SHOP dollar expended, approximately \$7 from other sources is leveraged. This does not include the value of sweat-equity contributed by homebuyers.

The Housing Assistance Council (HAC) has received SHOP funding annually since 1998. Each year HAC has provided SHOP funds to over 50 local nonprofit affiliate organizations in rural areas reaching homebuyers for whom, except for the infusion of SHOP funds and their own contributions of sweat equity and other volunteer labor, homeownership would otherwise not have been an option. Through FY 2006, \$76.8 million has been awarded to HAC for development of 6,552 units.

HUD, along with USDA's Rural Housing Service, continues to address our nation's rural housing needs. Thank you for giving me the opportunity to appear before your Subcommittee. I look forward to answering any questions you have.