

**Testimony of
John Squires
Community Resource Group Inc.
to the
Senate Agriculture, Nutrition & Forestry Committee
Field Hearing on “Revitalizing Rural America”
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Introduction

Thank you, Chairwoman Lincoln, for this opportunity to address the committee, and congratulations on becoming the new Chair of this important committee that is so important to the people of Arkansas. I would also like to thank you for the leadership and dedication that you have shown for helping to address the numerous issues and problems that face rural areas and small communities throughout the State of Arkansas and across rural America.

My name is John Squires and I am the Chief Executive Officer of Community Resource Group Inc. Community Resource Group Inc. (CRG) is a private non-profit corporation, established in Fayetteville, Arkansas in 1975. As a regional, non-profit rural development corporation, CRG has a 34-year history of assisting residents of small towns and rural communities successfully address basic problems like safe drinking water, sanitary waste disposal, transportation, affordable housing, and access to credit.

Rural Water & Waste Disposal Infrastructure

CRG started working in the mid 1970s helping small communities across the Ozark Mountains of north Arkansas to plan, finance and construct community water systems to provide first-time public water service to rural residents. In many of these communities the primary method of obtaining drinking water was hauling water from another nearby community—especially during the summer when shallow wells would go dry. Because of the need, our work quickly expanded to helping small communities throughout Arkansas as well as six other states (including

Alabama, Louisiana, Mississippi, Oklahoma, Tennessee and Texas). Annually we provide onsite technical assistance to some 400 to 500 communities with water and waste disposal problems throughout our seven state primary service area. As an aside I would note that CRG was instrumental in helping organize the Arkansas Rural Water Association in the late 1970's and I had the honor of serving as the Vice President of the Board for a number of years.

CRG is also a founding member of the Washington DC based, Rural Community Assistance Partnership, Inc. a nationwide non-profit network with nearly 200 highly qualified professionals working on-site with rural water systems in all fifty states and the territories. This work is focused upon achieving the following outcomes:

- Improved public and environmental health in rural communities
- Sustainable community water and wastewater facilities
- Improved capacity of local decision makers to address current and future community needs.
- Community Water and Waste Systems Compliance with Federal and State Regulations.

In 1992, Governor Clinton created the Arkansas Water and Wastewater Advisory Committee (WWAC) by Executive Order. Arkansas was one of first states in the nation to create such a committee which serves as a formal mechanism for coordination of financing programs in Arkansas with respect to local water and wastewater improvements. CRG currently serves as a member of the WWAC and proud to have been involved in creation of this committee.

CRG Community Lending

Also in 1992, as the result of our water and wastewater work, we launched a loan fund for water and wastewater improvements by borrowing \$3 million in initial loan capital from the USDA Intermediary Relending Program and the Ford Foundation. The CRG Loan Fund was established to provide relatively small loans directly to rural water and wastewater utilities for pre-development expenses, small capital improvements, and emergencies. Since that time CRG has developed considerable expertise as a water and waste disposal lender closing approximately 300 loans to water and wastewater systems totaling more than \$20 million dollars. We operate as a lender of last resort for rural communities that need relatively small, affordable loans with flexible terms and underwriting, often in a hurry --- loans of a size not typically available from commercial or governmental sources given the transaction costs. An example of the type of lending we do, last Thursday we closed a loan with the Ozark Acres Water Association in Hardy.

This community in north central Arkansas is currently experiencing a 25% to 30% water loss due to aging equipment in their system. A \$70,586 loan from CRG will allow them to upgrade their equipment thereby reducing water loss. This will significantly improve not only their conservation of water but substantially improve their operating efficiency while reducing costs to every one of their 375 customers.

CRG's Loan Fund, currently capitalized at over \$10 million, has received support from a wide variety of investors including USDA Rural Development IRP, The Ford Foundation, Bank of America, U.S. Department of Treasury CDFI Fund, and the Houston Endowment.

CRG is recognized as a Community Development Financial Institution (CDFI) by the U.S. Treasury Department and is one of only 8 certified CDFIs in Arkansas. In addition to our water and wastewater technical assistance and lending program, since 1995 CRG also has supported a variety of housing-related activities initially along the Texas-Mexico border, and now across our seven-state geographic region. Some of our housing-related achievements include: completing the largest low-income land-titling project in the country, clearing title to over 2,200 parcels of land and transferring clear title to over 1,400 low-income families in the Texas *colonias*.

During this process, we gained a new appreciation for the huge housing needs along the Texas-Mexico border. In 2000, we began a grant-based housing rehabilitation program for elderly and disabled homeowners and in 2001, we launched a home improvement loan program (*Nuestra Casa*) that provides unsecured signature loans to low-income families for use in constructing or renovating their homes. To date, we have closed over 1,200 *Nuestra Casa* loans in Starr and Hidalgo counties with cumulative lending activity to date of \$3.3 million.

CRG New Home Construction

For the past four years, in south Texas, CRG has been constructing new, affordable single family homes that are Energy Star certified, low maintenance, and that improve the living conditions for our home buyers. CRG acts as the general contractor while subcontracting to local small businesses – a direct investment that results in steady employment in a rural county with double-digit unemployment rates. Our goal is to provide low-income working families with:

- A high quality, well-built home that is affordable to purchase and own.
- A home that is affordable to maintain.
- A home that will become a valuable asset to be passed on to the next generation.

CRG homes are built with Eco-Block (www.eco-block.com) – a brand of insulating concrete form (ICF) construction blocks. These blocks easily snap together to create the walls of a highly energy efficient home that is stronger (wind resistant to 150 MPH); quieter; resistant to fire, moisture, mold; and “greener” than most “site-built” affordable homes. The walls are essentially a “foam sandwich” consisting of a 2.5 inch foam panel on the outside, a 4 inch internal space filled with rebar and concrete, and another 2.5 inches of foam on the inside. The space between the foam panels is filled with concrete that cures and hardens into a monolithic, steel-reinforced core of incredible strength. ICF construction has been used for many years for commercial and high-end residential construction. Our unique partnership with the manufacturer allows us to pioneer the use of Eco-Block for affordable housing. We find that the slightly higher initial cost for this type of construction is well worth the investment as the homeowner will realize significant cost savings over the life of the home due to the energy efficiency and durability. Over the past three decades we have worked in close partnership with USDA Rural Development offices and staff, and with various USDA/Rural Development programs. We know from experience that the USDA Water and Waste Disposal Loan and Grant program is one of the best programs ever initiated at the federal level, and represents a vital resource for small communities in Arkansas and other rural states. Over the years we have worked in innovative and sometimes unconventional ways to address the very difficult problems that small communities and lower-income Arkansans face on a daily basis—whether the issues involved infrastructure, affordable housing, availability of credit or a car for families moving from welfare to work. As an organization, our philosophy has been to continually build upon our strengths and expertise in helping rural communities. Based upon our years of work in these areas, we are pleased to offer the following recommendations for revitalizing rural communities:

Our Recommendations

RECOMMENDATION #1 We strongly recommend that Congress provide adequate annual appropriations levels for USDA/Rural Development’s Water and Waste Disposal programs, including technical assistance set asides to help small communities gain access to USDA financing and insure the sustainability of facilities in small communities. For most of the 60 million residents of rural America, USDA’s Rural Development agency is the primary source of federal financial support for community and economic development efforts. The role of Rural Development programs in rural America is critical, and we appreciate your interest in ensuring

that these programs are robustly funded and working as intended. Unfortunately, Rural Development funding has declined in recent years; both the programs and the agency staffing to implement them. Since 2003, funding has been reduced by 25% for water and wastewater facilities, 28% for rural community facilities, and 33% for rural housing loans and grants. The Recovery Act this year provided a very welcome influx of funds for Rural Development programs and is providing a significant, but one-time, “shot in the arm”. We would hope that the important work of rebuilding essential community facilities that began in 2009 will not be forgotten in 2010 and beyond.

RECOMMENDATION #2 We recommend that the USDA/ Rural Utilities Service Revolving Loan Fund program, which was authorized in the 2002 Farm Bill, receive appropriations of \$5 million annually (which is the authorization level). The RUS Revolving Loan Fund enables very small communities to receive financing for pre-development costs and small capital improvements. Pre-development costs are those which are necessary and essential to secure permanent financing for major water and wastewater capital improvements and include such items as preliminary engineering costs; environmental studies or assessments, including water and well testing; legal fees, including fees associated with developing water rights purchases and other necessary easements. Qualifying small systems improvements are those which serve to preserve, improve, or enhance water or wastewater disposal services and are not a part of the regular operations and maintenance activities of a utility. Examples include line extensions, rehabilitation of water storage facilities, replacement costs of existing critical system components, and other capital improvements that do not exceed \$100,000 in total project costs. CRG has successfully utilized RLF funds in the past to provide short-term loans to small utilities nationwide. The availability of this type of financing can often be crucial in meeting predevelopment costs necessary for enabling larger scale projects to proceed, as well as to respond to the need for emergency situations should critical facility components fail.

RECOMMENDATION #3 Rural Development’s Intermediary Relending Program (IRP) has been a critical source of loan capital for CRG’s regional water and wastewater loan portfolio. However, in recent years we have not been able to compete successfully for these funds since our Board of Directors and Service area is not limited to 14 counties. Shut out from the points awarded in this category we are not competitive for IRP funds. To keep IRP funds deployed and

revolving; to maximize impact--- we need to be able to serve low income rural communities in a geographic area larger than 14 counties.

CRG recommends that consideration be given to either eliminating this scoring criteria or automatically award applicants that lend for pollution control and abatement purposes, the maximum points awarded under Section (5) of the point system used to determine an applicant's priority for funding.

RECOMMENDATION #4 Helping low-income families across rural America achieve and live out the dream of homeownership requires more than just a home that is initially affordable. The home must also be affordable to operate, i.e. energy efficient, and it must be low maintenance and durable enough to outlast the mortgage. As I mentioned earlier, this is why CRG is building Energy Star homes using insulated concrete form (ICF) technology. But the dream of affordable home ownership for many low income families requires one more thing. It requires an affordable, mortgage. This is why the 502 Direct Loan product offered by USDA's Rural Housing is so important. It can literally make the difference in determining whether or not a low income family achieves their dream of home ownership. The ability of this loan product to offer a graduated interest rate tied to the borrower's income is often critical for making the home affordable. We believe it's important to make this loan product more widely available. To do this we would urge that consideration be given to expanding, modifying, and funding the 502 Housing Application Packaging Program authorized under Section 509 of the housing Act of 1949 , as amended (42 U.S.C. 1479).

- Expanding-the packaging program needs beyond just the Texas colonias and other designated counties. Low income rural families, regardless of where they live need access beyond what RD's ever shrinking county and district staff can provide in the way of marketing, application origination, underwriting, processing and loan servicing.
- Modifying-Training for packagers should be outsourced to nonprofit intermediaries such as NeighborWorks America which already provides training on the 502 loan product. Mandatory financial literacy and homeownership training for borrowers should be an integral part of every packaging grant.
- Funding- Payment to nonprofits for 502 Packaging should be similar to the private sector origination fee—but large enough to cover the added cost of providing financial literacy and home buyer counseling to borrowers.

Consequently, we urge Congress to push for mortgage financing and support programs specifically targeted to low-income families who often need additional down payment funds, credit counseling and repair assistance, and mortgage programs that are based on more than just the family's credit score. For example, a 502 direct loan program addendum that would allow non-profit organizations who have a U.S. Treasury Department Certified Development Financial Institution (CDFI) designation, like CRG, to serve as a guarantor of mortgages for low-income families.

RECOMMENDATION #5 HUD has recently proposed a \$25 million Rural Innovation Fund as a set-aside from the larger Community Development Block Grant program. This funding is designed to “support a limited number of highly targeted and innovative approaches dedicated to addressing the problem of concentrated rural housing distress and community poverty.” In our opinion, such a Rural Innovation Fund should more logically be under the auspices of USDA Rural Development given RD's mission, history, existing delivery system of rural offices, and commitment to developing rural housing and economic opportunities nationwide. As we noted in our recommendations #1 – 4 above, all of those recommendations build on existing strengths of Rural Development. We strongly believe that RD needs to create some type of innovation program, perhaps similar to the one proposed by HUD, that seeks to identify best practices and creative solutions to the problems of rural housing and economic development that are plaguing small rural communities across the United States. RD is uniquely positioned to work with CDFIs and other non-profit organizations to encourage their best ideas and identify what works, what does not work, and how to bring the best ideas to scale as part of future programs of USDA Rural Development. We envision this activity as a type of “farm club” for creativity or the equivalent of a research and development division within a private, for-profit organization. Over the next few years this could become a very important way for the non-profit and governmental sectors to work together to test innovative approaches to some of the most pressing rural issues such as preservation and construction of energy efficient housing, figuring out how to make manufactured housing, which is home to 1 in 7 Arkansas families, the best it can be, including securing long-term security for residents of manufactured home parks, and crafting transportation solutions that address the needs of rural families so they can obtain a job, continue their education or seek appropriate health care for their family.

My thanks to you, Chairwoman Lincoln, and to the Committee for considering my testimony, and for your focus on meeting the needs of America's rural communities and citizens.

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