

+You: In Conversation with Xochitl Torres Small, USDA Under Secretary for Rural Development

Wednesday, July 20, 2022

[10] **Jonathan Reckford:** Hello and welcome to this afternoon's +You conversation with USDA Rural Development Under Secretary Xochitl Torres Small. I'm Jonathan Reckford, CEO for Habitat for Humanity International. Under Secretary Torres Small, thank you so much for joining us for this important conversation. It's great to be with you.

[31] **Xochitl Torres Small:** Thanks so much, Jonathan. It's a joy to be part of this.

[35] **Jonathan Reckford:** We have a lot to talk about. There is a crisis in housing affordability across the country and particularly in so many rural communities, both qualitative and quantitative. And we would love to talk all about that. First, you've hit the ground running. Now nine months in, tell us what the experience has been moving from the legislative side to the administrative side and what you've learned and seen so far.

[1:01] **Xochitl Torres Small:** Thanks so much for the question, and it's certainly been an interesting experience coming from serving as a United States Representative in New Mexico's second congressional district to now getting to do the work that happens after a law is passed and all of the work of administering that law, and then connecting to real partners on the ground. And something that's been one of the most joyful parts of this work is getting to see how the bill that is written that then gets signed into law becomes a home in a rural place.

And I recently was in Kentucky where I saw that firsthand. I was touring a mutual self-help program and I was speaking with several neighbors who worked together to help build their neighborhood. And there was a family that was off to the distance a little bit because their home, which they also built was not quite connected to that location. It was a little bit further out. And as I went to go talk with them ... we spoke in Spanish and I was hearing about how their family and all of their friends had come on weekends to help them build their home.

And after the tours and as I was getting ready to leave, the mother from that family pulled me aside and said, "Hey, just thank you so much for being here. And I'd love to hear about how you

got to be in this position, because my daughter” — who was really her translator in a lot of the interaction —, “because my daughter is just so excited to see someone who looks like her get to be in this position. And now she works hard. She’s helped us build our home, and she has a foundation to be able to build dreams like this, so she’d love to hear more about how you do it.” And it was just such a centering moment for me to see the impact that homeownership can have as a foundation for bigger dreams and bigger opportunities.

[2:57] **Jonathan Reckford:** Well, it is ... you are preaching to the choir. But we certainly believe ... I’ve always wondered why housing wasn’t higher on everyone’s list, and sometimes my thesis is because most of the people in Congress and most of the people in senior positions in the private sector never experienced poverty housing or inadequate housing. And if they had, it would be much higher. Though I would say every mayor I have spoken to in the last 18 months now has said housing is either number one or two on their list along with crime. So it is clearly ... we have created an affordability crisis. For those of you who haven’t seen it, I would refer you — we wanted to jump right into the conversation — to the Under Secretary’s bio. She has a wonderful background in rural and community development, and then, as you know, as a member of Congress and now with the administration.

Under Secretary Small, could you just talk ... one of the misconceptions I think in this country — because much of the media covers urban housing issues and urban affordability issues — so I think there’s a misimpression that the affordability crisis is mostly coastal and urban. Can you talk a little bit about what you’ve seen in terms of the challenges for rural families and communities?

[4:05] **Xochitl Torres Small:** One of the things that I’ve learned now serving all of the country is that rural can look different in different places and there’s different challenges that come with that. But there are certainly housing affordability challenges across the country. Sometimes it’s about the housing stock. So there’s just not new homes being built in rural places. So there’s a lot of competition for the homes that are in existence, that are good housing stock. Another time, it’s about the cost of transportation to get all of the materials to a place to build, and we certainly see that — especially with increased inflation and the supply chain challenges — that that’s really skyrocketed in terms of the cost of building a home. Also, there could be development challenges. If you’re in a rural place, making sure that you have the water and electricity and all the hookups there, and also making sure the land is suitable can be a real challenge.

And then in places like the south, something I’ve seen is you build a home and put all of the materials into that home. But when it gets appraised because of the depressed cost of living across the board, it gets appraised for much lower than even what it cost to build. And so being able to finance that purchase becomes very difficult. So there’s all sorts of challenges that are very unique to the place where you’re building in rural America.

[5:32] **Jonathan Reckford:** Thank you for that. What we’re seeing is certainly still places where we need houses to be repaired — and we can talk about your programs to support those efforts — but we see a huge supply challenge. Effectively for the last decade we have underbuilt as a

country, and that's actually becoming an economic break in some rural areas. They can't attract people if they can't find a place to live or hold. And in some ways maybe it's an economic opportunity. I don't know what you've seen in terms of families now with the ability to work from anywhere and more and more jobs being virtual, but that again only works if housing is affordable. And in some historically affordable communities, now people leaving more expensive areas and coming to them has exacerbated that supply gap. So even more we've got too many people chasing too few homes. What do you think would be the biggest levers that could increase the supply?

[6:25] **Xochitl Torres Small:** To clarify, I think there are ... you can always make a challenge or a problem more challenging or more complicated, and certainly we see that in this space. Rural development ... so many of our programs are really focused on the most affordable homes for the people who need it the absolute most. And that's crucial, especially when you look at mutual self-help or our 502 program or our multifamily program for renting availability. But we also want to be part of the answer when it comes to workforce housing and finding opportunities, as you mentioned, for that investment opportunity as well. And so trying to expand our reach to be part of that solution as well as the other.

One of the challenges — because every rural place is different — there's a lot of different financing tools for solving that problem, and you may need different financing tools depending on what your specific challenges are in an area. For example, if you're repairing housing stock versus building new or if you need those predevelopment funds.

So there's a lot of different financing options out there, both in rural development or in partnership with HUD or sometimes in partnership with a philanthropic partner. And we've got to work to be able to stack those programs better together, to make that a more seamless approach to leverage all of those different financing tools. And I think that's one of the solutions to what you're talking about, especially as we see the affordability is skyrocketing ... or the challenges to affordability skyrocket, is how can we make it easier to combine programs to provide that solution?

[7:54] **Jonathan Reckford:** I think I'd be really excited ... I would love to talk ... Habitat affiliates have taken advantage and partnered with USDA on 504 homeownership opportunities as well as repair and preservation opportunities, both of which are critical. We were talking before we started the show around those opportunities potentially to partner and simplify. I would love to hear your views on where there might be opportunities to make it easier to partner. And then I love the idea of could we make it easier to both work with HUD and USDA in ways that could help on both demand and supply.

[8:28] **Xochitl Torres Small:** I'll take that second part first. I was recently walking the Mall with Secretary Marcia Fudge from HUD and we were talking about what are the innovative housing solutions that we can help invest in? And when it comes to new construction and increasing supply, I think one of the places where there's space to work more is in manufactured housing, and in finding ways to provide more scalable opportunities across rural America.

When it comes to ways that we can make our programs work better together, that's where we really need the stakeholder input. You are the experts in braiding all of those resources. And so finding the folks who've been the most thoughtful in how you combine and finding those tricks. And then making them best practices, but also clarifying our regulations where they can fit better together I think is a great opportunity.

We're also excited to work with you to partner with application packaging. You and I were talking earlier about how sometimes that first self-help, or that first 504 repair loan application can be really difficult, but once you get the hang of it, it can be easier and easier to do. So being able to work with partners on the ground — local folks who have relationships with the community, who could then package either 502 loans or maybe even 504 repair — but finding ways to scale up those processes.

[9:54] **Jonathan Reckford:** I think that's such an exciting opportunity. And I actually want to tie those two together because one of my quiet lobbying for some of our rural affiliates is that we learned during COVID where suddenly we couldn't do our traditional volunteer work and we learned how to work with contractors and build in different ways. And now many of our affiliates are realizing they can do both. Now we're thrilled volunteers are coming back, but there are other ways to build. And I think that manufactured housing got an undeserved bad rap. Modular housing can be, you know, at any level of quality that is chosen. And it makes so much sense in a place where we've got shortages of skilled labor and work. So if we can do some of the ... really leverage the plumbers and electricians and some of the drywallers, other pieces, and panelize and prepare houses in a factory setting. And then assemble out or bring out and do the finishing work on the ground, I think there could be an opportunity — for certainly Habitat affiliates and other nonprofit housers — to scale up faster. And my experience is doing one USDA 502 program is pretty intimidating for one of our affiliates, but once you've learned how to do one, doing 10 or 15 is marginally faster. And we need volume, so would love to see some creative partnerships. Have you seen some advances with manufactured housing and some partnerships there that are working?

[11:23] **Xochitl Torres Small:** You know, it is a part of our portfolio, but it is certainly a place where there's room for growth. Right now, as we talk about what regulations need to be in place and how we can make them simpler and more accessible, this might be a place where we can look at what those regulations are in terms of the tie-down requirements and otherwise while ensuring that it's a good investment for rural development and providing that balance for quality as well as scalability.

[11:51] **Jonathan Reckford:** Absolutely. And it shouldn't be a tradeoff. You know, we had some experience with that. When I first started at Habitat after Hurricane Katrina, everybody wanted to come help in New Orleans, but there were huge swaths of Mississippi, Alabama, Texas and Louisiana that were just damaged terribly. And we actually worked with two modular factories and we finished houses to 75 or 80 percent, and then the families put in their sweat equity and local volunteers did the finish work. But it really leveraged the huge shortage of high-skill

construction workers at that time. And I think we're facing some of that same issue now. Hopefully we'll come over the supply chain gap, but we've got a significant labor shortage as well on skilled labor. And so it's a more efficient way in some ways to build as long as we can get the transportation within reasonable boundaries. And I think that's possible in many, many parts of the country.

[12:45] **Xochitl Torres Small:** Oh, gosh, I want to take two of those points and just dig a little deeper. It's really getting me excited. To go back to the manufacture ranks — we are currently on revising those — and I would love to partner based on your experience in Katrina and beyond about how we can achieve that balance better. So I want to put a call out for public feedback there and really appreciate your expertise in that.

When it comes to skilled labor, that's one of our big challenges right now in rural America. So of course that's one potential way to address it. And if you have other ideas about how we can work to get more rural Americans repairing homes, we'd love to be a partner for you there. I recently saw a project that combined a recovery program with a workforce training program, then also with our 502 program. And so the way they linked that — all of those funding sources — was really exciting to see, also because it was creating a more sustainable model for their town. So I think there are more opportunities like that and we'd love to build greater partnerships there.

[13:51] **Jonathan Reckford:** I think it'd be fantastic, and I do think ... one of my axioms is the only thing worse than partnering is not partnering. So it's slow and complicated, but it's actually the only way we get to really sustainable solutions. And I do think growing more skilled labor is really the best answer in some of these areas versus trying to recruit. We've certainly seen in post-disaster environments —and unfortunately disasters keep coming — that it's tough because you get ... we had the storms in Texas and then after the huge floods from five years ago, a lot of labor got sucked up to Houston and then got pulled down to Florida because they were paying higher wages. And then that left some of the rural areas behind in terms of being able to have enough talent to be able to do all the heavy repair work they needed. We could have a whole different session I think just on that. We're trying to work with a number of both private sector and the homebuilders around how do we improve on that side, because we know that's one of the bottlenecks that's driving up costs right now certainly.

One thing we do want to talk about, Habitat just recently launched our Advancing Black Homeownership initiative. And we have certainly seen — certainly for Black families and families of color, and this is a huge issue in rural areas — that much of the gigantic wealth gap correlates directly with the gap in homeownership. For Black families, a 30-point gap and for Hispanic families, a 25-point gap. We think that's going to take a federal component certainly, as well as state and local efforts and zoning efforts to make those rules. Can you just talk a little bit about USDA's role in that and where you see opportunities?

[15:34] **Xochitl Torres Small:** First, just homeownership is a fundamental piece of addressing that wealth gap. You see the difference that it makes when money that's spent that was paying

for monthly rent is now being put into equity and equity that can be passed onto generations. It is a fundamental piece of how we address those challenges. And as part of that, we're seeing the importance of the home appraisals. So USDA and Rural Development are participating in an interagency working group, called PAVE, which stands for Property Appraisal Valuation and Equity. And it was one of the first meetings I actually — interagency meetings — attended early on when I first became Under Secretary. And for a very specific issue, it has enormous impacts. Whether it's discrimination when it comes to appraising the value of a home, or whether it's in rural areas, the impact that you have when it takes a really long time to get an appraisal done. So along that chain there's a way that it can really impact a family's shot at having and owning their own home.

And when you look at other ways that we're working to address equity within USDA, there is ... USDA has set up an equity commission, which is very exciting. And Deputy Secretary Bronaugh is the co-chair of the commission, and she says there's about 40 ideas that could become recommendations in the future. So we're very excited to see those pieces be unpacked about how we as USDA serve equity better.

I think other examples that we've been able to work on is in the midst of COVID, making sure that we had payment forbearance, for example, mortgage payment forbearance as well as rental assistance to be that stopgap in the midst of some real challenging conditions for emergency workers as well as folks who were struggling to keep a job or to keep childcare going at that time.

And then we're looking at new ways to reach new partners. So again, the opportunities that are available for partnerships. Native CDFIs in South Dakota are part of a pilot that we have to better reach Indian country and to make sure that we're providing the right tools for homeownership in hard-to-reach places as well.

[18:00] **Jonathan Reckford:** Thank you for that. Music to our ears. Habitat for Humanity of course has been all about affordable homeownership, and we really do believe it's a power move. I was just watching a video our team had put together yesterday of just interviewing — it was mostly but not all — women who had just paid off their mortgages. And it was ... sometimes we talk about, you know, and stop the story at they got a home. But what's really exciting is to see what happens because of that. And we do see such powerful impacts on health, on education, on livelihoods and income, and even just a sense of pride and sort of place in community in a way that not just the family benefits but the community as well.

I would love to see ... one of our federal priorities is actually to support increased funding because I know it is fully subscribed on the homeownership side. And I know there's some opportunity still on the repair and rehab side. What advice would you give to Habitat for Humanity affiliates or other nonprofits if they've never partnered with USDA and maybe we're a little intimidated about how to get in?

[19:06] **Xochitl Torres Small:** It's a ... sorry, would you mind just asking the question again?

[19:16] **Jonathan Reckford:** Oh, no worries. Just in terms of the USDA program, I have been a huge fan of it for a long time and have been pushing. But if you were, you know, addressing Habitat affiliates or other nonprofit housers, and who might be a little intimidated about trying to partner with the government, what advice would you give them or how would you encourage them to jump in?

[19:40] **Xochitl Torres Small:** It's a challenge to get to take that first step, and we need to work to make it easier. Certainly I think that there are times where we could make a simple issue a lot more complicated. But it's ... we've found that so much of it is about building relationships and getting to know each other and being frankly willing to both find system improvements while also solving for what we've got right now. And so we're really eager to ... as you help us identify places where we could do our job better, also find ways just to get through some of the cumbersome work in the first place.

The other piece that I'd ask is that you reach out to our state and area offices. We have state directors across the country — 47 offices where it's very different from other federal agencies. We have people living in the communities they serve. And so being able to meet and get to know the folks who are administering these programs can really help ease with that comfort factor.

We also are eager to participate in trainings to help navigate those initial steps. And events like these are really crucial for us to get to hear from you about how we can serve you better. But the biggest thing I would say is you've got folks who really care about the places you're working in in USDA Rural Development. You've got people who live in those communities, who care about success there. And with that shared mission, there's a lot that we can do together.

[21:17] **Jonathan Reckford:** I think this is such a critical opportunity at a critical time. We have the audience. We have promised them a chance to ask questions. If you have questions for the Under Secretary, please put them in. We have a first question from the audience. Someone wrote, "Some of the great successes that we hear from affiliates in rural communities in terms of their ability to increase their capacity and serve more families involve partnering directly with USDA Rural Development field staff in state and local offices," very much to the point you just made. "This partnership involves helping identify qualified borrowers, and for the section 502 direct loan program or homeowners in need of critical home repairs, particularly for elderly homeowners looking to age in place. The question is with increased housing need, how can organizations like Habitat continue to work with Rural Development to expand the impact of rural housing service programs?" And so obviously there's an advocacy component that you're probably not allowed to talk about, but we can talk about. But in terms of, do you see opportunities in the programmatic side for more ways we could drive higher impact?

[22:20] **Xochitl Torres Small:** The housing affordability challenge also becomes an access issue in terms of people being credit ready, for example, to participate in the self-help — mutual self-help program — or qualify. Even though 502 is incredibly accessible, you still have to be

able to get the credit to be able to make that step. And I've seen really great partnerships with folks on the ground who can participate in that credit training and to get people ready to take on homeownership.

Recently I was in Rhode Island with one of our Self-Help projects, and a woman said that her son had recommended she go to this office for financial planning advice because she was trying to figure out how she'd ever be able to retire. What she would be able to do — not owning a home, not having a retirement or savings. What it actually was, was one of our partners that works with us with mutual self-help. But it had such a good reputation for getting people credit-ready that they had been referred to as a financial planner. So now she's about to own her first home ever and is on the way to building that wealth that will allow her to retire safely and healthily. So I think there are places there, especially with training and outreach that we can work better together at to deliver more efficiently.

[23:40] **Jonathan Reckford:** We have certainly seen that now sometimes the lead times are longer. And so, many of our affiliates have actually been extending their training to families in the queue as well as the families who have already qualified, recognizing that it may take some work for families to get their credit clean enough to qualify for their mortgage and to be able to purchase. And that's a way to actually extend the services that Habitat provides or other nonprofits provide as well. It is ... to the extent you can talk about it, you know, if you had more funding, where would be your highest priority in terms of where you see the highest need?

[24:25] **Xochitl Torres Small:** If you look at the President's FY23 budget, you'll see a few key places where we've invested in our housing programs. So you talked about the importance of preservation. That continues to be a need, both in single-family and multifamily housing. I referenced some of the multifamily housing stock and the age of that stock, and that's certainly a challenge there. But when you look at single-family housing, we have that same challenge.

Also just recognizing the success of the 502 program and how important that is. And then, it's about investing in our team as well. One of the ways that we can be better partners with you is having the single-family housing staff on the ground — those state and area offices who you've built relationships with — and making sure there's always someone there to be able to answer your question or work on an application together. And so we need to reinvest in that need as well so that we can better serve you.

[25:24] **Jonathan Reckford:** Building on that, another question we had from the audience was around processing delays, which you had mentioned for both 502 direct and 504 loan and grant applications. And I know that's a challenge. Sometimes they're technology. Sometimes they're staffing shortages. We so value our partnership with Rural Development and we want to do what we can to help. But from your side, what are short-, medium-, long-term solutions that could address ... you know, get at the root cause of some of these delays? And how could Habitat be helpful in trying to shorten that cycle?

[25:57] **Xochitl Torres Small:** It does go back a bit to that piece about making sure we have enough staff to do that work and that they have the right technology to do that work. We've got folks working on systems that were created in the '70s. And so you just think about the redundancy that they have to do to navigate all of those systems that are outdated. It also becomes a real training challenge as we try to get folks onboard who have to learn systems that they didn't teach in college because they're that old – the systems are that old. So being able to have that technology is important. And we recently put out a proposal for a new underwriting system that we hope will help with those processing delays as well.

I'd also ... I think this is where we can build some scale as well. So not entirely related but want to go back to the packaging opportunities that we have. And being able to ... so that the challenge of packaging – or the challenge of processing one loan – takes a lot of staff time. But the more we can partner with folks like Habitat for Humanity and package certain loans, that helps with some of the processing piece on the back end as well.

Lastly, I've talked about the technology. If any of you are familiar with UniFi, it means you know our staff very well and you know how old that system is. We expect a replacement in the next two years, and we hope that that will dramatically speed up our processing times as well.

[27:27] **Jonathan Reckford:** Oh, fantastic. That would be huge because I know time, you know, is one of those constraints when we talk about all the different arrays. There's no magic bullet for speeding up supply, but we have a great sense of urgency.

So we sadly are rapidly running out of time. Under Secretary Torres Small, I'm so grateful for your making time for the conversation. We are grateful for your leadership.

Just to recap a few things we have heard ... so certainly for the Habitat family but for other nonprofits. One, the need is massive, as many of you know. Two, I think often people forget in some areas part of their geography may be rural. And so some affiliates who haven't thought about it could indeed qualify and potentially partner for the part of their counties that are deemed rural areas. And one of the things I think is most exciting is the chance to think about scale. How do we ... often sometimes in areas it's daunting to try to build a house at a time and partner with a 502 program or do preservation. But we can think more in the context of scaling that up. We could start to have an impact at a different level, and we certainly need that. So any final words from you before we close?

[28:40] **Xochitl Torres Small:** I love your line about the only thing worse than partnerships is no partnership. We are not dealing with easy things. The affordability crisis in rural communities has been a challenge for a long time. And the places where we're seeing a difference is where we have great community capacity on the ground and Habitat for Humanity is a vital component of that community capacity. So thank you for being great partners and we look forward to finding new ways to do that in the future.

[29:10] **Jonathan Reckford:** It would be our honor and pleasure. So thank you for your partnership. Thank you for the time today. We are going close the formal conversation now, but I hope this will spur conversations across the country and lead to far more families in rural areas having the opportunity to preserve or create new housing. So thank you again for your time and look forward to continuing the conversation over time.

[29:35] **Xochitl Torres Small:** Thanks so much. Have a great day.
like this.