

USDA Rural Rental Housing Programs

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Administering agency: U.S. Department of
Agriculture (USDA)

Year program started: Section 515 – 1963; Section
514 – 1962; Section 516 – 1966; Section 521 –
1978

Number of households served: Section 515 –
533,000; Section 514/516 – 28,000; Section 521 –
currently 269,000; Section 542 – currently 5,303

Population targeted: Section 515 - very low, low,
and moderate income households; Section
514/516 – farm workers

FY17 funding: Section 515 - \$35 million; Section
514 - \$23.9 million; Section 516 - \$8.3 million;
Section 521 - \$1.405 billion; MPR - \$22
million; Section 542 – \$19.4

FY18 funding in House and Senate bills: Section
515 - \$28.4 million House, \$35 million Senate;
Section 514 - \$15 million House, \$23.9 million
Senate; Section 516 - \$6 million House, \$8.3
million Senate; Section 521 - \$1.345 billion
both; MPR - \$15 million House, \$22 million
Senate; Section 542 - \$20 million House, \$19.4
million Senate

The U.S. Department of Agriculture's (USDA's)
Rural Development (RD) arm runs several
rental housing programs (and homeownership
programs) through its Rural Housing Service. USDA
makes loans to developers of rental housing for
elderly persons and families through the Section 515
program, and for farm workers through the Section
514 program (usually used in combination with
Section 516 grants). The USDA RD provides project-
based rental assistance to some of the properties it
finances through the Section 521 Rental Assistance
(RA) program. USDA RD also offers several tools to
preserve the affordability of USDA-financed rentals.

The programs face serious problems, however.
Production of new units has greatly decreased,
many existing units are deteriorating physically
or are in danger of leaving the affordable housing
stock, and rental assistance costs are growing faster
than available funding.

HISTORY AND PURPOSE

In operation since the 1960s, the Section 515 Rural
Rental Housing program and the Section 514/516
Farm Labor Housing program have provided
essential, decent housing for the lowest income
rural residents. Section 521 Rental Assistance
is available for some units in Section 515 and
514/516 housing, to keep rents at or under 30% of
tenant incomes.

Although dramatic improvements have been
made in rural housing quality over the last few
decades, problems persist. Many of rural America's
65 million residents experience acute housing
problems that are often overlooked while public
attention is focused on big-city housing issues.
Farm workers, especially those who move from
place to place to find work, suffer some of the
worst, yet least visible, housing conditions in the
country.

Nearly 30% of rural households experience at
least one major housing problem, such as high
cost, physical deficiencies, or overcrowding. These
problems are found throughout rural America,
but are particularly pervasive among several
geographic areas and populations, such as the
Lower Mississippi Delta, the southern Black Belt,
the *colonias* along the U.S.-Mexico border, Central
Appalachia, and among farm workers and Native
Americans.

Forty-seven percent of rural renters are cost
burdened, paying more than 30% of their income
for their housing, and nearly half of them pay
more than 50% of their income for housing. More
than half of the rural households living with
multiple problems, such as affordability, physical
inadequacies, or overcrowding, are renters.

PROGRAM SUMMARY

Under the Section 515 program, USDA RD makes
direct loans to developers to finance affordable
multifamily rental housing for very low income,
low income, and moderate income families, for
elderly people, and for persons with disabilities.
Section 515 loans have an interest rate of 1%,
amortized over 50 years, to finance modest rental
or cooperatively-owned housing.

The Section 514 farm worker housing program also makes direct loans; they have a 1% interest rate for 33 year terms. Some Section 514 borrowers, such as nonprofits, are also eligible for Section 516 grants.

Sections 515 and 514/516 funds can be used for new construction as well as for the rehabilitation of existing properties. Funds may also be used to buy and improve land, and to provide necessary facilities such as water and waste disposal systems. However, no new rental properties have been developed under Section 515 since 2011; the program's entire appropriation for the last several years has been used to preserve existing units.

Very low, low, and moderate income households are eligible to live in Section 515-financed housing. Section 514/516 tenants must receive a substantial portion of their incomes from farm labor. Residents' incomes average about \$12,960 per year. The vast majority (92%) of Section 515 tenants have incomes less than 50% of area median income. More than half of the assisted households are headed by elderly people or people with disabilities.

Section 514/516 loans are made available on a competitive basis each year, using a national Notice of Funding Availability (NOFA). Beginning in FY12, USDA has not issued NOFAs for Section 515 loans; instead, it has used all of its Section 515 funds for preservation purposes.

Preservation. To avoid losing affordable housing, preservation of existing affordable units is essential. Three factors pose challenges for preserving units in developments with owners who are still making payments on Section 515 or 514 mortgages.

First, many Section 515 and 514 mortgages are nearing the end of their terms. Almost 900 properties (containing 21,400 units) will be able to pay off their mortgages by 2027, and the pace of mortgage maturities will increase starting in 2028. Since USDA Section 521 Rental Assistance (RA) is available only while USDA financing is in place, when a USDA mortgage is fully paid off the property also loses its RA. The USDA can offer Section 542 vouchers for tenants when a mortgage is prepaid, but not when a mortgage matures. Advocates are exploring ways to protect tenants when USDA mortgages mature. Possibilities include offering new or reamortized USDA mortgages

so that RA can continue; providing vouchers; or “decoupling” RA from USDA mortgages so RA can continue even when a mortgage has been paid in full.

Second, many Section 515 properties are aging and must be preserved against physical deterioration. In 2016 USDA released a Comprehensive Property Assessment (CPA) updating a 2004 study. The new CPA reviewed Section 515 rental properties, off-farm Section 514/516 farmworker housing properties, those with loans guaranteed under the Section 538 program, and those that have used the MPR preservation program. The study concluded that over the course of the next 20 years, \$5.6 billion will be needed, in addition to existing capital reserves, simply to cover capital costs.

Third, every year some property owners request permission to prepay their mortgages—pay them off before their terms end—and thus remove government affordability requirements. Owners seek to prepay for varying reasons, including: the expiration of tax benefits; the burden of increased servicing requirements; the desire of some small project owners to retire; and, in some rural areas, an increase in vacancies due to out-migration. As is the case for owners of HUD multifamily projects, Section 515 owners' ability to prepay is restricted by federal law. The details vary depending on when a loan was approved, but in all cases USDA is either permitted or required to offer owners incentives not to prepay, and in exchange the property continues to be restricted to low income occupancy for 20 years. Incentives offered to owners include equity loans, increases in the rate of return on investment, reduced interest rates, and additional rental assistance. In some cases, an owner who rejects the offered incentives must offer the project for sale to a nonprofit or public agency. If an owner does prepay, tenants become eligible for Section 542 vouchers.

For the last few years, USDA RD has funneled most of its preservation efforts through its Multifamily Housing Preservation and Revitalization (MPR) demonstration program. MPR offers several possible types of assistance to owners or purchasers of Section 515 properties. The most commonly used assistance is debt deferral, although other possibilities include grants, loans, and soft-second loans. Since FY08, MPR has also been available to Section 514/516 farm worker housing properties.

Other preservation tools include Section 542

tenant vouchers, which can be provided to tenants who face higher rents when their buildings leave the Section 515 program because of mortgage prepayments. For several years, ending in FY11, Congress also funded a Preservation Revolving Loan Fund program, which used intermediaries to make loans to owners or purchasers who sought to preserve rural rental properties.

FUNDING

The Section 515 program, which received about \$115 million in annual appropriations in the early 2000s and has been cut repeatedly, was funded at \$28.4 million in FY14, FY15, and FY16, and \$35 million in FY17. Section 514 received \$28.9 million in FY14, \$28.6 million in FY15, \$28.9 million in FY16, and \$23.9 million in FY17. Section 516 was funded at \$8.3 million in FY14, FY15, FY16, and FY17.

The MPR preservation program received \$20 million in FY14, \$17 million in FY15, and \$22 million in both FY16 and FY17. The Preservation Revolving Loan Fund has not been funded since FY11.

Funding for the Section 521 RA program was a major concern for appropriators and supporters beginning with sequestration in FY13, but in FY16 USDA instituted a new way of calculating RA renewal costs that seems to have resolved difficulties in figuring out how much is needed. The program's cost just to renew expiring contracts usually rises annually. In FY14 for the first time RA's appropriation topped \$1 billion. It was \$1.11 billion in FY14, \$1.09 billion in FY15, \$1.39 billion in FY16, and \$1.4 billion in FY17.

Changes to reduce RA costs and to improve USDA's rental housing preservation process can be made by USDA without legislative changes by Congress. Making vouchers available for tenants in properties with expiring mortgages, or decoupling RA from USDA mortgages, does require congressional action. Over the next five years and beyond, RA costs will drop as USDA mortgages expire, but there will be corresponding increases in costs for alternatives such as USDA vouchers, HUD vouchers, or assistance to those who become homeless.

FORECAST FOR 2018

Maintaining funding levels for the rural housing programs, like other non-defense discretionary

programs, is likely to be a major challenge in 2018. The administration has not demonstrated support for rural housing – its FY17 budget called for the elimination of the Section 515, 514/516, and MPR programs, and it has replaced the previous USDA Under Secretary for Rural Development with an Assistant to the Secretary, a position with far less authority in the department. The Senate's agriculture appropriations bill for FY18 would require restoring the Under Secretary position, but the House bill does not include the same provision.

It is also possible that Congress might consider moving the USDA rural housing programs to HUD, a change that has been suggested in the past because housing is such a minor part of the Department of Agriculture. Although that is true, it is equally true that rural places are a minor part of HUD's housing programs. In addition, HUD does not have a field office structure as extensive as USDA's, nor does HUD have recent experience operating direct loan programs, several of which are included among the rural programs.

TIPS FOR LOCAL SUCCESS

Activity related to USDA's Section 515 program now focuses on preservation of existing units. Preservation means either renovating a property or keeping it affordable for low income tenants, or both. Local rural housing organizations can help with preservation in both senses by helping owners who want to leave the program (including those whose mortgages are expiring) find ways to do so without changing the nature of their properties. Often, this means purchasing the property and refinancing to obtain sufficient proceeds to update and rehabilitate it.

WHAT TO SAY TO LEGISLATORS

Advocates should speak with their Members of Congress and urge them to:

- Maintain funding for all USDA rural housing programs (do not reduce funding for other programs in order to shift funds to Section 521 RA).
- Continue to provide enough funding to renew all Section 521 RA contracts.
- Work with USDA RD to find positive ways to reduce Section 521 costs through energy efficiency measures, refinancing USDA

mortgages, and reducing administrative costs.

- Expand eligibility for USDA Section 542 vouchers so tenants can use them when USDA mortgages expire and Section 521 RA becomes unavailable.
- Restore the position of Under Secretary of Rural Development within USDA, to keep the housing programs (along with RD's business and utilities programs) at the same level of departmental priority as other USDA functions.
- Reject any proposals to move the rural housing programs from USDA to HUD.

FOR MORE INFORMATION

Housing Assistance Council,
202-842-8600, www.ruralhome.org

National Housing Law Project, 510-251-9400,
<http://nhlp.org/resourcecenter?tid=61>

U.S. Department of Agriculture Rural Development,
www.rurdev.usda.gov