USDA Rural Rental Housing Programs

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

Year 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 268,500; Section 542 – currently 6,353

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

Funding: Section 515 – $40 million; Section 514 – $23 million; Section 516 – $8.4 million; Section 521 – $1.3 billion; MPR – $22 million; Section 542 – $25 million in FY18

FY19 FUNDING IN HOUSE AND SENATE BILLS

Section 515 – $40 million in both House and Senate; Section 514 – $27.5 million House, $23.9 million Senate; Section 516 – $10 million House, $8.3 million Senate; Section 521 – $1.331 billion both; MPR – $53 million House, $50 million Senate; Section 542 – $28 million House, $26 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, and many existing units are deteriorating physically or are in danger of leaving the affordable housing stock.

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 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 $13,181 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 and Section 514/516 properties. The most commonly used assistance is debt deferral, although other possibilities include grants, loans, and soft-second loans.

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.

New Demand for Farmworker Housing

In FY18, legislation changed the Section 514/516 program in a potentially significant way: it made farmworkers from other countries, who come to the U.S. with temporary H-2A visas, eligible for Section 514/516 housing. The H-2A program requires employers to provide housing for their workers, so employers are likely to want to use Section 514/516 units. In some parts of the country not all units are fully used, so this change could make better use of those properties. In other places, however, demand already exceeds supply and expanding eligibility will increase housing shortages. It is also possible that employers will apply for Section 514 loans (they are generally not eligible for Section 516 grants) to construct “on farm” housing on their own property for their workers, and it is not clear how USDA would weigh those applications against requests from nonprofits for funds to develop “off farm” units.

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 $35 million in FY17 and $40 million in FY18. Section 514 received $28.9 million in FY16, $23.9 million in FY17, and $23 million in FY18. Section 516 was funded at $8.3 million each year from FY14 through FY18.

The MPR preservation program received $22 million each year from FY16 through FY18. 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, although in FY18 the total began to fall slightly because so many units are leaving the program for the reasons outlined above. In FY14 for the first time RA’s appropriation topped $1 billion. It rose to $1.4 billion in FY17, then fell slightly to $1.345 billion in FY18 and will drop a bit more to $1.331 billion in FY19.

Funding for Section 542 vouchers may now begin to be a challenge for Congress. The total cost of that program is now rising every year as increasing numbers of tenants are eligible for vouchers. The voucher program used just over $22 million in FY17, then nearly $26.7 million in FY18, and it is expected to need at least $28 million in FY19.

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 continue to 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 2019

Maintaining funding levels for the rural housing programs, like other non-defense discretionary programs, is likely to be a major challenge in 2019. The Administration has not demonstrated support for rural housing as its FY18 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.

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 the 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. As more Section 515 mortgages mature every year, nonprofit purchases of these properties are increasingly recognized as the best way to save them.

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, especially MPR, in order to shift funds to Section542 vouchers).
- Continue to provide enough funding to renew all Section 521 RA contracts and all Section 542 vouchers.
- 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, https://www.nhlp.org/resource-center/.

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