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 persons/households served: Section 515 – 533,000; Section 514/516 – 38,000; Section 521 – currently 273,000
Population targeted: Section 515 - very low, low, and moderate income households; Section 514/516 – farm workers
FY14 funding: Section 515 - $28.4 million; Section 514 - $23.9 million; Section 516 - $8.3 million; Section 521 - $1.11 billion; MPR - $20 million

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 and Community Facilities 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). It provides project-based rental assistance to some of the properties it finances through the Section 521 Rental Assistance (RA) program. It 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.

While 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, like 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 few 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 $11,000 per year. The vast majority (93%) 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. Two factors pose challenges for preserving units in developments whose owners are still making payments on Section 515 mortgages.

First, increasing numbers of these owners are prepaying their mortgages – paying them off before their terms end – and thus removing 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.

Second, many Section 515 properties are aging and must be preserved against physical deterioration. The most recent data available is from a 2004 Comprehensive Property Assessment (CPA) prepared for USDA by a team of consultants, which found that the physical conditions of Section 515 properties were an even greater problem than prepayments. The CPA reported that the average age of Section 515 properties was 23 years. Researchers determined that the physical conditions of the properties did not pose any serious immediate health and safety problems, but warned that many properties would face significant physical needs in the immediate future. None of the properties had enough money in reserve to address physical needs over time. Researchers calculated the total cost to prevent physical deterioration of Section 515 properties would be $2.6 billion over 20 years.

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, while 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. 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.

Definition of rural. During the last few years there has been concern about how USDA defines "rural" places, but that issue has now been resolved, at least until 2021. Because USDA's housing assistance can be used only in places the department considers rural, its definition is important for anyone seeking to use USDA's housing programs. (The only rural housing programs that can be used in any location are Section 514 and 516 farm worker housing loans and grants.)

USDA's rural definition is based on several factors, one of which is population. As a result, new figures produced every ten years by the decennial Census could make places with growing populations ineligible for the housing programs. To avoid the loss of aid to these places, for several decades Congress has passed legislation "grandfathering" previously eligible places into the definition of rural. Places that were eligible at any time since 1980 have continued to be eligible, so long as their populations remain under 25,000. After the 2010 Census, however, Congress enacted grandfathering legislation only one year at a time, leaving local residents and housing organizations uncertain about ongoing eligibility. The farm bill passed early in 2014 resolved the issue by extending grandfathering through the 2020 Census. It also increased the population limit to 35,000.

FUNDING

The Section 515 program was funded at $64.5 million in FY12, cut by more than half to $31.3 million in FY13 (before sequestration), and reduced further to $28.4 million in FY14. Section 514 and 516 funding levels were the same in FY12 and FY13 (before sequestration), $20.8 million and $7.1 million, respectively. Both were increased slightly for FY14, to $23.9 million for Section 514 and $8.3 million for Section 516.

The MPR preservation program dropped sharply from $15 million in FY11 to $2 million in FY12, then increased to $17.8 million in FY13 (pre-sequestration) and $20 million in FY14. The Preservation Revolving Loan Fund has not been funded since FY11.

Funding for the Section 521 Rental Assistance (RA) program has been a major concern for appropriators and supporters. RA contracts were once 20 years long, then shortened to ten years, and now have one-year terms. The cost for each one-year contract increases every year as housing costs increase. In addition, some older, longer term contracts are still expiring every year, so the program's cost just to renew expiring contracts rises annually. RA's FY12 appropriation was $904.7 million, rising to $907.1 in FY13, and $1.11 billion in FY14.

After sequestration was applied to the FY13 funding, there was not enough RA money to renew all contracts that expired that year. USDA determined it did not have statutory authority to enter into contracts for less than a full year, as HUD does. As a result, the RA contracts for about 15,000 units in about 600 properties expired in September 2013 and were not renewed until the new fiscal year began on October 1. Property owners, including not only for-profit companies but also nonprofit organizations and "mom and pop" landlords, were required to absorb the loss. Congress appropriated enough for FY14 to restore confidence in the program, but with Congress and the Administration seeking ways to reduce housing program costs, avoiding further shortfalls in the future could be a major challenge.

FORECAST FOR 2014

The Administration's budget for FY15 would keep USDA's rental housing programs at about the same levels as their FY14 appropriations. While it has enough Section 521 Rental Assistance funding to avoid another crisis in FY14, USDA must use the year to determine how RA costs can be reduced without impacting tenants. Stakeholders have made numerous suggestions, and in its FY15 budget the Administration proposed to impose minimum monthly rents for units with Section 521 assistance. NLIHC strongly opposes this request. Minimum rents would only impact the lowest income households, those with incomes below $2,000 a year; these households are the most vulnerable and would not be adequately protected from eviction by instituting the hardship exemption policies in use in HUD-assisted housing today. Rural housing interests have also suggested ways to improve USDA's rental housing preservation process. Most changes in RA and preservation can be made by USDA without legislative changes by Congress, though it is helpful for Members of Congress to remind USDA that they are paying attention.

TIPS FOR LOCAL SUCCESS

Funding for new Section 515 projects has been scarce for several years, and most activity related to the program has involved 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 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 Rental Assistance).
- Provide enough funding to renew all Section 521 RA contracts.
- Oppose implementing minimum rents in Section 521-assisted units or other USDA rentals.
- Work with USDA Rural Development to find positive ways to reduce Section 521 costs through energy efficiency measures, refinancing USDA mortgages, and reducing administrative costs.

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