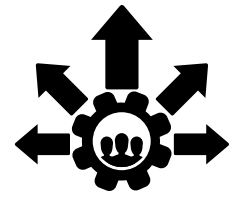


USDA Rural Rental Housing Programs



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Administering agency: U.S. Department of
Agriculture

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 – 38,000; Section
521 – currently 273,000

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

FY15 funding: Section 515 - \$28.4 million; Section
514 – \$23.6 million; Section 516 - \$8.3 million;
Section 521 – \$1.11 billion; MPR - \$17 million

The U.S. Department of Agriculture's (USDA) 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). USDA provides project-based rental assistance to some of the properties it finances through the Section 521 Rental Assistance (RA) program. The agency 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 RA 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 \$12,000 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. Three factors pose challenges for preserving units in developments whose owners are still making payments on Section 515 or 514 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.

Third, many Section 515 and 514 mortgages are nearing the end of their terms. More than 5,500 properties will be able to pay off their mortgages by 2020. Since USDA Section 521 RA is available only while USDA financing is in place, when a USDA mortgage is fully paid off the property also loses its RA. USDA can offer Section 542 vouchers for tenants when a mortgage is prepaid, but not when a mortgage matures.

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 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

\$31.3 million in FY13 (before sequestration), and reduced further to \$28.4 million in FY14 and FY15. The President's FY16 request for Section 515 is \$42 million. 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, and remain at almost the same levels in FY15, \$23.6 million and \$8.3 million respectively. The President's FY16 request for Section 514 and Section 516 is \$32 million.

The MPR preservation program received \$17.8 million in FY13 (pre-sequestration), \$20 million in FY14, and \$17 million in FY15. The Preservation Revolving Loan Fund has not been funded since FY11.

Funding for the Section 521 RA program has been a major concern for appropriators and supporters. RA contracts were once 20 years long, then shortened to 10 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 FY13 appropriation was \$907.1 million, increased to \$1.11 billion in FY14 and \$1.09 billion in FY15.

The RA program suffered from sequestration in FY13 funding and some property owners, including not only for-profit companies but also nonprofit organizations and "mom and pop" landlords, were required to absorb losses. Congress appropriated enough for FY14 and FY15 to restore confidence in the program, but both Congress and the administration continue to seek ways to reduce housing program costs. In its FY15 budget the administration proposed to impose minimum monthly rents for units with Section 521 assistance. NLIHC strongly opposed this request, and Congress did not adopt it.

Rural housing interests have developed more sustainable ways to reduce RA costs, as well as 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, although making vouchers available for tenants in properties with expiring 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 2015

Maintaining funding levels for the rural housing programs, like other non-defense discretionary programs, is likely to be a major challenge in 2015.

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 a minor part of the USDA. While that is true, it is equally true that rural places are a minor part of HUD's housing programs, that HUD does not have a field office structure as extensive as USDA's, and that HUD does not have recent experience operating direct loan programs, several of which are included among the rural programs.

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 RA).
- 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 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.
- 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