USDA Rural Rental Housing Programs

By Leslie R. Strauss, Senior Housing Analyst, Housing Assistance Council

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

Year Started: Section 515 – 1963; Section 514 – 1962; Section 516 – 1966; Section 521 – 1978; Multifamily Housing Preservation and Revitalization (MPR) – 2006; Section 542 – 2006; Section 538 – 1996

Number of Households Served: Section 515 – 533,000; Section 514/516 – 30,000; Section 521 – currently 267,000; Section 542 – currently 6,559; Section 538 – 45,000

Population Targeted: Section 515 – very low-, low-, and moderate-income households; Section 514/516 – farm workers; Section 538 – households with incomes below 115% of area median

Funding: Section 515 – $40 million; Section 514 – $28 million; Section 516 – $10 million; Section 521 – $1.375 billion; MPR – $28 million; Section 542 – $32 million; Section 538 – $230 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 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 RD provides project-based rental assistance to some of the properties it finances through the Section 521 Rental Assistance (RA) program. The Section 538 program guarantees loans made by banks to develop rental housing for tenants with incomes up to 115% of area median income; almost all Section 538 properties also use Low-Income Housing Tax Credit financing. USDA RD also offers several tools to preserve the affordability of USDA-financed rentals.

The programs face serious problems, however. Production of new units for the lowest income tenants 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 colonies along the U.S.-Mexico border, Central Appalachia, and among Native Americans and farm workers.

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 and Section 538 loan guarantees 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 538 units are available for tenants with incomes up to 115% of area median. USDA does not compile data on the incomes of Section 538 residents.

Section 514/516 loans are made available on a competitive basis each year, using a national Notice of Funding Availability (NOFA). After FY12 USDA has not issued NOFAs for Section 515 loans; instead, it has used all of its Section 515 funds for preservation purposes. Applications for Section 538 guarantees are accepted year-round.

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 amortized 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 by paying 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 Section 521 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. It is still too early to determine what the results of H-2A eligibility will be.

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 $40 million in both FY19 and FY20. Section 514 received $28.9 million in FY16, $23.9 million in FY17, $23 million in FY18, $27.5 million in FY19, and $28 million in FY20. Section 516 was funded at $8.3 million each year from FY14 through FY18 and at $10 million in FY19 and FY20.

The MPR preservation program received $22 million each year from FY16 through FY18, $24.5 million in FY19, and $28 million in FY20. Demand far exceeds the available funds: by the end of calendar year 2019, MPR had a backlog of approved preservation projects needing at least $70 million.

The Preservation Revolving Loan Fund has not been funded since FY11.

The Section 521 RA program was funded at $1.331 billion in FY19 and $1.375 billion in FY20.

The cost of the Section 542 voucher program is now rising every year as increasing numbers of tenants are eligible for vouchers. The program has used slightly more than its appropriation each year for the last few years, with the additional dollars being drawn from the already inadequate MPR funding pool. USDA used just over $22 million for vouchers in FY17, then nearly $26.7 million in FY18 and $28.6 million in FY19. The program's appropriation for FY20 is $32 million.

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 may fall 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 2020

Maintaining funding levels for the rural housing programs, like other non-defense discretionary programs, is likely to be a challenge in 2020. The administration has not demonstrated support for rural housing as its FY19 budget called for the elimination of the Section 515, 514/516, and MPR programs. The previous USDA Under Secretary for Rural Development was replaced by an assistant to the secretary, a position with far less authority in the department. Congress required the under-secretary position to be reinstated, but the Administration has not yet nominated anyone to fill it.

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 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:

- Support passage in the Senate of H.R. 3620, the Strategy and Investment in Rural Housing Preservation Act, which passed the House on September 10, 2019. Also support S. 2567, the Rural Housing Preservation Act, which was introduced by Sen. Jeanne Shaheen (D-NH) in September 2019. If neither bill passes in the 116th Congress, support reintroducing them in 2021.
- Maintain funding for all USDA rural housing programs (do not reduce funding for other programs, especially MPR, in order to shift funds to Section 542 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.
- Ensure that a well-qualified under secretary of Rural Development is nominated and appointed at 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/resources/saving-rural-rental-homes/

U.S. Department of Agriculture Rural Development, https://www.rd.usda.gov/