

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; Multifamily Housing Preservation and Revitalization (MPR) – 2006; Section 542 – 2006; Section 538 – 1996

Number of Households Served: Section 515 – currently 360,300; Section 514/516 – currently 14,300; Section 521 – currently 283,700; Section 542 – currently 6,400; 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 For FY24: Section 515 – \$60 million (down from \$70 million in FY22); Section 514 – \$15 million (down from \$20 million in FY22); Section 516 – \$7.5 million (down from \$10 million in FY22); Section 521 – \$1.608 billion (up from \$1.488 billion in FY22); MPR – \$34 million (down from \$36 million in FY22); Section 542 – \$48 million (same as in FY22); Section 538 – \$400 million (same as in FY22)

The U.S. Department of Agriculture's (USDA's) Rural Development (RD) arm runs several rental housing programs (as well as 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 and the Section 514/516 Farm Labor Housing Programs have provided essential, accessible, and 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 60 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 cost burden, 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 and farm workers.

Forty-four 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 with 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; every year since, the program's entire appropriation 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. Section 515 resident incomes average about \$16,000 per year. The vast majority (93%) of Section 515 tenants have incomes less than 50% of area median income. More than two-thirds of the Section 515 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 and grants are made available on a competitive basis each year, using a national Notice of Funding Availability (NOFA). After FY11 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 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) reviewing Section 515 rental properties, off-farm Section 514/516 farmworker housing properties, properties with loans guaranteed under the Section 538 program, and properties 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.

Many of USDA RD's preservation efforts use 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 common assistance is debt deferral, although other possibilities include grants, loans, and soft-second loans.

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 FY21, \$50 million in FY22, \$70 million in FY23, and \$60 million in FY24. The Biden Administration consistently supported increasing Section 515 funding to \$200 million, but the

House and Senate appropriations bills would both reduce it to \$60 million in FY25. Section 514 received \$20 million in FY23 and dropped to \$15 million in FY24. Section 516 was funded at \$10 million in FY23 and cut to \$7.5 million in FY24. For FY25, the president's budget proposes enlarging both programs, the House would cut both (eliminating Section 516 funding entirely), and the Senate would provide \$25 million for Section 514 and \$7.5 million for Section 516. The MPR preservation program received \$36 million in FY23 and \$34 million in FY24. Recognizing that demand far exceeds the available funds, the Biden Administration's budget requested \$90 million for FY25. The House and Senate bills would keep funding close to the current level. The Preservation Revolving Loan Fund has not been funded since FY11.

The Section 521 RA program was funded at \$1.488 billion in FY23 and \$1.608 billion in FY24. The Administration, House, and Senate all propose to increase it in FY24 by varying amounts.

The cost of the Section 542 voucher program has generally risen every year as increasing numbers of tenants are eligible for vouchers. Several times the program has used slightly more than its appropriation, with the additional dollars being drawn from the already inadequate MPR funding pool. The program's appropriation was \$48 million in both FY23 and FY24. For FY25, the Biden Administration proposed maintaining USDA vouchers for those who already have them but provide HUD vouchers for tenants joining the program. The House and Senate would retain the USDA voucher program in its current form, with funding at \$54 million and \$50 million respectively. 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, requires 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 people who become homeless.

For Section 538, Congress' final FY23 and FY24 appropriations substantially increased these rental housing loan guarantees from \$230 million in FY22 to \$400 million because of strong demand. Section 538 rental housing loan guarantees are used for preservation as well as new construction. Due to the high-interest rate environment, not all of the \$400 million was used, but because the program is a negative subsidy program the Administration, House, and Senate all propose to maintain the \$400 million level in FY25.

Forecast for 2025

Robust funding for multifamily preservation is needed in the coming years as mortgages mature and properties are at risk of being lost from the program. A bipartisan bill to improve USDA's housing programs is also under consideration in both houses of Congress: the "Rural Housing Service Reform Act." The bill includes both multifamily and single family priorities and has broad stakeholder support.

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 urge their members of Congress to:

- Support the Rural Housing Service Reform Act. The bill would make a variety of improvements in USDA housing programs, including decoupling Section 521 Rental Assistance from USDA mortgages so that tenants can continue to receive RA after owners' mortgages end.
- 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 Section 521 RA becomes unavailable because USDA mortgages expire.
- 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/programs-services/multi-family-housing-programs>.