

Support Rural Housing in FY18

From: The Honorable Emanuel Cleaver

Sent By: Jennifer.Shapiro@mail.house.gov

Date: 3/24/2017

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Deadline: March 31, COB

Dear Colleague,

Please join us in sending the following letter to the Chairs and Ranking Members of the House Appropriations Committee and the Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies to urge them to adopt several programmatic and funding requests that will protect thousands of rural residents who may otherwise face significant rent increases or displacement.

The U.S. Department of Agriculture's (USDA's) Rural Rental Housing Loans (Section 515) and Farm Labor Housing Loans (Section 514) provide financing for affordable multifamily development in rural areas. These programs are coupled with Rural Rental Assistance (RA) and Interest Credit (IC), both of which help ensure affordable rents for tenants in these properties. However, when Section 515 and 514 loans mature, the RA and IC contracts terminate, resulting in serious concerns about affordability and tenant displacement. Over the next ten years, according to data from the USDA, thousands of tenants will be at risk as a direct result of the maturation of hundreds of these loans.

The following programmatic and funding requests will help protect these vulnerable tenants by ensuring that vouchers and other resources are available, and by investing in the preservation of aging multifamily properties in rural areas.

- **Expand the Rural Development Voucher Program (RDVP) to Section 514 properties** with maturing mortgages.
- **Fund RDVP at a minimum of \$25.7 million**, an amount that the National Housing Law Project (NHLP) estimates is necessary to account for all newly eligible households at the program's current voucher utilization rate.
- **Include language** to eliminate certain incentives for owners of Section 515 and 514 properties to prepay their loans.
- **Exclude existing language** that precludes RHS from adjusting the voucher subsidy once a voucher has been issued.

- **Fund the Multifamily Preservation & Revitalization (MPR) Demonstration at \$25 million, the Section 515 program at \$40 million, and the Section 514 program at \$23.8 million** to help invest in the rehabilitation of these properties.
- **Include language that requires** USDA to provide Letters of Priority Entitlement (LOPEs) to all residents who face displacement from a Section 515 or 514 property, which grants them priority to other federally subsidized housing.

Section 515 and 514 properties make up a significant part of the affordable housing stock in rural America, and Congressional action is needed to preserve these properties and protect the tenants who call these units home. Please contact Alía Fierro with Ranking Member Waters at (Alia.Fierro@mail.house.gov) or Jennifer Shapiro in Ranking Member Cleaver’s Office (Jennifer.Shapiro@mail.house.gov) or if you would like to sign on or have further questions.

Sincerely,

Maxine Waters

Emanuel Cleaver

Member of Congress

Member of Congress

Chairman Frelinghuysen, Ranking Member Lowey, Chairman Aderholt, and Ranking Member Bishop,

As you consider the fiscal year (FY) 2018 appropriations bill for Agriculture, Rural Development, Food and Drug Administration, and Related Agencies, we urge you to provide relief for thousands of rural residents who may otherwise face significant rent increases or displacement. As you know, Rural Rental Housing Loans (Section 515) and Farm Labor Housing Loans (Section 514) are coupled with Rural Rental Assistance (RA) and Interest Credit (IC), meaning that both RA and IC are only provided for the duration of the mortgage life cycles on properties that are financed by Section 515 or 514. Because the RA and IC contracts terminate when a loan matures or is prepaid, there are serious concerns about affordability and tenant displacement as many of these loans are reaching the end of the mortgage life cycle. Over the next ten years, according to data from the United States Department of Agriculture (USDA), 976 Section 515 and 514 loans will mature, 823 of which are Section 515 developments. We urge you to consider the following funding and programmatic requests to programs administered by the USDA’s Rural Housing Service (RHS) that will help protect vulnerable tenants by ensuring that vouchers and other resources are available, and invest in the preservation of aging Section 515 and 514 properties.

The Rural Development Voucher Program

The Rural Development Voucher Program (RDVP, or RD vouchers) is critical to ensuring that tenant households, 60 percent of whom are headed by an elderly person or a person with a

disability, can continue to remain stably housed. The FY 2017 House appropriations bill included language that extended RD vouchers to persons living in Section 515 properties with maturing mortgages—a significant change that should be carried forward in the FY 2018 appropriations bill. However, eligibility for RDVP still does not extend to residents in properties with Section 514 farm labor housing loans even though they are similarly at risk of displacement. **We respectfully urge that the FY 2018 appropriations bill includes language that extends eligibility for RDVP to both Section 515 and 514 residents.** Further, the FY 2017 appropriations bill failed to include additional funding to account for the expansion in eligibility for RDVP. Without additional funding, the National Housing Trust (NHT) and the National Housing Law Project (NHLP) anticipate that RDVP will experience another funding shortfall, as it did in FY 2016. **For these reasons, we urge you to increase funding for the RDVP to a minimum of \$25.7 million for FY 2018, an amount that NHLP estimates is necessary to account for all newly eligible households at the program’s current voucher utilization rate.**

Additionally, we urge you to eliminate certain incentives for owners of Section 515 and 514 properties to prepay their loans. First, RD currently offers vouchers to all households residing in prepaid developments, even when there are use restrictions in place that are intended to preserve affordability for existing tenants. In properties where use restrictions are in place, fully funded RD vouchers are unnecessary and the availability of RD vouchers actually acts as an incentive for owners to prepay. Because owners of developments subject to use restrictions have authority to increase rents for costs other than amortizing the prepaid loans, we urge that prepaying owners be required to obtain USDA approval for any proposed rent increases and that USDA only be authorized to issue vouchers to residents in an amount that offsets future approved rent increases. This would ensure that low income households are not rent burdened by rent increases. **To this end, we urge you to include the following language:** *“RHS shall not issue vouchers to residents who remain in developments that are prepaid subject to any restrictive use agreements entered pursuant to section 502(c)(5)(G)(ii). Thereafter, RD shall review and approve all proposed rent increases to residents that are protected by the use restrictions and issue, to these residents, limited voucher assistance that covers the cost of all approved future rent increases.”*

Second, when owners want to prepay their Section 515 or 514 loan, RHS requires owners to offer their developments for sale to non-profit or public entities if RHS determines that the prepayment will negatively impact minority housing opportunities in the development and the community in which it is located. There is some concern that RHS is using the availability of RD vouchers to mitigate the impact that a prepayment will have on minority housing opportunities. This undermines the purpose of the prepayment restrictions that were enacted by the Emergency Low-Income Housing Preservation Act of 1979 by allowing owners to accept RD vouchers, instead of preserving the property’s affordability by offering their developments for sale to a non-profit or public entity. **This should be remedied by including the following language in the FY 2018 appropriations bill:** *“Provided further, That RHS shall not consider the availability or issuance of vouchers in determining, in accordance with Section 502(c)(5)(G)(ii), whether a prepayment will have an adverse impact on minority housing opportunities on current residents in the development or in the community.”* In addition to eliminating these incentives to prepay, the language proposed above should also save substantial amounts of money in operating the RDVP account.

Finally, there is language that has been included in the past several appropriations bills that permanently fixes the amount of the voucher at the difference between comparable market rent and the tenant paid rent for the unit. This language precludes RHS from adjusting the voucher subsidy once a voucher has been issued, which creates extreme hardship for tenants who have a change in household size or a loss of income after the voucher is issued. This is particularly harmful to elderly households when one person, in a two member household, dies. The rent for the remaining household member may double as a result of RHS's inability to adjust the voucher subsidy. **We therefore request that the following sentence, which has been included in appropriations bill for the last several years, be excluded from the FY 2018 appropriations bill:** *“Provided further, That the amount of such voucher shall be the difference between comparable market rent for the section 515 unit and the tenant paid rent for such unit...”* This will allow the Secretary to base the voucher amount on the fair market rents and 30 percent of tenant income, in accordance with the relevant statute, and remove the barrier to making income and household size-based adjustments for tenants.

Section 515 and the Multifamily Preservation & Revitalization Demo

While RD vouchers are important to ensure residents are not displaced, they do not address the underlying problem of an aging affordable rental housing stock in rural America that is in desperate need of rehabilitation. The Section 515 and 514 programs can be used to rehabilitate aging properties but have been subject to substantial cuts over the years. The Multifamily Preservation & Revitalization Demonstration (MPR) also helps preserve and improve Section 515 and 514 properties through loan restructuring, grants for non-profits, no interest loans, and debt deferral. However, the funding levels for these programs are wholly insufficient to meet the growing need for capital to rehabilitate these aging properties. The most recent assessment of the capital needs of Section 515 and 514 properties estimated that the reserves deficit for the 515 and 514 programs is in excess of \$5.596 billion.^[1] **Therefore, we respectfully request that you provide \$40 million for the Section 515 program, \$23.8 million for the Section 514 program, and \$25 million for the MPR demonstration program for FY 2018.**

Letters of Priority Entitlement

Lastly, RHS currently issues Letters of Priority Entitlement (LOPEs) to some but not all residents who face displacement due to loan prepayment, loan maturation, loss of subsidies or household breakups due to domestic violence. Households that receive a LOPE are granted priority admission to other RHS developments and potentially HUD-assisted housing. This does not create additional costs to either the RHS or HUD programs but simply gives existing subsidized residents an opportunity to relocate to alternative housing. **To help ensure housing stability for all residents who are potentially displaced from RHS housing, we request that the following language be inserted in the FY 2018 Appropriations bill:** *“RHS shall issue Letters of Priority Entitlement to all residents who face displacement from a Section 514 or 515 development due to loan prepayment, loan maturation, loss of RHS or other subsidies, and all forms of domestic violence as described by VAWA 2013. RHS shall also work with the Secretary of Housing and Urban Development to ensure that LOPEs are honored by HUD financed and subsidized developments.”*

Thank you for your consideration of these important issues and for your efforts to protect families who depend on the USDA's rural housing programs.

Sincerely

Maxine Waters

Ranking Member

House Financial Services Committee
Committee

Insurance

Emanuel Cleaver, II

Ranking Member

House Financial Services

Subcommittee on Housing and

[1] CoreLogic and RSM US LLP, "USDA Rural Development Multi-Family Housing Comprehensive Property Assessment," March 2016, available at: <https://www.rd.usda.gov/files/reports/USDA-RD-CPAMFH.pdf>