ROLE OF AFFORDABLE RENTAL HOUSING IN RURAL AMERICA

In rural areas throughout the country, there continues to be an overwhelming need for both affordable and decent housing. The need for rental housing is even more acute. With lower median incomes and higher poverty rates than homeowners, many renters are simply unable to find decent housing that is also affordable. While the demand for rental housing in rural areas remains high, the supply, particularly of new rural housing, has decreased. This is in large part due to a reduction in federal housing assistance. Neither the private nor the public sector can produce affordable rural housing independently of the other. **It has been and should be a partnership between the public and private sectors.**

The United States Department of Agriculture’s (USDA’s) Rural Development (RD) Section 515 rural multifamily housing and Section 514 farm labor multifamily properties are a lynchpin for affordable rural housing. Poverty rates in rural areas are substantially higher than in urban areas. Therefore, rental assistance under the Section 521 Rental Assistance program is essential for many family and elderly households residing in rural America. At the same time, many properties are typically 30+ years old and are ready for rehabilitation. These properties have suffered from federal funding shortages and statutory and regulatory barriers that make recapitalization difficult or impossible.

The Section 538 program helps to preserve and expand affordable housing in rural areas through a recasting of the Section 538 program and realizing budget savings. After many years of success, the Section 538 program has been under-utilized due to artificial barriers.

**Rental Assistance—An Essential Program:**

The Section 521 Rental Assistance (RA) program is an essential component of the Section 514/515 programs RA provides deep subsidy to very low-income residents by paying the difference between 30% of a resident’s income and the basic rent required to operate the property. Sixty-three percent of Section 515 units are subsidized with RA. The RA program must continue to provide sufficient funds for both current levels of RA and sufficient additional RA to support increasing program costs. RA budgets have been constrained for at least two years, even before the sequestration issues impacting the program at the end of FY 2013. Historically, RA budgets on a per unit basis are about half of other rental subsidy programs. Much of that has been achieved by delaying needed repair and operating funds.

The average income of the residents in rural housing properties is approximately $12,055. Rental Assistance is sorely needed for these low-income residents. Indeed, there is more need than there is rental subsidy. Even though most RD properties receive either RA or HUD subsidy through Section 8, many properties and residents do not. As many as 65,587 families in the RD programs have no rent subsidy, and yet are so extremely low income that RD still considers them...
to be rent overburdened. There needs to be additional RA to remove rent overburden, the condition of tenants paying more than 30% of income in rent, without reducing project operating income. The Administration’s FY 2015 request is $1.089 billion a $21 million decrease from FY 2014 level. This reduction would apparently be offset by prohibiting “re-renewals,” that is a second RA renewal within the same project budget year should RA in the project budget be insufficient, and by instituting a resident paid $50 minimum rent. The Department of Housing and Urban Development (HUD) has a similar minimum rent of $25 (up to $50 if set by the local housing authority). The budget also includes general authorizing provisions that, among other things, would authorize income verification of residents.

Of concern to CARH is the narrative accompanying the budget that proposes changes in how the RA program would be allocated. Specifically, the budget document states “the agency will no longer automatically renew contracts within the same 12 month period; contracts will be renewed at the discretion of the Secretary depending upon the needs of the project; and contracts will be issued for a fixed time and fixed sum.” The budget document indicates that in addition to budget language changing how the RA program will operate, the agency will be submitting to Congress a multifamily housing reinvention legislative package that will include changes to the RA program. Whether that package is submitted or is enacted, these terms are being proposed by the Administration for the FY 2015 appropriations bill, effectively authorizing these changes through the appropriations process.

The House Appropriations Committee has agreed to the Administration’s requested level of funding. The Senate Appropriations Committee has recommended $1.093 billion. Both Committees have rejected the proposed $50 minimum rent and the proposal which would give broad discretion by the Secretary for contract renewals. Of concern is the Committees’ inclusion of language which would prohibit the “re-renewal” of RA contracts in a twelve month period of time. CARH does not support this re-renewal language because it could cause undue hardship for residents and owners should the initial rental assistance request be insufficient and if unexpected project expenses result in more RA needed.

CARH strongly believes that all of the legislative proposals proposed by the Administration need to be reviewed by the Senate Banking, Housing and Urban Affairs Committee and the House Financial Services Committee, the authorizing committees, and thoroughly vented by all rural housing stakeholders. CARH recommends that the FY 2014 RA funding of $1.110 billion be maintained for FY 2015, that RD permit rent flexibility and other proposals outlined below, that will raise additional revenue. CARH also asks that RD meet with stakeholders to discuss issues with RD recapitalization policies to make them more effective.

Furthermore, CARH believes that there would be sufficient funding within the FY 2014 RA levels to reinstate preservation RA funding. For years, RD had requested a separate line item for preservation RA under the Emergency Low Income Housing Preservation Act (ELIHPA), as discussed on page three of this position paper. RD has stopped preserving properties as obligated under the ELIHPA statute.

Consideration should also be given to allowing owners to charge flexible rents and longer term rent incentives. This would attract more residents who want to live in these properties but cannot afford it without further RA or without flexibility in rent payments. RA can also be made more cost-effective if it was provided on a first come basis, rather than on the basis of the lowest
income levels. While understandable, current RD practices have the unintended benefit of punishing very low-income applicants for not being poor enough, while increasing the overall cost of RA. **CARH believes that the RA program should be funded at the FY 2014 level of $1.110 billion.**

Harmonizing RA with the Department of Housing and Urban Development’s (HUD) Section 8 program, would create greater funding flexibility for rural properties and their residents as the Section 8 program can exist without related federal financing and RA requires such financing remain in place. **CARH also supports a strong project-based and tenant-based set of Section 8 programs.**

**Recapitalization:**

The Section 514 and 515 programs, as authorized under the Housing Act of 1949 as amended, operate through a successful public-private partnership. As of the end of FY 2013, the Section 514 and Section 515 portfolio consisted of 14,958 apartment complexes (down from 15,559 from FY 2011) containing 440,200 units (down from 447,427 in FY 2011). Due to RD’s policies the RD multifamily portfolio is under 15,000 projects for the first time in 20 years. We expect a similar loss for FY 2014. The projects in many cases need recapitalization and new ownership. When the programs were created, it was never the intent that the apartment complexes would be self-sustaining without recapitalization. The federal government changed the laws, rules, and basic operations when it withdrew prepayment rights and reduced future Section 515 financing, without any replacement mechanism in place.

In 2002, RD, through its Housing and Community Facilities agency, estimated that 4,250 Section 515 properties with 85,000 units “will physically deteriorate to the point of being unsafe or unsanitary within the next 5 years.” At that time, RD estimated it would need $850 million to maintain just this portion of the portfolio, and that as much as $3.2 billion will be required for portfolio-wide rehabilitation. Little progress has been made since 2002. Adjusted for inflation, the 2002 $3.2 billion estimate is now nearly $4 billion.

At the same time, providing for this portfolio will not only care for the extremely low income families and elderly residents, but will improve infrastructure and create jobs. For each 100 apartment units, 116 jobs are created, generating more than $3.3 million in federal, state and local revenue. Moreover, many rural areas are facing worker shortages due to the lack of available affordable housing near rural jobs.

The Administration’s FY 2015 budget requests $20 million for the Multi-Family Housing Preservation and Revitalization (MPR) Demonstration program. While MPR is a good concept, it has been implemented in various ways, and many strategies have not been successful. **We believe that RD needs to have a stakeholder meeting and to confer with the Senate Banking, Housing and Urban Affairs Committee and the House Financial Services Committee on what has been successful and what has not worked, before making the program permanent.**

As noted previously, we also need to establish within the RA budget a separate line item for ELIHPA RA. RD has stopped processing under ELIHPA. Having a separate ELIHPA RA line item will provide smoother and more consistent ELIHPA processing. ELIHPA RA is often leveraged to encourage project recapitalization. Recapitalization would be much more efficient
if it was made more predictable with a stated budgetary line item for recapitalization RA carved out from the existing RA budget.

Using non-RD funds to preserve Section 515 properties has become essential. Recapitalization would be more effective with more consistent transfer processing. Current practices can vary widely in different RD offices, causing confusion and delays in the industry and for RD. One way we may be able to pay for a portion of the needed funds for recapitalization activities is with a new revolving loan program. RD has adopted new underwriting policies in a September 30, 2013 Unnumbered Letter (UL), which in part changes existing policies and regulations. A coalition of industry groups issued a December 5, 2013, letter noting how harmful these changes were, requesting the UL be withdrawn and asking for a stakeholder meeting to review the policies so that RD’s preservation policies are consistent with other programs and commercial practices.

To help alleviate pressure on the budget, we again propose utilizing deposits in the Rural Housing Insurance Fund, not needed in the current fiscal year, to loan to eligible properties at the applicable federal rate of interest, currently floating around 4.5%. Half of the interest would be used to cover RD salaries and expenses to administer the program, and/or for a contractor to assist RD with asset management. The funds would be backed by a voluntary guaranty or pledge of Section 515 reserve funds from owners of participating properties. In exchange, the reserve accounts would receive the other half of the interest charged, providing additional reserves for 515 repairs. This proposal would more fully utilize the Rural Housing Insurance Fund; provide security for the Fund, and additional repair funds for Section 515 properties.

A long neglected tool in Section 515 is 515(t), where USDA is authorized to guarantee equity loans to provide a fair return and further recapitalization resources for properties that are 20 years old or older. This program should be funded and implemented. It will provide owners a further incentive to remain in the 515 program and provide further resources to recapitalize properties.

Multifamily Loan Programs

We greatly appreciate the support shown both in Congress and the Administration for a fee-based, revenue neutral Section 538 Guaranteed Rural Rental Housing program. We believe that the Section 538 is proving to be an important housing tool, at no cost to the government. We ask that the Section 538 loan guarantees, funded by the industry itself through guarantee premiums, be expanded to $150 million per year as requested in the Administration’s FY 2015 budget. In addition, since the program is revenue neutral we do not believe it is necessary for the agency to issue Notice of Funds Availability (NOFA) every year. The NOFA adds nothing to the process, as each application is reviewed. We believe that the NOFA this is the single largest structural problem delaying processing, which has led to an under-utilization of the Section 538 program in the past year.

At the same time, there is a great need that the Section 538 program cannot and was never intended to reach. Housing for extremely low income persons still needs the Section 515 direct loan program and its 1% effective interest rate. CARH supports the Administration’s proposed FY 2015 request of $28.4 million, of which the Senate Appropriations Committee has concurred.
HOME Partnership Program:

Also, key to rural housing recapitalization is maintenance of the HOME Partnerships program, administered by HUD. HOME uniquely empowers state and localities to respond to the housing needs they judge most pressing, allowing them to serve the whole spectrum of need from homelessness to rental to disaster recovery assistance. HOME is flexible and can be used in rural or non-rural areas.

The program is a vital piece in financing numerous affordable housing developments, many of which would not be able to go forward and many of which would not provide housing for low-income families with HOME assistance. HOME does not replace resources committed to rural areas, but is an important gap financing program. States and localities leverage HOME by generating almost four dollars of other public and private funding to HUD. The Administration has proposed $950 million for HOME. The House Appropriations Committee has recommended $700 million for the program. The Senate Appropriations Committee has recommended the Administration’s requested budget. **CARH supports the Administration’s budget request of $950 million.**