January 6, 2014

The Honorable Mark Pryor
Chair
Agriculture, Rural Development
Food and Drug Administration
and Related Agencies
Appropriations Subcommittee
United States Senate
Room 255 SDOB
Washington, DC 20510

The Honorable Roy Blunt
Ranking Member
Agriculture, Rural Development,
Food and Drug Administration
and Related Agencies
Appropriations Subcommittee
United States Senate
Room B40-C SDOB
Washington, DC 20510

The Honorable Robert Aderholt
Chair
Agriculture, Rural Development
Food and Drug Administration
and Related Agencies
Appropriations Subcommittee
United States House of Representatives
Room 2369 RHOB
Washington, DC 20515

The Honorable Sam Farr
Ranking Member
Agriculture, Rural Development,
Food and Drug Administration
and Related Agencies
Appropriations Subcommittee
United States House of Representatives
Room B40-C SDOB
Washington, DC 20515

Dear Senators Pryor and Blunt and Representatives Aderholt and Farr:

The Council for Affordable and Rural Housing (CARH) represents the interests of all aspects of the affordable rural housing industry. We are writing to you today regarding the funding of several programs within the United States Department of Agriculture (USDA) Rural Development (RD) for Fiscal Year (FY) 2014.

The Section 521 Rental Assistance (RA) program is an essential component of the Section 514/515 program. 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 sequestration began in 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.

Due to sequestration in FY 2013, and reduced funding in the FY2014 Budget Resolution, CARH is concerned that during this fiscal year there will not be sufficient RA to fund all existing contracts through the end of September 30. During the past year CARH members have received repeated notices from RD
about funding gaps and shortages during FY2013 (including RD instructions about cash advances by owners to cover for the federal governments financial difficulties).

The average income of the residents in rural housing properties is approximately $11,400. 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. **CARH supports the Administration’s FY 2014 request of $1.015 billion.**

**CARH also asks that within existing RA funding a separate line item be established for Emergency Low Income Housing Preservation Act (ELIHPA) RA.** As you recall RD has stopped processing under ELIHPA, while regulations were rewritten. ELIHPA removed owner’s right to prepay. This rewrite was to have taken place in 2012 and a year and a half later, no new regulatory policy has been promulgated and ELIHPA is effectively halted. When ELIHPA is not funded it creates a major barrier to preservation by leaving all the requirements in place but without any benefits.

Further, RA can be made more efficient, generating more income while assisting more residents if RD would permit 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.

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 2012, the 514 and 515 portfolio consists of 15,338 apartment complexes containing 445,392 households, and comprises 50% or more of subsidized properties outside of many metropolitan counties. Still, due to USDA policies, we again lost more than 200 apartment complexes from the program during May 2011 to April 2012. We expect a similar loss for 2013. The projects were never intended to be self-sustaining without prepayment or recapitalization. The federal government changed that when it withdrew prepayment rights and reduced future Section 515 financing, without replacing them.

In 2002, RD, through its Housing and Community Facilities office, 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 more than $3.8 billion.

**CARH members estimate that immediate and near term modernization needs for most of the portfolio range from $15,000 per unit to as much as $60,000 per unit, depending on location and area of the country.** For example, members in Florida estimate immediate and near term needs at $15,866 per unit, while members in New York and Ohio estimate needs at $30,000 to $60,000 per unit. These needs represent costs to properties currently performing but have not had capital to replace components for 30 years. For each 100 apartment units, 116 jobs are created, generating more than $3.3 million in federal, state and local revenue.
The Administration’s Fiscal Year (FY) 2014 budget requests $20 million for the Multi-Family Housing Preservation and Revitalization (MPR) Demonstration program. **CARH has continued to advocate for the MPR program, even in years when funding was reduced.** We need to make MPR a permanent program, and we need to address questions that have arisen during the demonstration regarding the tax impact of MPR, consistent processing and implementation, as well as strategies for when the MPRs restructuring transitions back to normal loan servicing in the future.

We greatly appreciate the support shown by the Committee 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 FY2014 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. Thus, applications could be processed throughout the 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. The Administration’s FY 2013 budget proposal eliminates Section 515 loans. **CARH supports the Administration’s proposed FY 2014 request of $28.4 million.**

We thank you for your continued support of rural housing throughout the country.

Sincerely,

[Signature]

Executive Director
Council for Affordable and Rural Housing

cc: Senator Barbara Mikulski, Chair, Senate Appropriations Committee
Senator Richard Shelby, Ranking Member, Senate Appropriations Committee
Representative Harold Rogers, Chair, House Appropriations Committee
Representative Nita Lowey, Ranking Member, House Appropriations Committee