Council for **A**ffordable and **R**ural **H**ousing

Serving the Affordable Housing Needs of Rural America

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. 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) 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 area. Therefore, rental assistance under the Section 521 Rental Assistance (RA) program is essential for many family and elderly households residing in rural America. At the same time, most federally supported multifamily properties are over 35 years old and are ready for modernization. These properties have suffered from federal funding shortages and statutory and regulatory barriers that make recapitalization difficult or impossible.

Affordable rural housing is essential to any infrastructure proposal or discussion. If you build roads, factories and community facilities they are all there solely to support the rural residents who travel, work, and live in rural communities. Housing rural residents in decent housing must be the goal and the destination. While we hear more about homeownership, which is important, rural rental housing provides an oversized impact in per unit construction jobs, allows residents mobility to move as needed for work and family, and creates ongoing operating and maintenance jobs.

In multifamily rental housing, the one-year impacts for building 100 apartment units is the creation of 161 local jobs (about half are in the construction sector), with $11.7 million in local income and $2.2 million in local taxes and government revenue. In addition, there are 44 local recurring jobs with $2.6 million and $503,000 in estimated local taxes and government revenue. *The Economic Impact of Home Building in a Typical Local Area, Income, Jobs and Taxes Generated*, National Association of Home Builders (NAHB) (April 2015). Substantial rehabilitation provides analogous impacts to new construction.

Creating more infrastructure jobs in rural rental housing requires increased access to credit, consistent revenues, and a tax code that supports these jobs. Rural areas, however, have a built in credit barrier since rural areas are always small market areas with limited opportunities for mortgage loans.

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 percent of a resident's income and the basic rent required to operate the property, subsidizing 63 percent of Section 515 units. 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, on a per unit basis, have been constrained for the last few years, even before the sequestration issues impacting the program at the end of Fiscal Year (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.

According to RD, the average household income in rural housing properties is $13,552 and the average income of RA households is $11,176. RA 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 the U.S. Department of Housing and Urban Development (HUD) subsidy through Section 8, many properties and residents do not. As many as 72,265 families in RD programs have no rent subsidy, and yet are so extremely low income that RD still considers them to be rent overburdened.

The Administration's proposed budget for FY 2020 would provide $1.335 billion for RA. While this appears to be an increase over the FY 2019 proposed level of $1.331 billion, it is actually a reduction because the FY 2020 budget includes $24 million for rural vouchers which had been funded in previous years in the Multifamily Preservation and Revitalization (MPR) account. Thus, RA funding under the proposed budget for FY 2020 would only be $1.306 billion. The budget also proposes a rescission of $40 million for RA that was appropriated in FY 2019. This $40 million is intended to fund contracts that are set to be renewed at the beginning of FY 2020, a policy that is important should Congress not pass a full year appropriation bill and a Continuing Resolution is in place. A similar rescission was proposed for FY 2018 funds and rejected by Congress. CARH urge Congress to reject this latest rescission proposed by the Administration. The House's appropriations bill would provide $1.375 billion for RA, of which $40 million would be available through September 30, 2021.

During two out of the last five fiscal years, RD ran out of money for the program and it was not until FY 2017 that a new model for determining RA needs based on actual numbers versus the state-wide averages was used to determine actual RA usage. This model is working effectively at the funding level provided in FY 2017, and maintaining that procedure will help to ensure that program does not run out of money again. **CARH supports full funding of all RA contracts, with specific direction to expend all funds each year. RD should also be instructed to use any funds available after RA renewals and all recaptured RA for housing preservation. Therefore, CARH continues to support the FY 2017 funding level of $1.405 for FY 2020.**

Over the next decade as much as three-quarters of all Section 515 mortgages will mature, and with it the end of related Section 521 RA contracts, stranding approximately 250,000 families and elderly persons and leaving them without the ability to house themselves. Under current law, when a Section 515 mortgage expires, Section 521 RA also expires. There is no budget authority to replace these mortgages. CARH supports legislation to keep the Section 521 contracts in place after Section 515 mortgage maturity as the best way to protect residents. CARH appreciates Congress including language in the FY 2019 final appropriations bill that requires RD to provide a detailed report in the next year on the maturing mortgage issue, including statistical data on number of mortgages, location of properties and solutions to preserving the portfolio.

CARH believes any legislative proposals that make wholesale changes to programs and policies need to be thoroughly reviewed by the Congressional authorizing committees (the Senate Banking, Housing and Urban Affairs and the House Financial Services Committees). Hearings on the Agency programs and proposals should be a priority for these Committees. Congressional review should also cover providing the program the flexibility for flexible rents and longer term rent incentives to more rapidly occupy vacant units at turnover.

A substantial portion of Section 515 properties also have project-based Section 8 subsidy and residents with tenant based Section 8 housing choice vouchers. **CARH also supports a strong project-based and tenant-based set of Section 8 programs.**

Preservation of the Existing Portfolio

The rural multifamily programs were never intended as a one-time capitalization of low-income housing. The original intent was to allow properties to refinance out of the program, and provide a market centric nucleus of decent housing in rural areas—indeed USDA originally *required* owners to refinance out of the program at the first opportunity. The federal government changed the laws, rules, and basic operations when it changed the federal tax code, withdrew prepayment rights, and reduced Section 515 funding without any replacement mechanism that would allow properties to function inside the program long-term.

In 2002, RD estimated that 4,250 Section 515 properties with 85,000 units "would 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. As was demonstrated by a report issued by RD in July 2016 entitled, "*Multi-Family Housing Comprehensive Capital Needs Assessment*," the 2002 $3.2 billion estimate is now approximately $5.6 billion. As a result, at of the end of FY 2018, the Section 514 and Section 515 portfolio consisted of 13,766 apartment complexes containing 421,816 units. Due to RD's policies over the past decade, the RD multifamily portfolio is under 15,000 projects and continues to decline every year.

The Administration's budget would eliminate funding for the Multifamily Preservation and Revitalization (MPR) program in FY 2020. FY 2019 funding was set at $24.5 million for the Multifamily Preservation and Revitalization (MPR) program. The House has proposed $75 million, of which $35 million would be for Section 542 Rural Housing Vouchers and $40 million for MPR. **For FY 2020, CARH supports the funding level of at $40 million for MPR and $35 million for the Section 542 program. However, additional funding is needed as there are about four years of approved transactions either waiting to close or closing on a temporary workout status. We understand a one-time $60 million in additional budget authority (not appropriation of new money but budget authority to proceed) will fix this problem.** This delay puts at risk other sources of funding which are also vital for preservation transactions. At the same time, while MPR is a good concept, it has been implemented in various ways, and many strategies have not been successful. **CARH believes that RD needs this one time catch-up of budget authority and also to have stakeholder meetings and again 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.**

CARH also has several legislative proposals that, working with RD and the House and Senate, will help expand tools available to RD in preserving this housing. Specifically, we believe that existing escrows required by RD can serve a dual purpose of capitalizing a new revolving loan fund; using 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; and, to pay for asset management costs and offset loan risk. The proposed loans also would be backed by a voluntary guaranty or pledge of Section 515 reserve funds from owners of participating properties. Another long neglected tool is Section 515(t), which USDA has not implemented, but should because it could guarantee equity loans to provide a fair return and further recapitalization resources for properties that are 20 years old or older, attracting new owners and new private capital.

Section 538 Loan Program

CARH greatly appreciate the support shown both in Congress and the past and current 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. **CARH supports the FY 2020 Administration proposal of $250 million, funded by the industry itself through guarantee premiums.** There are also multiple regulatory changes that CARH has requested of RD which will greatly improve program efficiency. CARH further supports legislative change to prompt RD to allow the Section 538 program to be used to refinance existing mortgage loans used to pay for prior construction and acquisition costs.

Preserve the Section 515 Direct Loan Program—Important Tool for Rural Housing

While the Section 538 program has been used for both new construction and preservation of the existing portfolio, housing for extremely low income persons still needs the Section 515 direct loan program and its one percent effective interest rate. The Administration has proposed eliminating the program in FY 2020, while the House's proposal provides $45 million. The Section 515 program used to be a more than $500 million annual program. Ongoing funding on the current small level is needed to address at least some housing finance needs in impacted communities and provide a lifeline resource to help existing properties. **CARH supports $45 million for the Section 515 program in FY 2020.**

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 HOME program is a vital resource 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 without this important program. HOME does not replace other financing 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 proposed eliminating the program in FY 2020, while the House proposed $1.750 billion in funding. **CARH opposes any proposed future elimination of the program and supports funding of at least $1.750 billion for FY 2020.**

We Need the Under Secretary for Rural Development

In May 2017, Secretary Perdue announced the reorganization of parts of USDA and the removal of the Under Secretary for Rural Development and related offices. CARH had filed formal comments, noting that the change violated the law and made for poor public policy over the long run. In the Agriculture Improvement Act of 2018 (P.L.115-334), or more commonly known as the "Farm Bill," the position of Under Secretary for Rural Development was re-authorized. This will allow rural America to have a rural infrastructure advocate at the USDA table when USDA sets funding and mission priorities. **The Administration's budget proposal does not provide funds for this position. CARH urges the Administration to nominate a candidate as soon as possible and also urge the House and Senate Appropriations Committees to allocate sufficient resources for this office so that Rural Development can continue to support rural communities throughout the country.**