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.

- The Fiscal Year (FY 2017) budget request for the Section 521 Program in Fiscal Year (FY) 2017 was $1.405 billion, an increase of $25 million over the FY 2016 level. Both the House and Senate Appropriations Committees have agreed to this level of funding.

- CARH is supportive of this funding level, but we do need to be vigilant that this level will allow all contracts to be fully funded for the entire fiscal year. The Agency is using a new model for determining Rental Assistance (RA) needs based on actual numbers versus the state-wide averages, which was another factor in creating the RA funding issues that plagued the program over the last several years.

- 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 Rental Assistance 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 believes that there should be sufficient funding within the FY 2017 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). RD has stopped preserving properties as obligated under the ELIHPA statute.

- CARH believes that structural legislative proposals regarding RD's preservation policies for its aging housing portfolio need to be thoroughly reviewed by the Congressional authorizing committees (the Senate Banking, Housing and Urban Affairs and the House Financial Services Committees), and that 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.

- The FY 2017 budget requests million for the Multi-Family Housing Preservation and Revitalization (MPR) Demonstration program was $19.4 million. Both the House and Senate Appropriations Committees have recommended $22 million in FY 2017. 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 was has not worked, before making the program permanent.

- CARH greatly appreciates 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 program is proving to be an important housing tool, at no cost to the government. CARH asks that the Administration's requested level and the Senate Appropriations Committee recommended level of $230 million be approved for FY 2017. The program's budget authority for FY 2016 was depleted prior to the end September. Congress approved additional authority for the program. Use continues to grow which is evidenced by the need for additional budget authority.

- The FY 2017 budget request for the Section 515 program was $33.1 million. The House Appropriations Committee has recommended $35 million and the Senate Appropriations Committee has recommended $40 million for the Section 515 program. The additional $11.6 million over the FY 2016 level of funding is to be used for a pilot program that will be designed to facilitate transfers of properties and also instructs RD to rework programs in order to decrease regulatory policies that hinder preservation of the portfolio. CARH supports the Senate Appropriations Committee recommended funding level.

- The HOME program is a vital piece in financing numerous affordable housing developments, many of which would not be able to go forward without this important program. HOME does not replace other financing resources committed to rural areas, but is an important gap program. States and localities leverage HOME by generating almost four dollars of other public and private funding. CARH supports $950 million in funding for the program in FY 2017.

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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'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 area. 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, most federally supported multifamily properties are 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.

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. 63 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 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.

The average income of the residents in rural housing properties is approximately $12,960. 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 Department of Housing and Urban Development (HUD) subsidy through Section 8, many properties and residents do not. As many as 65,587 families in RD programs have no rent subsidy, and yet are so extremely low income that RD still considers them to be rent overburdened.

Both the House and Senate Appropriations Committees have in their versions of the FY 2017 spending bills provided $1.405 billion which was the budget request. While CARH is supportive of this funding level, we need to be vigilant that this level will allow all contracts to be fully funded for the entire fiscal year. The Agency is using a new model for determining RA needs based on actual numbers versus the state-wide averages, which was another factor in creating the RA funding issues that plagued the program over the last several years.

In the FY 2017 budget request, language was proposed that would have made changes to the rural housing voucher program. The changes would have allowed vouchers to be available for residents when a Section 515 mortgage expires. Under current law, when a Section 515 mortgage expires, Section 521 RA also expires. The Agency is proposing that the voucher program be expanded to cover residents in those properties impacted by expiring mortgages. Rural housing vouchers currently can only be used for properties where an owner prepays a mortgage or the government chooses to foreclose a mortgage. Neither the House nor Senate Appropriations Committees have included this request in their FY 2017 respective funding bills. The issue of expiring mortgages, the RA program and voucher use is currently being reviewed by the Government Accountability Office (GAO). The study was requested during the FY 2016 budget cycle by the Senate Appropriations Committee with a report due sometime later this year.

RA is a far superior tool to care for low income rural families and rural elderly persons. CARH fully supports RD administrative efforts to extend or defer the pay-off date for expiring Section 514 and 515 mortgages for owners agreeing to such extensions.

While the budget document for FY 2017 indicated that RD would be submitting to Congress a multifamily housing reinvention legislative package that would have included changes to the RA and rural voucher programs, as well as provide permanent authority for preservation of the Section 515 portfolio, this package was never formally submitted.

We believe that the 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.

Furthermore, CARH believes that there should be sufficient funding within RA levels in FY 2017 and future years that would 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.

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.**

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.

In 2002, RD 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. As was demonstrated by a report issued 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, as of the end of FY 2016, the Section 514 and Section 515 portfolio consisted of 14,295 apartment complexes containing 431,689 units. Due to RD's policies over the past eight years, the RD multifamily portfolio is under 15,000 projects and continues to decline every year.

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.

Both the House and Senate Appropriations Committees have recommended $22 million in FY 2017, which would provide $2.6 million over the budget request. 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 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, 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 providing financial resources to stay in the programs, as required by the ELIHPA statute. 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.

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

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. **CARH asks that the Section 538 loan guarantees, funded by the industry itself through guarantee premiums, be expanded to $230 million per year as was requested in the budget request.**

The House Appropriations Committee has recommended $200 million and the Senate Appropriations Committee has recommended the budget request of $230 million. 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 is the single largest structural problem delaying processing, which has led to an under-utilization of the Section 538 program in the past year.

Section 515 Direct Loan Program

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 budget request was $33.1 million for the program, an increase of $4.7 million over the FY 2016 funding level. Additional funds would be dedicated to new construction. The House Appropriations Committee has recommended $35 million and the Senate Appropriations Committee has recommended $40 million. The additional $11.6 million over the FY 2016 level of funding is to be used for a pilot program that will be designed to facilitate transfers of properties and also instructs RD to rework programs in order to decrease regulatory policies that hinder preservation of the portfolio. **CARH supports the Senate Appropriations Committee recommended funding level.**

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 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 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. Both the House and Senate Appropriations Committees have agreed to the FY 2017 budget request. **While CARH supports a funding level of $1.2 billion, we also support providing $950 million for the program.**