

Rural America's Rental Housing



**Federal Strategies to Preserve Access to
Affordable Rental Housing in Rural Communities**

National Rural Housing Coalition

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NRHC is a national membership organization comprised of rural community activists, public officials, and nonprofit developers to fight for better housing and community services for low-income, rural families. NRHC is managed by Rapoza Associates, a public interest lobbying, policy analysis, and government relations firm located in Washington, D.C. that specializes in providing comprehensive legislative and support services to community development organizations, associations, and public agencies.

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Executive Summary

For several decades, communities in rural America have struggled to provide access to clean, decent, and affordable housing. With lower incomes and higher poverty rates, rural renters—including aging seniors, individuals and families with very low incomes, persons with disabilities, and farmworkers—face especially daunting barriers to affordable housing.

Over the past 50 years, the U.S. Department of Agriculture (USDA) has used a three-part strategy to effectively overcome these barriers. First, with direct Section 515 Rural Rental Housing Loans (Section 515) and Section 514/516 Farm Labor Housing Loans and Grants (Section 514/516), USDA has financed the construction of more than 500,000 units of affordable rental housing. Second, since 1987, USDA has provided financing to preserve the long-term, affordable use of these properties. Lastly, through its Section 521 Rural Rental Assistance (Section 521) program, USDA has helped keep rents affordable for vulnerable residents.

Because of USDA investments, rural America has an extremely valuable asset: affordable rental housing for some of its most vulnerable residents. Today, more than 400,000 rural families live in housing developments financed and preserved through USDA's multifamily housing programs. The vast majority of these tenants (94 percent) have very low incomes, earning less than \$12,000 a year on average. For many rural communities, USDA is the only source of affordable rental housing available.

In recent years, efforts to improve rental housing conditions in rural America have stalled. Congress and the Administration have all but eliminated the new construction of rural rental housing developments. USDA halted the new construction of affordable housing under the Section 515 program in 2012. Today, the only USDA Rural Housing program that finances new construction of rental housing for low-income individuals and families is the Section 514/516 program, which finances only 600 units of farmworker housing annually.

As a consequence, the two remaining elements of USDA's rental housing strategy—the preservation of its existing portfolio and the sustainability of its rental assistance program—have become the main focus of federal rural rental housing policy. Yet, both must overcome significant short- and long-term challenges.

Without immediate action and a clear set of objectives aimed at preserving USDA's portfolio, rural communities stand to lose much of their affordable rental housing stock. To date, more than 93,000 units of affordable rental housing developed with USDA financing have exited the program, either through the prepayment of USDA loans or through the end of loan terms. According to USDA, none of the remaining properties in its portfolio have the capital reserves necessary to meet ongoing maintenance and operational costs.

USDA's preservation efforts include a demonstration program to restructure existing loans and offer additional assistance and financial incentives provided to owners in exchange for maintaining properties as affordable housing. To date, these programs have been limited and fall far short of the estimated \$2.6 billion that is needed over the next 20 years. Moreover, the Department's

preservation efforts were further weakened in 2012, when USDA announced that it would no longer fund its financial incentives program.

USDA's rental assistance program has also reached a crisis point. Over the next several years, the rental assistance program is expected to continue to grow to over \$1.3 billion annually, putting the entire USDA Rural Housing budget at risk. Neither USDA nor Congress has adequately funded the program. In fact, both have resorted to budget gimmicks to reduce funding in the short-term, only to see long-term costs increase. More recently, USDA proposed additional policy changes aimed at reducing the burden on its rental assistance program—with mixed reviews from housing developers and advocates who are concerned that these proposals will harm tenants and properties.

In light of these new budget realities, the purpose of this report is to analyze federal strategies to preserve affordable, rural rental housing. In addition, this report identifies workable policy solutions to help Congress and the Administration use its limited resources to most effectively serve low-income, rural individuals and families. Most importantly, these policy solutions aim to resolve USDA's Rural Housing budget crisis, while protecting tenants from losing access to affordable housing, preserving the entire multifamily housing portfolio, and strengthening the quality and sustainability of the portfolio for future generations.

Overcoming Barriers to Rural, Affordable Rental Housing



Barriers to Affordable Housing

The lack of clean, decent, and affordable housing is one of the most critical issues in rural America. For the 28 percent of rural residents who rent, the barriers to affordable housing can be especially daunting.¹ With lower incomes and higher poverty rates, rural renters—especially seniors, low-income individuals and families, persons with disabilities, and farmworkers—are far more likely to live in unaffordable and substandard housing.²

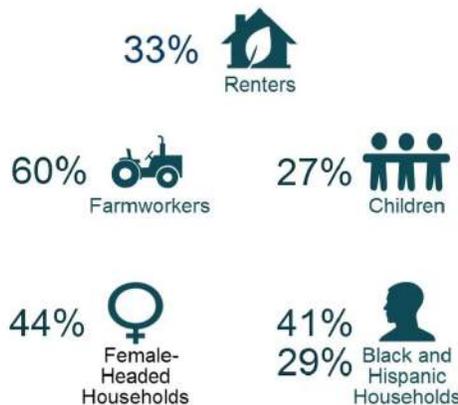
With such excessively high housing costs, these low-income families often have difficulty affording food, clothing, transportation, and medical care. The lack of affordable housing prevents them from meeting other basic needs, such as nutrition and healthcare, or saving for their future and that of their families.³

Affordability

Rural renters have very few options for affordable housing. Consider this: in 2012, the median household income for rural renters was just \$25,833. This amounts to 37 percent less than all rural incomes (\$41,198) and 49 percent less than the national rate (\$51,017).⁴ While poverty rates in rural America (17.7 percent) are generally higher than in urban areas (14.5 percent) and the nation as a whole (15.0 percent), one-third (33 percent) of all rural renters live in poverty.⁵ Rural renters are 3.4 times more likely to live in poverty than rural homeowners and 18 percent more likely to live in poverty than renters nationally.⁶

As a result, rural renters are far more likely to live in unaffordable housing. According to federal standards, a household is “cost burdened” if it spends 30 percent or more of its monthly income on housing costs.⁷ Currently, nearly half (48 percent) of all rural renters are cost-burdened.⁸ Between 2000 and 2010, the number of cost-burdened renters in rural America increased by ten percentage points, largely caused by a shortage of affordable rental housing stock in these communities.⁹

More Poverty



Lower Incomes

In 2012, the median household income for rural renters was 37 percent less than all rural incomes and 49 percent less than the national rate.



Moreover, about half of these households pay more than 50 percent of their monthly income on housing costs.¹⁰ While renters comprise 28 percent of the population in rural America, they represent 40 percent of all cost-burdened rural households.¹¹

Rural minorities, female-headed households, and children are significantly more likely to live in poverty (Table 1). As a result, they are not only more likely to live in rental housing, but are also more vulnerable to living in substandard and unaffordable housing. For example, while people of color represent 20 percent of the total rural population, they comprise a quarter (25 percent) of all rural renters. Rural minorities are twice as likely as rural white residents to be renters.¹²

Table 1: Comparing Rural and Urban Poverty Rates					
At-Risk Poverty Rates, 2012 (in percent)					
	Race/Ethnicity			Age	Gender
	White	Black	Hispanic	Children	Female-Headed Households
Rural	13.5	40.6	29.2	26.7	43.5
Urban	8.8	25.4	25.4	20.9	32.2

Poor Quality Housing

Rural low-income families are often limited to poor quality housing. Homes that are available are often in need of extensive repair or improvements just to meet basic health and safety levels.

Overall, nearly six percent of all rural housing is either moderately or severely substandard.¹³ Rural minorities—who tend to have lower incomes and higher poverty rates—are almost three times more likely to live in substandard housing than rural white residents.¹⁴

Recent research confirms the broad health and economic impacts of substandard housing conditions. Poor housing conditions contribute to significant health problems, including infectious and chronic diseases, injuries, and poor childhood development.



Children living in substandard housing conditions are more likely to develop serious illnesses like asthma and lead poisoning, negatively impacting educational achievement.¹⁵

These health risks result in substantial direct and indirect costs; a study by the North Carolina Housing Coalition conservatively estimated the direct and indirect cost of illness, disease, and disability attributable to substandard housing for children in the state at \$95 million annually.¹⁶

USDA Rental Housing Success Stories

Section 515 Rural Rental Housing Loans (Section 515)

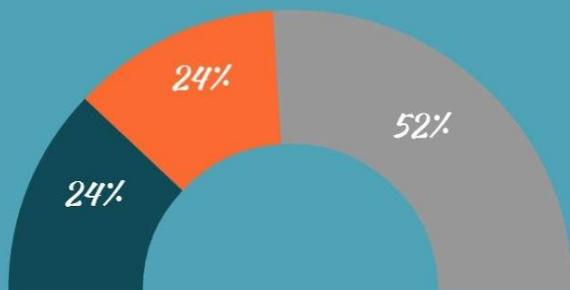
Over 50 years, Section 515 has been used to improve the quality of affordable rental housing in rural America. Under the program, housing developers—mostly for-profit entities—receive financing to acquire, rehabilitate, or construct rental housing and related facilities. Because Section 515 loans offer long terms and low interest rates, the program has been able to develop and preserve housing opportunities that are affordable for rural America’s most vulnerable residents. Today, nearly 400,000 rural families live in housing financed by Section 515.¹⁷

The vast majority (94 percent) of Section 515 tenants have very low incomes, earning no more than 50 percent of the Area Median Income (AMI). Fully 99 percent have low incomes, earning no more than 80 percent of AMI. As a result, the average Section 515 tenant earns just \$11,628 each year, or 72 percent less than the average rural resident. In addition, 61 percent of all Section 515 households are headed by an elderly or disabled tenant, 30 percent are headed by persons of color, and 72 percent are headed by women.¹⁸

Under the Section 515 program, tenants generally pay no more than 30 percent of their monthly adjusted income or the basic monthly rental rate, whichever is higher. Because Section 515 loans are often combined with other rental subsidies—including USDA’s Section 521 Rural Rental Assistance, the U.S. Department of Housing and Urban Development’s (HUD) Section 8 or

Too Many Rural Homes Are..

Nearly half (48 percent) of all rural renters pay more than 30 percent of their monthly income on rent and are considered cost-burdened. Half of these families pay more than 50 percent of their monthly income on rent.



Unaffordable

Overall, nearly 6 percent of all rural housing is either moderately or severely substandard, increasing the risk of significant health problems, including infectious and chronic diseases, injuries, and poor childhood development.



Substandard

Section 515 By The Numbers

392,204	The number of families currently living in housing financed with a Section 515 Direct Loan.
0	The number of new rental housing units constructed under the Section 515 program since 2012.
14%	The percentage of Section 515 tenants who do not receive much-needed rental assistance.
1%	The lowest interest rate for a Section 515 Direct Loan.
94%	The percentage of Section 515 tenants who have very low incomes.
\$11,628	The average income of a Section 515 tenant.
61.3%	The percentage of Section 515 households with an elderly tenant.
30.4%	The percentage of Section 515 households headed by a person of color.
72.4%	The percentage of Section 515 households headed by a female.
81%	The percentage of Section 515 households that receive some kind of rental subsidy.

voucher programs, or other public assistance—rents are affordable for low-income households.

Overall, 81 percent of Section 515 tenants receive some form of rental subsidy. Most tenants (67 percent) receive USDA Section 521 Rural Rental Assistance. These households earn an average \$9,829 a year, or 76 percent less than the average rural resident.¹⁹

More than 14 percent of all Section 515 tenants currently pay more than 30 percent of their monthly income on rent and are considered “cost burdened.” About 37 percent of these tenants pay more than 50 percent of their monthly income on rent. Typically, these families live in Section 515 developments, but do not receive Section 521 Rural Rental Assistance or HUD Section 8.²⁰

Section 514/516 Farm Labor Housing Loans and Grants (Section 514/516)

The USDA Section 514 and 516 Farm Labor Housing Program (Section 514/516) provides low-cost loans and grants to help acquire, build, improve, and repair housing for America’s farmworkers. Since its inception, the program has invested \$1.3 billion to finance more than 38,000 housing units. It is the only federal program exclusively designed to increase access to affordable rental housing for America’s farmworkers.²¹

Today, farmworkers suffer from extremely high levels of poverty and have the worst housing needs of all rural people. According to the National Agricultural Workers Study (NAWS), about 25 percent of the 2.5 million farmworkers across the nation live in poverty—a rate roughly twice the national average.²² As a result, farmworkers must overcome powerful barriers to decent, safe, and affordable housing. As a consequence, many are forced to live in substandard, crowded, and unsanitary conditions.

The Housing Assistance Council (HAC) reports that about one-third of farmworkers pay more than 30 percent of their monthly income on housing and are considered “cost-burdened.”²³ A recent HAC survey found that one-third (33 percent) of farmworker housing is either moderately or severely substandard. This is nearly six times greater than the substandard housing rate for all rural communities.²⁴ A recent report from the Government Accountability Office (GAO) found that demand for affordable housing is so high

that an increasing number of farmworkers have been forced to live in informal dwellings, such as garages, sheds, and trailers because they lack affordable options.²⁵

Under the Section 514/516 program, farmers, nonprofit organizations, and local governments are eligible to receive low-interest loans—subsidized to as low as one percent—with terms up to 33 years. Public bodies—typically housing authorities—and nonprofit organizations may also receive grants to cover up to 90 percent of development costs.²⁶

All Section 514/516-financed housing is exclusively targeted to low- and moderate-income farmworkers, with either U.S. citizenship or permanent residency status. About 98 percent of tenants are low-income, earning less than 80 percent of the Area Median Income (AMI). More than 82 percent are very low-income and earn less than 50 percent of AMI. On average, each Section 514/516 tenant earns less than \$21,000 a year. A vast majority (94 percent) of the tenants are persons of color.²⁷



Many farmworkers living in Section 514/516-financed housing also rely on the USDA Section 521 Rural Rental Assistance program. In fact, 70 percent of all Section 514/516 tenants also receive this assistance. On average, farmworkers receiving rental assistance earn just \$15,418 each year.²⁸

Section 514/516 By The Numbers

38,467	The number of farmworker housing units financed since inception.
\$1.3 billion	The total dollar amount invested in farmworker housing since inception.
373	The number of farmworker housing units constructed in 2013.
\$20,882	The average income of a Section 514/516 tenant.
93.5%	The percentage of Section 514/516 tenants who are of color.
82%	The percentage of Section 514/516 tenants who earn very low incomes.
1%	The lowest interest rate for a Section 514 Direct Loan.
70%	The percentage of Section 514/516 households that receive some kind of rental subsidy.
\$15,428	The average income of Section 514/516 tenants who receive USDA rental assistance.



Section 521 Rural Rental Assistance (Section 521)

The Section 521 Rural Rental Assistance program provides a lifeline to more than 270,000 low-income rural tenants living in properties financed by USDA's Section 515 Rural Rental Housing Loans and Section 514/516 Farm Labor Housing Loans and Grants. Overall, 81 percent of all USDA multifamily housing tenants receive some form of rental assistance. Of these tenants, a majority (83 percent) receives Section 521 Rental Assistance.²⁹

In all USDA multifamily housing, tenant contributions to rent are generally capped at 30 percent of

monthly adjusted income or the basic monthly rental rate, whichever is higher.³⁰ Under Section 521, USDA provides a direct payment to the property owner to cover the difference between the tenant's contribution and the monthly rental rate.

The average Section 521 tenant living in Section 515 or Section 514/516 housing earns just \$10,024 each year, or 76 percent less than the average rural resident. In addition, 64 percent all households receiving Section 521 Rental Assistance are headed by elderly or disabled tenants, 32 percent are headed by persons of color, and 73 percent are headed by women.³¹

Today, 14 percent of all USDA Rental Housing tenants are in critical need of rental assistance, but do not receive it. These tenants currently pay more than 30 percent of their monthly income on rent and are considered "cost burdened." About 37 percent of these tenants pay more than 50 percent of their monthly income on rent. Without access to the Section 521 programs, these tenants have very few options for affordable housing.³²

Section 521 By The Numbers

272,584	The number of families currently receiving Section 521 Rural Rental Assistance.
\$4,008	The average dollar amount of annual assistance received.
\$10,024	The average annual income of a Section 521 recipient.
95%	The percentage of all Section 521 recipients who contribute some amount toward rent.
63.6%	The percentage of all Section 521 recipients who are elderly or disabled.
31.5%	The percentage of all Section 521 recipients who are of color.
73%	The percentage of all Section 521 households that are headed by females.



**Case Study 1:
PNC Bank and USDA Join Together to Build Strong Rural Communities**

As with many other rural communities, agriculture is one of primary engines of economic growth in Wasco, California in the County of Kern. Wasco is located in the San Joaquin Valley, which is widely known as the “Food Basket of the World” because it produces a majority of the state’s agricultural production. Today, over 35 percent of Wasco residents are employed in agricultural or related industries.

The lack of affordable rental housing—particularly for farmworkers and their families—is a critical issue in both Wasco and Kern County. Nearly a quarter (24 percent) of all Kern County residents live in poverty. Moreover, a majority (53 percent) of all Kern renters pay more than 30 percent of their monthly income on rent and are considered “cost-burdened.”

To help address the lack of affordable rental housing for Wasco’s farmworker community, PNC Bank, the U.S. Department of Agriculture (USDA), and the Housing Authority of the County of Kern joined together in 2013 to develop the Beckes Street Apartments. The 58-unit development is exclusively targeted to farmworkers and their families. Fifty-seven units are set aside for tenants earning less than 80 percent of the Area Median Income (AMI).

The Beckes Street development was financed with a \$3 million loan from USDA’s Section 514 Farm Labor Housing program, \$7.1 million in Low Income Housing Tax Credits—with PNC Bank serving as the equity investor—and \$2.5 million in state tax credits.



Since its completion, the Beckes Street Apartments has been fully occupied.

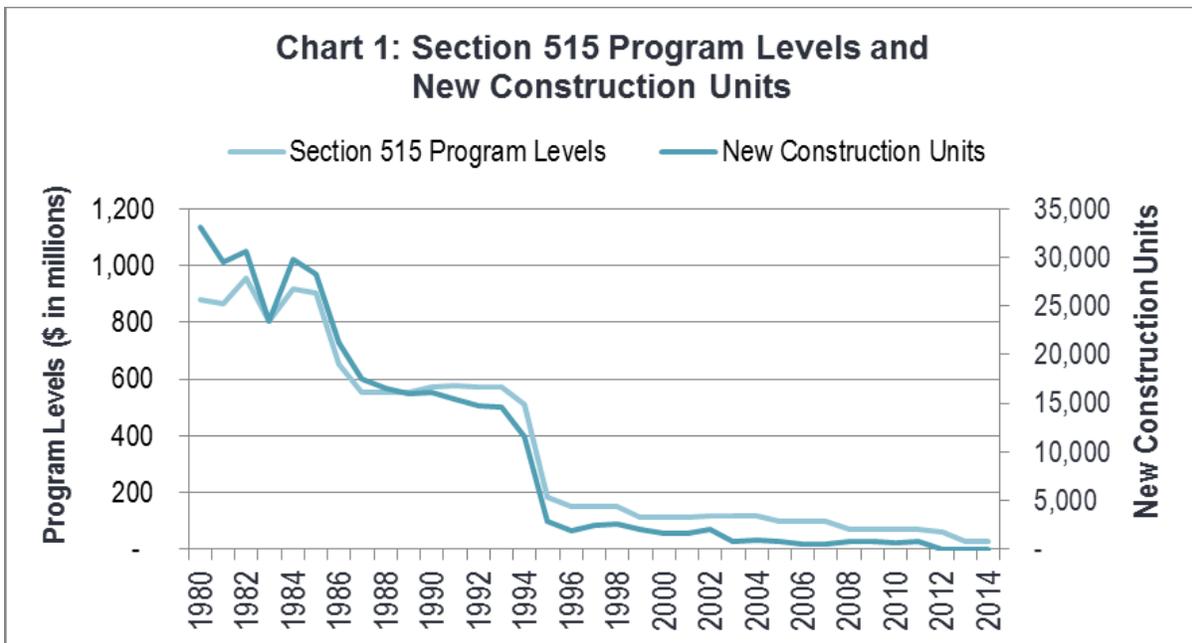
The End of New Construction



Declining Funding for Section 515

Since its peak in 1982, funding for the Section 515 Rural Rental Housing Loan program (Section 515) has been cut by more than 97 percent from \$954 million to \$28.4 million in Fiscal Year 2014 (FY14).³³

While the program financed the construction of 30,616 units of affordable housing annually at its peak, since 2012, the U.S. Department of Agriculture (USDA) has halted financing the construction new rental housing under the program altogether (Chart 1).³⁴



Because Section 515 plays an important role in attracting housing development resources to rural America, funding cuts have only made it more challenging for rural communities to access the financing necessary to add to their affordable rental housing stock. The demise of this program represents a major loss for rural communities. For example, cuts to the Section 515 program have made it more difficult for rural communities to access the Low Income Housing Tax Credit (LIHTC).

Today, LIHTC has replaced Section 515 as the principal source of financing for affordable rental housing in rural America. Since its inception in 1986, LIHTC has been used to develop and preserve more than 7,600 rental housing projects—or more than 270,000 rental units—in rural communities in 49 states and Puerto Rico.³⁵

While LIHTC is an important source of financing, it alone cannot provide adequate subsidies to finance housing in many rural communities. Without the ability to be paired with other targeted federal subsidies, including Section 515 and Section 521 Rural

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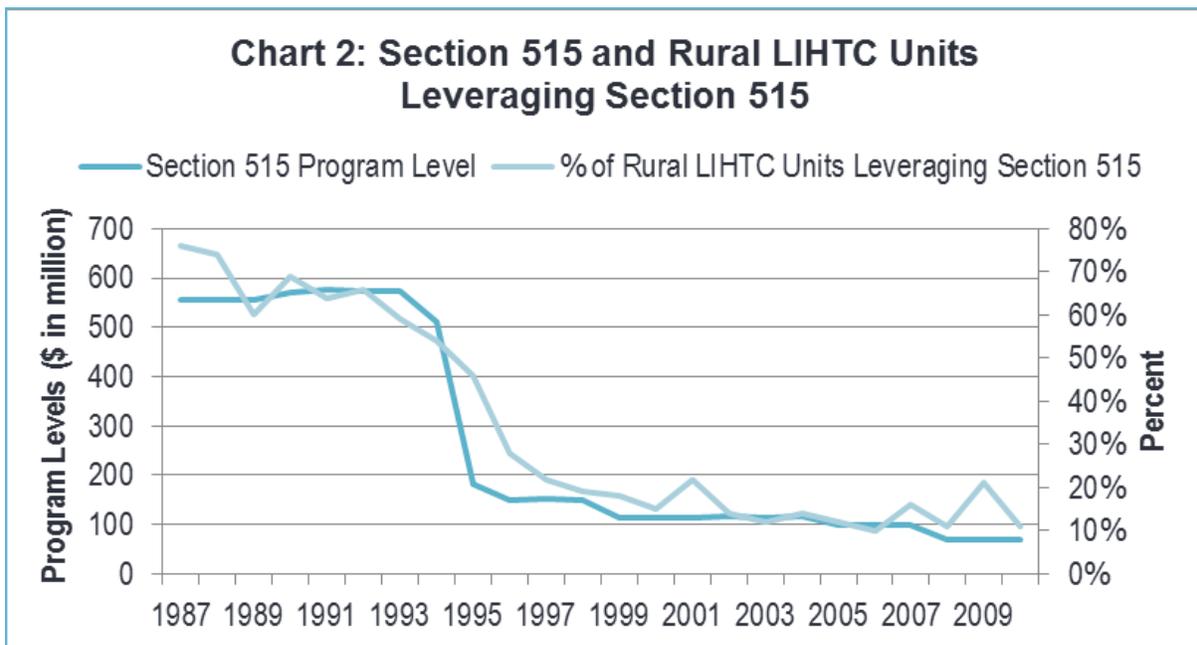
Rental Assistance (Section 521), LIHTC often cannot keep rents low enough to serve rural America's most vulnerable residents. As a result, LIHTC is far less able to serve poorer and more remote rural communities without leveraging Section 515 and rental assistance funding.³⁶

For example, the Greenwood Acres Apartments—a 28-unit, affordable, senior housing development located in rural Greenwood, Delaware—lost \$480,000 in tax credits and \$1.46 million in financing from the Delaware State Housing Authority in 2012 because of a lack of Section 515 funding. The development's nonprofit owner, Milford Housing Development Corporation, planned to rehabilitate the existing property and add 36 new units of affordable senior housing. Without Section 515, Milford Housing was unable to apply for the rental assistance support it needed to meet the state's LIHTC requirement. As a result, the Housing Authority recaptured the tax credits and awarded it to the next project on its wait list.

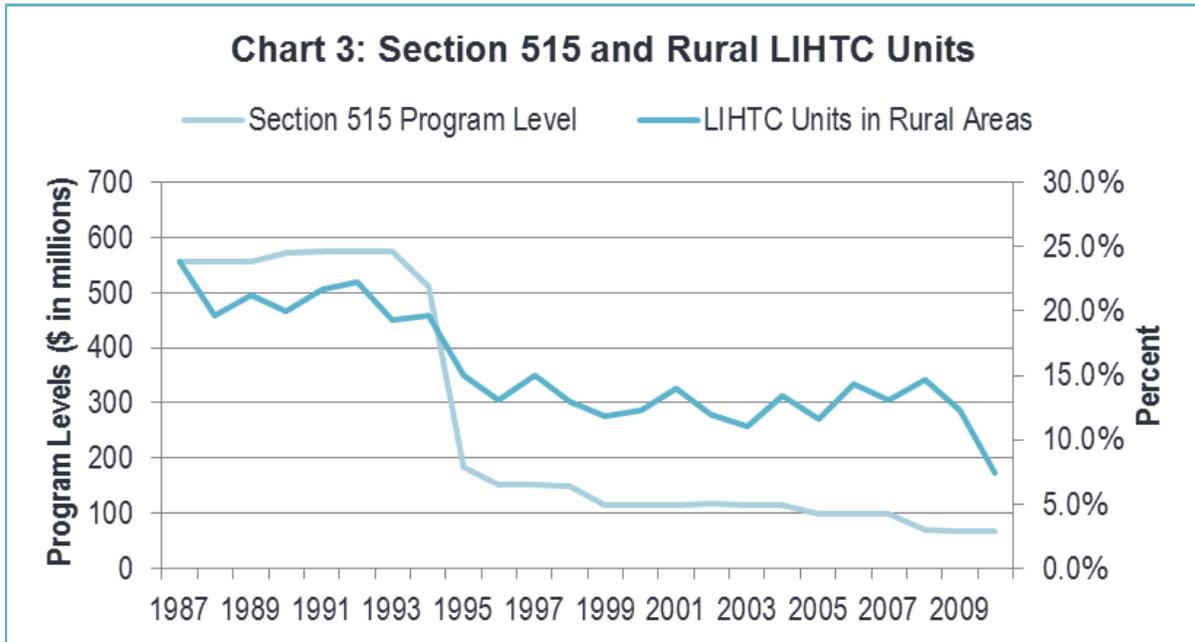


Between 1987 and 2010, the proportion of LIHTC-financed housing units developed in rural communities fell by 69 percent, while funding for Section 515 was slashed by 88 percent from \$555 million to \$68 million. While more than three-fourths (76 percent) of all LIHTC units developed in rural areas leveraged Section 515 funds in 1987, only 11 percent did so in 2010. Likewise, in 1987, a quarter (24 percent) of all LIHTC-financed housing was developed in rural communities. By 2010, this had dropped to only 7.5 percent.³⁷

Data shows that there is a very strong correlation (+.96) between Section 515 funding and the number of rural LIHTC units leveraging this resource (Chart 2).³⁸



Likewise, there is a very strong correlation (+.93) between Section 515 funding and the percentage of LIHTC units built in rural communities (Chart 3).³⁹



While more recent LIHTC data is not publicly available, it is reasonable to assume that further cuts to the Section 515 program have resulted in even fewer LIHTC investments for rural communities. Since 2010, Section 515 funding has been cut by an additional 58 percent, from \$68 million to \$28.4 million in 2014, and the program has halted new construction of rental housing.⁴⁰

It is important to note that although USDA continues to fund a limited number of new construction rental housing units through its Section 538 Guaranteed Loan program, these units often cannot serve rural families with the greatest needs. This is because USDA Section 521 Rural Rental Assistance is not available for Section 538-financed developments. While Section 538 Guaranteed Loans are usually paired with LIHTC investments, the lack of rental assistance makes it almost impossible for these developments to assist families with the same profile—in terms of income and geography—as those residing in Section 515 developments.



Preservation Challenges and Recommendations

Incentivizing Long-Term, Affordable Use

Over the past several decades, Congress has authorized the U.S. Department of Agriculture (USDA) to use a number of preservation tools to ensure the long-term affordability of its rental housing portfolio.

Preservation efforts, however, have been stymied by a lack of funding and the Department's decision in 2012 to end one of its two primary preservation tools—offering prepayment financial incentives to owners of USDA-financed developments in exchange for maintaining the properties as affordable housing. Many rural advocates warn that USDA's failure to offer prepayment incentives will open the floodgates to any owner who wishes to prepay their USDA loan and exit the portfolio. In addition, many question whether USDA's remaining preservation tool—the Multifamily Preservation and Revitalization Demonstration program (MPR)—will be able to sustain the portfolio on its own.

Prepayment Incentives

Congress first addressed the prepayment issue in the *Housing and Community Development Amendments of 1979* (P.L. 96-153). This law required that properties with Section 515 Rural Rental Housing Loans (Section 515) made on or after December 21, 1979 serve low-income residents for a minimum of 15 to 20 years, depending on the level of the Section 515 interest rate subsidy. The law did not regulate loans obligated prior to enactment.⁴¹

As the economy improved in the early and mid-1980s, prepayment of Section 515 loans increased and led to a number of high-profile evictions of tenants, particularly, but not exclusively in the West. In response to this, beginning in the fall of 1986, Congress enacted a moratorium on prepayments through a series of Continuing Resolutions. Then, in 1987, Congress enacted the *Emergency Low Income Housing Preservation Act* (ELIHPA), which regulated prepayment of all Section 515 loans and authorized USDA to provide financial incentives to owners in exchange for maintaining the property as affordable housing.



These incentives include increasing the maximum rate of return on investment, reducing the interest rate on the loan, and providing equity loans to the borrower. If the owner and USDA fail to come to an agreement, in some cases, the law requires an owner who wishes to prepay their loan to first offer to sell the property at fair market value to a nonprofit organization or public agency in order to



ensure its long-term use as affordable housing. In this way, Congress designed a preservation strategy in which nonprofit organizations and public agencies play a vital role in protecting this valuable asset.⁴²

Between 2006 and 2011, USDA preserved 290 properties in its portfolio by offering prepayment incentives to owners.⁴³ Over time, however, dwindling federal resources have significantly limited the effectiveness of ELIHPA's incentive model. This is because the primary prepayment incentives used by USDA—equity loans—relied on the availability of Section 515. In addition, Section 515 funding is frequently used when properties are transferred to nonprofit organizations or public agencies under ELIHPA. As Section 515 program levels have been reduced dramatically, funding for prepayment incentives and additional financing have also decreased.

In July 2012, USDA announced that it would no longer fund prepayment incentives, nor maintain a waiting list for such funding. This policy change sends a clear message to property owners who seek to exit the program. It also brings into question USDA's ability to regulate the prepayment of loans under the 1987 law. According to USDA, a record number of properties are now at risk of prepayment. In 2013 alone, 183 properties—amounting to 4,105 units—left the Section 515 program due to prepayment.⁴⁴

Expiration of Loan Terms

On top of the issue of prepayments, a record number of USDA rental housing loans are reaching the end of their terms. In the next two years, USDA estimates that property owners are scheduled make final payments on more than 500 loans.⁴⁵ Without subsequent

Section 515 loans, these properties will exit USDA's portfolio. Low-income tenants living in these developments will lose access to Section 521 Rural Rental Assistance and may be displaced if the property is converted to market-rate housing.

Rehabilitating and Recapitalizing an Aging Portfolio

Comprehensive Property Assessment and Portfolio Analysis (CPA)

In 2004, USDA published its Comprehensive Property Assessment and Portfolio Analysis (CPA), which examined the various challenges to preserving its multifamily housing portfolio, including rehabilitating rapidly aging properties and recapitalization needs. The CPA study found that fully 100 percent of the properties in the portfolio do not have sufficient Replacement Reserves—or provisions for future reserves—to meet 20-year projected capital needs for ongoing maintenance and repairs. According to the CPA report, an estimated \$2.6 billion in additional funding is needed over the next 20 years in order to preserve the portfolio.⁴⁶



The report warned that unless USDA used new, cost-effective financing tools to restructure 1,000 properties—or about 27,000 units—each year, the condition of units in the portfolio would continue to decline and the cost of maintaining Section 515 developments and ensuring long-term use would continue to grow and ultimately fall to the Section 521 Rural Rental Assistance program. Without Congressional action, the report argued that aging properties would become obsolete, the gap between current and needed funding for capital reserves would grow and become harder to restore, the cost to repair deteriorating properties would increase, and the supply of affordable housing would diminish.⁴⁷

Multifamily Preservation and Revitalization Demonstration Program (MPR)

In response to the 2004 CPA report, Congress authorized the Multifamily Preservation and Revitalization demonstration program (MPR) in the Fiscal Year 2005 (FY05) Appropriations bill. The MPR program authorizes a variety of financing tools to preserve the Section 515 portfolio. These financing tools—including partial and full deferrals, soft-second loans, grants, Section 515 loans at zero percent interest rates, the reduction, re-amortization, and subordination of Section 515 debt, and consolidation of rental housing projects—were recommended in the CPA report and most were not previously available under the Section 515 program.

To date, the MPR program has been quite effective in preserving rental housing. According to Rural Housing Preservation Associates, between 2006 and 2011, MPR preservation activities amounted to a total of \$403 million in partial or full deferrals of Section 515 loans, \$57.4 million in soft-second loans, \$40 million in zero percent interest rate loans, and \$1.7 million in grants. Together with \$198 million in additional Section 515 Direct Loans and Section 538 Guaranteed Loans, the MPR program successfully

attracted \$250 million—three times the program’s Budget Authority—in third-party financing. This financing principally came from the Low Income Housing Tax Credit (LIHTC) (Table 2).⁴⁸

Table 2: Multifamily Preservation and Revitalization (MPR) Preservation Activity (\$ in millions)							
	2006	2007	2008	2009	2010	2011	Total
Loan Deferrals	48.0	56.0	100.0	50.0	117.0	31.7	402.7
Soft-Second Loans	4.5	2.8	13.0	5.3	21.5	10.3	57.4
Grants	0.2	0.5	0.4	0.2	0.3	0.1	1.7
Zero-Percent Loans	0.3	2.6	12.6	15.0	5.0	4.6	40.4
Total MPR Activity	53.0	61.9	126.0	70.5	143.8	46.7	502.2

As a result, the MPR program has helped preserve 1,218 properties, amounting to 26,459 units, since 2006. In 2013 alone, the program preserved 70 properties, amounting to 2,171 units of affordable housing.⁴⁹ While this represents a modest step in the right direction, it falls short of the recommendation in USDA’s CPA report to restructure 1,000 properties—or about 27,000 units—each year.

Despite this success, the MPR program has not been permanently authorized, nor has it received adequate funding. Between 2009 and 2014, the MPR program received a total of \$98.6 million in Budget Authority, or an average \$16.4 million annually. In FY15, USDA requested \$20 million in Budget Authority for the MPR program.⁵⁰

Barriers to Accessing USDA’s Preservation Tools

National Rural Housing Coalition members report three major barriers to using the MPR program or transferring properties to nonprofit organizations under ELIHPA. First, because USDA policies and regulations do not conform to the LIHTC program, housing developers—including both for-profit and nonprofit entities—are often unable to access this critical resource. Moreover, long delays in processing by USDA staff increase transaction costs and make acquiring and rehabilitating properties infeasible. Lastly, USDA policies and regulations are often made without engaging stakeholders, when consultation could produce a better result.

USDA Regulations Do Not Conform With LIHTC

As previously noted, USDA’s Section 515 program is no longer the principal source of financing for rural rental housing—LIHTC is. In order to best serve rural renters, USDA’s regulations and policies must conform to this new reality. USDA’s regulations on tenant incomes, allowable rent, returns on investment (ROI), and even definitions of “eligible borrowers” and “limited liability corporations” differ from those under the LIHTC program. USDA’s limits on what nonprofit owners—as opposed to for-profit entities—can earn in terms of returns on investment and asset management fees ultimately make it more difficult for these entities to acquire affordable housing developments. In addition, these regulations have negatively impacted their financial ability to deliver decent, safe, and affordable rental housing over the long term.

For example, to date, USDA has failed to establish a definitive timetable for obligations under its Multifamily Housing programs. As a result, many rural housing developers have been unable secure third-party sources of state and local funding—including LIHTC—which are often contingent on obtaining USDA funds. By setting a firm deadline for obligations, rural organizations would be better able to leverage housing resources into their communities.

Processing Delays Jeopardize Preservation Efforts

USDA policies often result in unnecessary delays that jeopardize the preservation of affordable housing. Delays are largely due to multiple and duplicative layers of review and manual loan processing. For example, after a USDA loan officer puts together a complete loan file and performs the initial underwriting, the materials are separately reviewed by USDA's state architect, state Multifamily Housing Director, and National Office, in addition to the loan officer's supervisor and the Office of General Counsel. Any changes made to the transaction during this elongated process can reset the clock, causing disruptive and costly delays.

In addition, because USDA still manually processes, underwrites, and reviews loan applications by hand, processing can take over a year to be approved by USDA staff. In fact, USDA estimates that MPR applications wait an average 16 months for approval.⁵¹

Case Study 2: Organization Waits 16 Months for Application Review

In 1988, a 28-unit affordable rental housing development was built using a low-cost loan under USDA's Section 515 program. After 25 years, the development was in need of renovations, including replacing HVAC systems and water heaters, purchasing new windows and doors, installing new insulation, and renovating kitchens and bathrooms.

To finance these renovations, the owner—a local nonprofit organization—submitted an application to USDA's Multifamily Preservation and Revitalization Demonstration Program (MPR) in February 2013. At the time this report goes to press, the owner has waited 16 months and its application has not been fully reviewed by the State USDA Office nor forwarded to the USDA National Office for approval. Recently, USDA staff informed the owner that they intend to send the application to the National Office by June 2014, citing staff reductions as the cause for delay.

Such unreasonable delays have made it very difficult for the owner to conduct business. Until USDA reviews its application, the owner cannot access any reserve funds it proposed to use to offset development costs. In addition, the owner is unable to apply for other sources of financing until USDA decides how to structure the MPR package. As a result, the owner has missed deadlines to apply for funding under the Federal Home Loan Bank Affordable Housing Program and the State Department of Housing and Community Development.

For example, the William Hughes Apartments—a 34-unit, affordable housing development located in rural Eastville, Virginia—nearly lost \$2.3 million in Low Income Housing Tax Credits (LIHTC) due to excessive processing delays by USDA staff. Under the state LIHTC program, the limited partnership property owner was required to complete all construction within two years. That meant that the owner needed to begin construction by December 2013 at the very latest in order to stay on schedule.

In June 2013, the owner, its tax credit investor, and the state LIHTC allocating agency were all prepared to begin construction on schedule. However, because USDA had not completed its review of the application, the project was delayed. Despite having the owner's application and all of the necessary information, it took the Virginia State USDA Office five months to review and input all the



information into USDA's template and forward the necessary documents to the National Office for its review. After over six months in delays, USDA finally approved the project on December 19, 2013—just two weeks shy of the LIHTC construction deadline.

This problem has only been exacerbated by significant cuts in federal funding, reductions in staff, and the closure of local and regional state USDA offices. There were over 2,800 state and regional USDA offices over 20 years ago; today, the Department has about 400 local offices nationwide. Over the past two years, USDA has lost about 1,200 or 18 percent of its Rural Development staff, many of whom had years of experience and expertise.⁵²

Cumbersome Policies Undermine Preservation

On September 30, 2013, USDA issued an Unnumbered Letter (UL) to its state and regional staff to provide details on how to implement the Department's preservation programs, including transferring properties to nonprofit organizations under ELIHPA and providing financing tools under the MPR program.⁵³ In response to serious concerns raised by rural housing developers and advocates, USDA has reported that it intends to revise the UL.⁵⁴ However, it remains illustrative of how USDA policies are often issued without input from stakeholders and practitioners and ultimately make preservation more difficult. At the time that this report goes to press, USDA has not revised or repealed the UL.

Ultimately, the UL creates new barriers to preserving affordable rental housing in rural America by making it more difficult to attract LIHTC and other sources of third-party financing. In doing so, the UL prevents nonprofit organizations from serving their Congressionally-recognized role as a safeguard to USDA's portfolio. For example, the UL prevents LIHTC investors from receiving a reasonable return on investment (RTO), unnecessarily bloats operating expenses by requiring all new owners to fully fund a 20-year Capital Needs Assessment (CNA) at the time of transfer, allows USDA to interfere with negotiations on the sale of a property by setting the sales price, and discourages LIHTC investment by not making its decision-making process public.

Preservation Recommendations

The National Rural Housing Coalition recommends that Congress and the Administration:

- ◆ **Fully Fund Section 515 Prepayment Incentives.** USDA should reverse its 2012 decision to stop funding prepayment incentives. In addition, the Department should develop other cost-effective financing tools, including loan deferrals, to encourage all multifamily housing owners to remain in the portfolio. According to USDA, a record number of properties are now at risk of prepayment. In 2013 alone, 183 properties—amounting to 4,105 units—left the Section 515 program due to prepayment.⁵⁵ Once the property exits the program, it is no longer required to comply with USDA's affordable use restrictions and existing tenants lose access to the Section 521 Rural Rental Assistance program. Many of the properties that exit USDA's programs are converted into market-rate housing. When this occurs, low-income families may be displaced by the increase in rents and rural communities lose a valuable source of affordable housing. Some properties that exit the portfolio do not have the financing necessary to operate over the long term. Ultimately, these properties may become blighted.

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- ◆ **Enhance the MPR Program.** Congress should enact permanent authorization legislation, increase funding for the program, and modernize and streamline its delivery. The MPR program is a demonstration program created by Congress in the FY05 Appropriations bill in response to USDA's 2004 report on preservation needs. To date, Congress has not enacted permanent authorization. Although the MPR program has been quite effective, funding falls far short of what is needed. Between 2009 and 2014, the MPR program received a total of \$98.6 million in Budget Authority, or an average \$16.4 million annually. In FY15, USDA requested \$20 million in Budget Authority for the MPR program. ⁵⁶
- ◆ **Streamline USDA's Preservation Processes.** USDA should adopt reforms to address unreasonable delays and inefficiencies, eliminate outdated, conflicting, and costly regulatory requirements, simplify prepayment and transfer processes, centralize key government functions including underwriting, and reduce unnecessary and duplicative reviews by USDA staff.
- ◆ **Facilitate the Transfer of Properties to Nonprofit Organizations.** USDA should immediately repeal its Unnumbered Letter and enact reforms to facilitate the transfer of properties to nonprofit organizations. USDA should consider adopting policies similar to those at the U.S. Department of Housing and Urban Development (HUD) that allow nonprofits to access cash flow distribution in the same manner as for-profit owners. In addition, USDA should allow developer fees to be included in eligible costs and adopt similar underwriting policies as banks and other lenders, which use security values instead of appraisals. By allowing nonprofit organizations to combine rental properties at various locations, rural developments can produce economies of scale needed to lower costs. All of these would encourage further nonprofit participation in preservation transactions.
- ◆ **Facilitate Access to Third-Party Financing.** USDA should review all of its processes and regulations to ensure each works seamlessly with LIHTC. This should include adopting the tax credit's limits on tenant income and allowable rent, removing limitations on a nonprofit's return on investment (ROI), and adopting LIHTC's definitions of "borrowers" and "limited liability corporations," among other terms. USDA should adopt a loan processing template—similar to the one used in the tax credit program—that allow developers to easily submit the necessary information, thereby reducing the burden on USDA staff. In addition, USDA should consider subordinating its loans to those of larger investors, as is the case with its Section 538 Guaranteed Loan program.
- ◆ **Ensure Long-Term Affordable Use, Even After Projects Exit the Section 515 Program.** USDA should develop a project-based voucher program, similar to the program administered at HUD, to ensure long-term affordable use of properties, even after the property exits the Section 515 program.

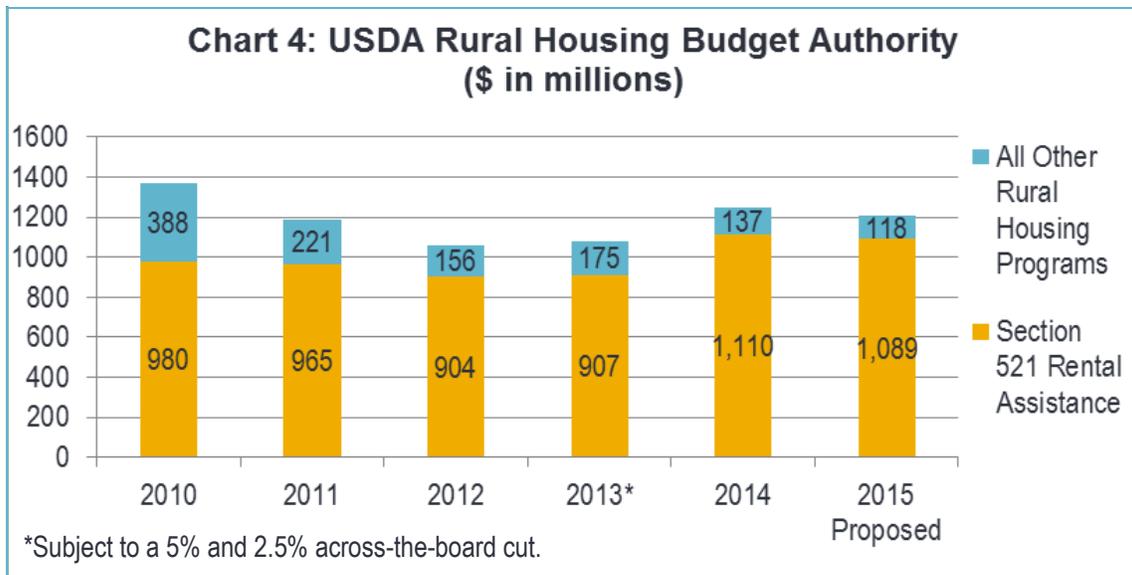


Rental Assistance Challenges and Recommendations

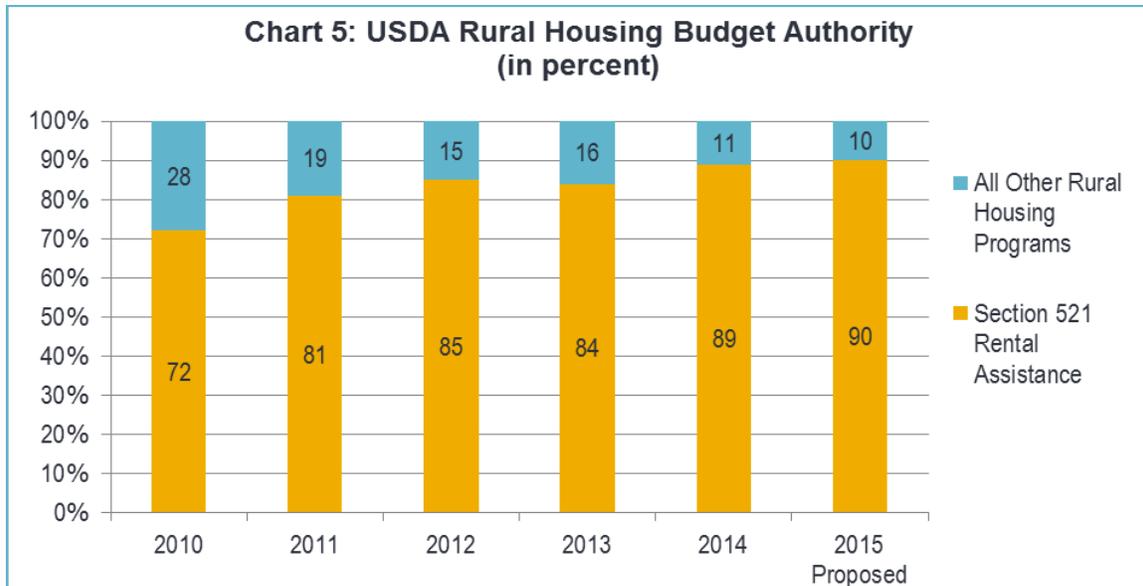
Growing Rental Assistance Costs

At more than \$1 billion in funding annually, Section 521 Rural Rental Assistance (Section 521) is the single largest program within the U.S.

Department of Agriculture's (USDA) Rural Development budget. While spending on other Rural Housing programs has decreased by 70 percent since 2010, Section 521 funding has increased and is expected to rise in the coming years (Chart 4).⁵⁷

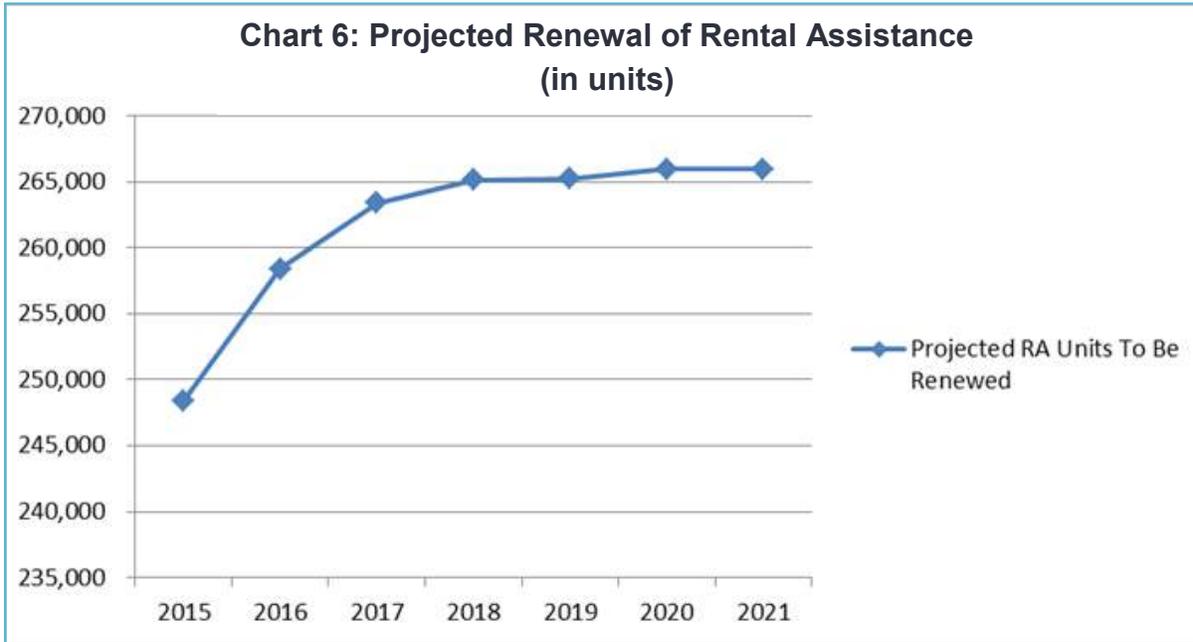


Section 521 has grown from 72 percent of the Rural Housing Budget Authority in 2010 to 89 percent in 2014. If the President's Fiscal Year 2015 (FY15) budget is enacted, Section 521 will comprise 90 percent of the entire Rural Housing Budget Authority (Chart 5).⁵⁸

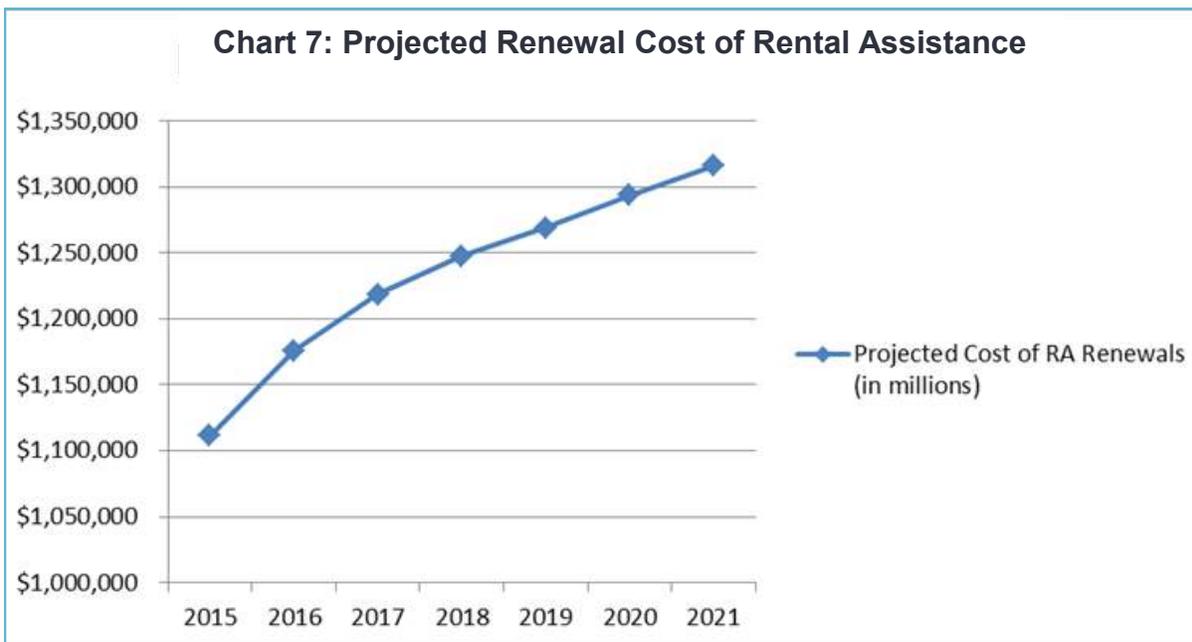


Over the program’s history, Congress has reduced annual expenditures by shortening the term of rental assistance contracts and reducing the amount of funding needed in any given year. This is because the full cost of the rental assistance contract is paid for in year the contract is obligated. From its inception in 1974 until 1982, Section 521 contracts used 20-year terms. In 1983, Congress shortened the term to five years.⁵⁹ In 2008, Congress limited all new and renewed contracts to just one-year terms.⁶⁰

As a consequence, USDA is now entering a period of time when its 20-year, 5-year, and 1-year contracts are all starting to come due. In 2021, an estimated 266,000 units will be eligible for renewal (Chart 6).⁶¹



The cost to renew these expiring rental assistance contracts is expected to grow significantly over the next several years. By 2021, USDA estimates that the Department will need to allocate nearly \$1.3 billion annually to renew all expiring contracts (Chart 7).⁶² To put this in perspective, the entire Budget Authority for all USDA Rural Housing programs in FY14 was \$1.247 billion.⁶³ The Section 521 program is projected to exceed this amount by 2019—in less than five years’ time.



USDA Policy Proposals

Recently, USDA proposed several policy changes in the Administration's Fiscal Year 2015 (FY15) Budget Request to reduce the burden on rental assistance.⁶⁴ These proposals have received mixed reviews from rural advocates. While they may produce modest savings if enacted, many advocates are concerned about how these policies would be implemented. Additional fundamental reforms may still be needed to make the Section 521 program sustainable.

In addition to these specific proposals, USDA aims to cut oversight costs, reduce transaction costs, develop cost savings at the properties, eliminate duplication in processes, use rental assistance balances for renewals, and match wages to ensure that tenants meet required income limits.⁶⁵ Moreover, USDA continues to freeze management fees, making it increasingly difficult for nonprofit organizations to operate affordable housing.

As this report goes to press, the fate of the Administration's proposals is unclear. Some of these proposals—such as a minimum rent for tenants—are controversial. In other cases, Congress may be reluctant to allow USDA such broad discretion, including the authority to selectively renew contracts. Regardless, even if Congress enacted the Administration's proposals, the projected savings would be quite small in the context of a billion dollar program.

Minimum Rents

In its FY15 Budget Request, the Administration asked Congress to include legislative language in its Appropriations bill to authorize up to \$50 monthly minimum rent for all tenants, including those who receive Section 521 Rental Assistance. Currently, 42,000 households—about 10 percent of all USDA multifamily housing tenants—pay less than \$50 per month in rent. If implemented, USDA estimates that minimum rents can reduce the cost of rental assistance by up to \$5 million in its first year. Over time, USDA estimates this will save the Department \$20 million annually.⁶⁶

This policy is identical to the one used with similar programs administered by the U.S. Department of Housing and Urban Development (HUD). USDA's minimum rent policy would provide some protections for vulnerable tenants, including hardship exemptions for tenants who cannot afford to pay the minimum rent. In addition, USDA has stated that tenants will not be evicted if they cannot pay the minimum rent.⁶⁷



Partial-Year Funding

USDA seeks the authority to provide partial-year funding. Current appropriations language requires USDA to obligate rental assistance contracts for an entire 12-month term. USDA argues that this authority will allow it the flexibility it needs in times of funding shortages, including when the federal government is operating on a short-term Continuing Resolution, sequester, and other budget uncertainties.⁶⁸

Selective Contract Renewal

USDA proposes the authority to selectively renew rental assistance contracts. Currently, appropriations language requires that USDA renew contracts as they expire. USDA's proposal would allow the agency to provide priority funding to those rental assistance contracts used within the prior 12 months, properties where more than 50 percent of the units are covered by rental assistance, properties located in rural areas, and Section 514/516 Farm Labor Housing properties.⁶⁹



USDA argues that this authority is needed when appropriations are changed in the course of the fiscal year, as it did in 2013, when sequestration—an across-the-board reduction required by the Budget Control Act of 2011—took effect.⁷⁰

In response, some rural housing advocates argue that this authority is too broad and could be used by USDA to retire rental assistance. USDA argues that it has not supported—nor does it plan to support—retiring rental assistance appropriations.⁷¹

Eliminate Cost-Plus Agreements

USDA is required by law to automatically renew rental assistance contracts. A small percentage (3 to 5 percent) of these contracts return for a second renewal or increase before the end of the contract period. USDA proposes to end automatic renewals and instead provide an annual allocation of rental assistance for a one-year period. This would eliminate second renewals and, according to USDA, save up to \$32 million in the long-term in annual rental assistance contracts.

Rental Assistance Recommendations

While the crisis facing USDA's Section 521 Rural Rental Assistance program poses a real threat to the Department's Rural Housing budget, it can be resolved. USDA already has the tools and statutory authority to address this issue today. To date, however, the

Administration has failed to make use of the full spectrum of available resources. Instead, it has primarily attempted to address the issue by significantly limiting—and then eliminating—the new construction of affordable rental housing under Section 515, ceasing to fund financing incentives to ensure the long-term, affordable use of properties within its portfolio, and reducing its Budget Requests for other critical Rural Housing programs.

Strategic Deferrals

In 2013, the National Rural Housing Coalition, in conjunction with Rural Housing Preservation Associates, recommended that USDA strategically defer Section 515 and Section 514 loans. In doing so, USDA would offset a portion of the increase needed for Section 521 Rental Assistance. This is because a significant share of all rental assistance is used by property owners to service their existing Section 515 and Section 514 loans. In this way, the rental assistance program can be seen as the federal government writing a check to itself. By deferring these loans, USDA can reduce the need for rental assistance by the amount that would have been used to service the loans.

Most importantly, this proposal helps resolve USDA's rental assistance crisis in a way that protects tenants from losing access to affordable housing, maintains the entire multifamily housing portfolio, and strengthens the quality and sustainability of the portfolio.

Statutory Authority and Precedent

Because USDA already has the statutory authority to defer loans, this proposal can be implemented without further Congressional action. Congress has granted USDA broad authority to protect, defer, forgive, and modify loans within its portfolio. Section 510(c) of the *Housing Act of 1949* provides the USDA Secretary with the authority to “compromise, adjust, reduce, or charge-off claims, and adjust, modify, subordinate, or release the terms of security instruments, leases, contracts, and agreements” made under the Department’s multifamily housing programs.⁷³ In addition, Section 517 of this law broadly authorizes USDA to use Rural Housing Insurance Fund resources to protect the multifamily housing portfolio. This statute expressly identifies several permissible uses, including the provision of Section 521 Rural Rental Assistance.⁷⁴

Over the program’s history, USDA has regularly used this statutory authority. Currently, USDA uses this authority to defer loans through Delinquency Workout Agreements and to reduce interest rates under its Multifamily Preservation and Revitalization (MPR) Demonstration Program.

Similarly, in FY13, when USDA’s Rural Housing budget was reduced due to sequestration—the across-the-board spending cuts authorized by the *Budget Control Act of 2011*—USDA used this authority to offer loan deferrals to certain property owners. In doing so, USDA sought to reduce the negative impact of sequestration on its portfolio due to the loss of rental assistance.

The Federal Credit Reform Act

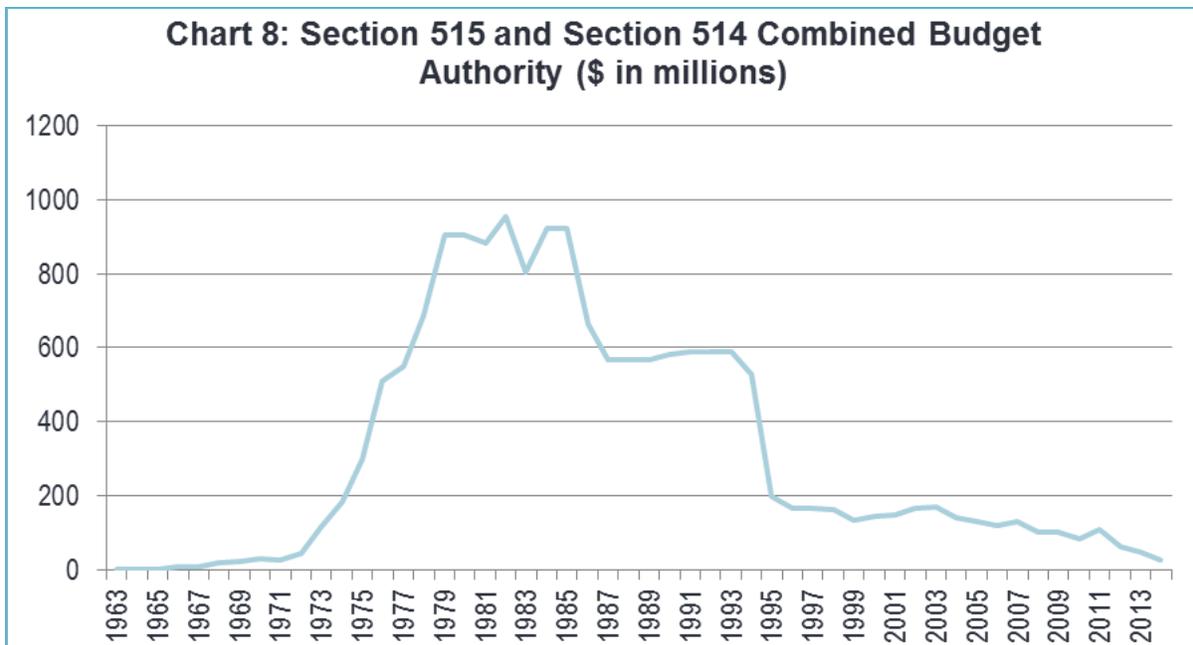
In 1990, Congress enacted the *Federal Credit Reform Act* (FCRA) as part of the *Omnibus Budget Reconciliation Act*. With FCRA, Congress sought to improve how the federal government measured the cost of federal credit programs—including Rural Housing loan programs administered by USDA.⁷⁵

Prior to FCRA, credit programs were budgeted and accounted for by tracking the amount of cash flowing into or out of the U.S. Department of the Treasury in any given year. This accounting method made it difficult for policymakers to evaluate the budget

demands of these programs because it painted an inaccurate picture: it overstated the cost of direct loans, understated the cost of guaranteed loans, failed to distinguish between loan and grant program outlays, and did not capture how loan repayments would offset some costs over time. Instead of tracking cash flow in any given year, FCRA reformed the accounting method so budgets reflect the cost of each credit program over the entire lifetime of the loan.⁷⁶

In Fiscal Year 1992 (FY92), FCRA was first implemented. Under the law, all post-credit reform loans (i.e. all federal loans obligated after the start of FY92) were required to use the new accounting method. All pre-credit reform loans (i.e. all federal loans obligated prior to the start of FY92) were placed into liquidating accounts. Over time, the balances in liquidating accounts would eventually zero out as the loans matured, defaulted, or otherwise terminated.⁷⁷

Under FCRA, all USDA Rural Housing loans made prior to FY92 were placed in the Department’s Rural Housing Insurance Fund Liquidating Account. Today, this account represents roughly two-thirds of all loans in USDA’s rental housing portfolio. This is because 75 percent of all USDA multifamily housing loans issued over the program’s history—or \$12.3 billion out of \$16.6 billion—were obligated prior to FY92 (Chart 8).⁷⁸



Because borrowers continue to make loan payments, the liquidating account generates significant revenue for the Department. In 2013 alone, USDA estimated that Rural Housing Insurance Fund Liquidating Account loan repayments generated more than \$560 million.⁷⁹

Yet, none of this revenue is reflected in USDA’s annual appropriations budget due to the accounting requirements under FCRA. The bonds floated to finance these loans have matured and have been paid off, so these loans do not impose any ongoing costs to the federal government. Moreover, all of the loans in the Rural Housing Liquidating Account were issued prior to FCRA, which means that the revenue stemming from these loans are budgeted and accounted for separately from those loans issued after the legislation was enacted.

At this time, USDA has chosen not to reinvest this revenue into its Rural Housing programs or to offset the cost of its rental assistance program, but to direct all revenue stemming from the Rural Housing Liquidating Account to the U.S. Department of the

Treasury to reduce the deficit.⁸⁰

Potential Cost Savings

Deferring the pre-credit reform loans in USDA's Rural Housing Liquidating Account would produce significant cost savings to the Section 521 Rural Rental Assistance program.

In 2013, total outlays for USDA's rental assistance program topped \$1 billion. Roughly two-thirds—or \$660 million—went to properties financed with pre-credit reform loans. On average, 20 percent of all rental assistance is used by property owners to service the debt on their existing Section 515 or Section 514 loans, according to USDA's CPA report.⁸¹

This means that roughly \$132 million of Section 521 Rural Rental Assistance is used by property owners each year to make payments on pre-credit reform loans in USDA's Rural Housing Liquidating Account. By deferring these loans, USDA could reduce the demand for its rental assistance program by \$132 million annually.

Farmworker Housing Challenges & Recommendations



Chronic Underfunding

Farmworkers face powerful barriers to accessing decent, safe, and affordable housing, forcing many to live in substandard, crowded, and unsanitary conditions. Today, farmworkers have the worst housing needs of all rural people.

According to the National Agricultural Workers Study (NAWS), about 25 percent of the 2.5 million farmworkers across the nation live in poverty—a rate roughly twice the national average.⁸² In addition to higher poverty rates, farmworkers often face other unique obstacles to affordable housing, including language barriers, discrimination, seasonal employment, the need to travel long distances for work, and a lack of credit.⁸³

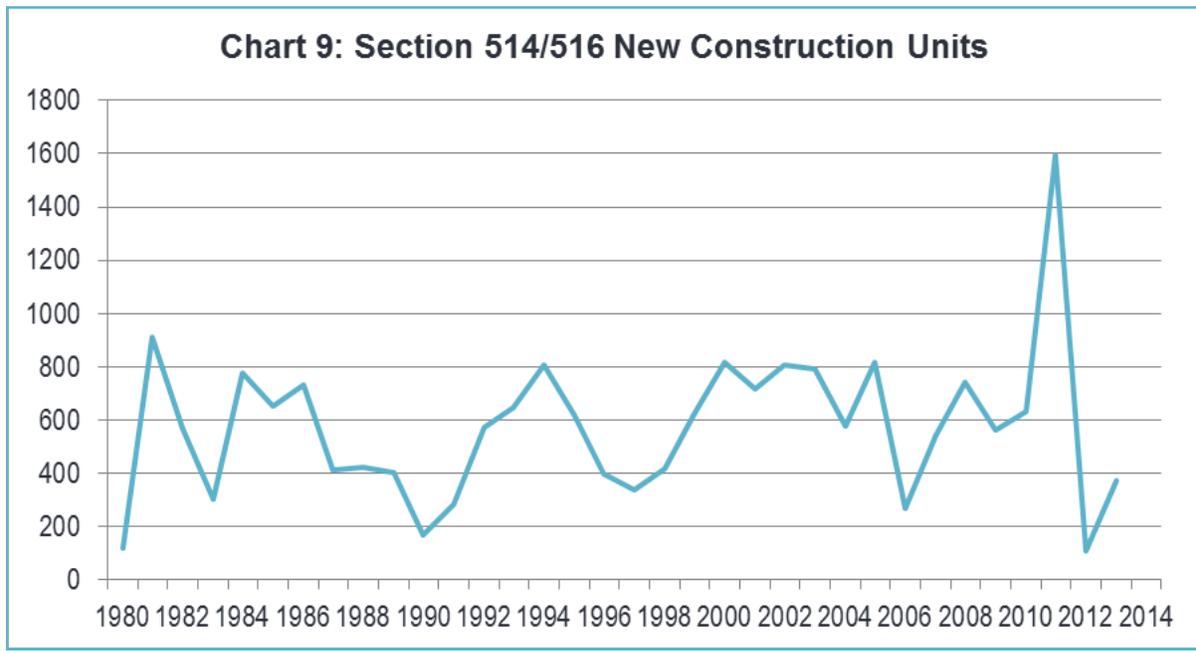
A recent survey conducted by the Housing Assistance Council found that about one-third of all farmworkers pay more than 30 percent of their monthly income on rent and are considered “cost-burdened.”⁸⁴ Moreover, one-third (33 percent) of farmworker housing is either moderately or severely substandard. This is nearly four times greater than the substandard housing rate for all rural communities.⁸⁵ Farmworkers are nearly six times more likely to live in crowded conditions than the national rate.⁸⁶ The Government Accountability Office (GAO) reports that demand for affordable housing is so high that an increasing number of farmworkers have been forced to live in informal dwellings, such as garages, sheds, and trailers.⁸⁷



The lack of affordable housing has negative effects not only on the health and welfare of farmworkers, but on the rural communities where they live and work and the agricultural industry that employs and feeds millions of Americans.

Despite this significant need, however, the Section 514/516 program—the only federal program exclusively designed to increase

access to affordable rental housing for America’s farmworkers—has been chronically underfunded. Since 1980, the Section 514/416 program has financed the construction of an average 600 units of farmworker housing each year (Chart 9).⁸⁸ This falls far short of what is needed to serve this vulnerable population. Consider this: at a single farmworker housing development in California, more than 800 families are currently on the waiting list.



Critical Need for Rental Assistance

The ability to combine USDA Section 521 Rural Rental Assistance with Section 514/516 Loans and Grants is especially critical to the development and preservation of affordable farmworker housing. In many rural communities, it is often very difficult for farmworkers to secure safe and affordable rental housing, outside of those developments financed by these vital programs.

This is because farmworker housing developments face several unique financial constraints. For example, in order to serve migrant and seasonal farmworker communities, many developments are intentionally designed to be vacant for portions of the year. In doing so, they can continue to serve farmworkers who may travel long distances as the growing season changes. While there are times when the housing is unoccupied, operational costs to maintain the property continue to accrue year-round. By combining Section 514/516 loans and grants and Section 521 Rural Rental Assistance, which is used as an operating subsidy, farmworker housing developments can remain financially sustainable even when its housing units are unoccupied.

Photos (below): NC FIELD, Neftali Cuello Villalobos



It is important to note that without USDA's Section 521 Rural Rental Assistance program, many farmworker housing developments would not be able to afford even the subsidized interest rates provided with Section 514 Loans. This is because, in many cases, Section 514 Loans are often not enough on their own to finance the development and preservation of affordable farmworker housing.

Moreover, the Section 514 Loan program would not be as effective without rental assistance. Under the Section 514 program, housing developments are required to make larger reserve payments and debt service. With rental assistance, these expenses would raise rents to levels that many farmworkers simply could not afford.

Adverse USDA Regulations and Practices

In addition to a chronic lack of funding and the critical need for rental assistance, the development and preservation of farmworker housing has been stymied by adverse USDA regulations and practices, many of which are adopted without consultation with stakeholders. Ultimately, these policy decisions have made it far more difficult to serve low-income farmworker communities.

For example, in 2013, USDA abruptly adopted changes to its grant application process without engaging its nonprofit partners. In its 2013 Notice of Funding Availability (NOFA), USDA broke with over 10 years of program procedures by reducing the historic 60-day application period to just 30 days and by lowering the program's funding award cap from \$3 million to \$2 million.



Photo: NC FIELD, Neftali Cuello Villalobos

These policy changes do not take into account the amount of time and financing needed to develop affordable housing projects, from start to finish. Over the course of several years, housing organizations must acquire land, design the development, and secure the necessary financing. As such, most applicants have relied on USDA's past practices and planned to apply for the full \$3 million in Section 514/516 funding to leverage other federal, state, local, and private sources of financing. If these changes are continued by USDA, rural organizations will face an uphill battle to secure an additional \$1 million in low-cost financing.

Engaging stakeholders in policy decisions is critically important, given that Section 514/516 funds seldom account for the entire financing package for farmworker housing developments. U.S. Department of Housing and Urban Development's (HUD) HOME Investments Partnership (HOME) and Community Development Block Grants (CDBG) programs, the Low Income Housing Tax Credit (LIHTC), and state funds are typically combined with USDA funding to develop and preserve farmworker housing. Because USDA cannot fully finance projects entirely with its own resources, its application process should provide adequate notice and, to the extent possible, facilitate leveraging other state, local, and federal funding resources. Instead, USDA policies have made it more difficult to leverage other resources.

For example, USDA has not adopted a definitive timetable for awarding program funds. Because many sources of state and local funding—including LIHTC—are contingent on obtaining USDA funds, the lack of a definitive timetable put these resources at risk. As a result, rural communities are often at a disadvantage when competing for limited resources against larger, urban communities. Providing consistency with a firm deadline for obligating funds would allow rural organizations to leverage much-needed resources

into rural communities. At this time, USDA has reported that it intends to issue a Notice of Solicitation of Applications (NOSA) in FY15 order to better ensure that funds are obligated on a timetable that facilitates access to LIHTC investments.

Moreover, engaging stakeholders will have limited impact unless USDA also commits to transparency in its funding and compliance processes. Currently, USDA provides little information to applicants about how all proposals are scored, how applications compared to other proposals that were submitted, and how each applicant can improve for the next funding cycle. Publishing each application's Self-Scoring Form—which is submitted during the application process—would increase the quality of proposals and strengthen these critical programs.

Likewise, current applicants are often unaware of what elements of their proposal are tracked by USDA to ensure compliance. Clear compliance mechanisms would ensure funds are used effectively and that future applicants have full knowledge of what criteria will be used to track performance.

Farmworker Housing Recommendations

USDA should take immediate steps to ensure successful delivery of farmworker housing assistance, including:

- ◆ **Conform USDA Regulations to LIHTC.** As stated in the previous chapters, USDA should streamline its regulations to work seamlessly with those of the Low Income Housing Tax Credit (LIHTC), which has replaced USDA programs as the principal source of affordable rental housing financing in rural communities.
- ◆ **Engage Stakeholders on How to Improve Policy.** USDA should engage stakeholders prior to issuing new regulations impacting its Rural Housing programs. By working with its nonprofit partners, USDA can better identify and assess ways to serve rural, low-income families more effectively. In addition, engagement will help USDA craft policies that bolster program performance, not hinder it.
- ◆ **Restore Long-Standing Award Maximums.** USDA should restore historic funding award caps at \$3 million. Requiring farmworker housing organizations to secure an additional \$1 million in low-cost financing will make it far more difficult to develop much-needed affordable housing. There are very few sources of financing with costs low enough to keep housing developments affordable for such low-income farmworkers. In many states, USDA funding is the only available source of financing for farmworker housing. Reducing the cap to \$2 million leaves many rural communities without the resources they need to serve smaller-scale developments.
- ◆ **Establish a Definitive Timetable for Loan Obligations.** Setting a firm timetable for awarding program funds will help rural housing developers secure third-party sources of state and local funding—including LIHTC—which are often contingent on obtaining USDA funds. This will allow organizations to leverage other resources into rural communities.
- ◆ **Adopt Practices to Promote Transparency.** USDA should publish each application's Self-Scoring Form. This would provide applicants with vital information on how their application compared to other proposals and how to improve for the next application cycle, thereby increasing the quality of proposals and strengthening these critical programs. Likewise, it ensures taxpayer funds are used effectively.



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Improving the lives of rural Americans starts with affordable housing.

In 1969, rural community activists, public officials, and nonprofit developers formed the National Rural Housing Coalition (NRHC) to fight for better housing and community services for low-income, rural families. Through our network of rural housing advocates and practitioners around the nation, NRHC works to educate the public about the importance of affordable housing and strong communities in rural America.

Our Mission

Since 1969, NRHC has promoted and defended the principle that rural people have a right—regardless of income—to a decent place to live and an affordable home, clean drinking water, and basic community services.

As the voice for rural housing and community development, NRHC:

- ◆ Analyzes federal rural policies and programs;
- ◆ Designs new programs to serve the rural poor and improve existing ones;
- ◆ Ensures adequate funding for rural housing programs; and
- ◆ Supports nonprofit organizations that operate rural housing and community development programs.

Together, we empower rural families and strengthen communities.

For more information about our Coalition and how you can support rural families, please visit www.ruralhousingcoalition.org.



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