NATIONAL RURAL HOUSING COALITION

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Overview of Fiscal Year 2024 (FY 24) Rural Housing Appropriations

HR 5525, FY 24 Continuing Resolution continues Federal discretionary spending at the FY 23 rate, reduced by an 8 percent across-the-board reduction through November 17. The legislation provides $6.9 billion to FEMA for disaster assistance.

FY 24 Appropriations

HR 4368, FY 24 House Agriculture, Rural Development, FDA and Related Agencies appropriations bill, was reported by the full House Appropriations Committee in June. In July and then September, the House failed to approve a rule for debate on the bill. The bill provides $17 billion in new Budget Authority, down from $25 billion in FY 23. To bring the bill within hailing distance of the FY 23 rate, the bill includes some $8 billion in rescissions, resulting in a 2 percent reduction from FY 23.

The House bill appropriates $153 million for direct loan subsidies, $48 million above FY 23, and $229 million below the budget request. Despite the increase in loan subsidies, direct loans for single and multi-family programs are below FY 23 levels and the budget request. The bill provides $31.4 billion in loan authorizations, $400 million less than FY 23 and $828 million less than the budget request. Of the amount recommended, over $30 billion is in guaranteed loan programs. Rental assistance and rural housing vouchers are funded at the budget request. Rural housing grant programs are all trimmed. The House bill also reduced Rural Development Salaries and Expenses by $20 million. Overall, HR 4368 cuts Rural Development programs by $41 million from FY 23 levels.

S. 2131 FY 24 Senate Agriculture, Rural Development, FDA, and Related Agencies was reported to the floor in June. It is now pending before the Senate as a part of a three-bill "mini-bus" (HR 4630), including Military Construction and Veterans and Transportation-HUD Appropriations.

The S. 2131 provides $136 million in direct loan subsidies, below the budget request and the House. Like the House, the Senate bill reduces most direct loan programs and eliminates the one percent loan for Section 502 direct loans. The Senate bill includes $30 billion for single-family and $400 million for multi-family guaranteed loans. The Senate bill freezes the rural housing grant program and Rural Development Salaries and Expenses at the FY 23 rate and provides the increase request in the budget for rental assistance and vouchers. Rural Development program levels in S2131 are $920 million below FY 23.

See the table below for additional information.

Agriculture Appropriations -- Selected Programs: FY 23 Final; FY 24 Budget, House , Senate and Final -- $ in millions

Programs	FY23 Final	FY24 Budget	FY24 House	FY24 Senate	FY24 Final
502 Single Family Direct	$1,258	$1,512	$885	$858	
502 Single Family Guaranteed	30,000	30,000	30,000	30,000	
504 Loans	28	50	25	28	
RHAG 504 grants/533	48	40	35	48	
514 Farm Labor Housing Loans	20	50	13	25	
516 Farm Labor Housing Grants	10	18	5	8.7	
515 Rural Rental Housing	70	200	60	60	
521 Rural Rental Assistance	1487	1650	1606	1608	
523 Self-Help TA	32	40	25	32	
538 Rental Housing Guaranteed	400	400	400	400	
Vouchers	48	38	$48	48	
Multi-Family Restructuring (BA)	36	75	34	35	
Water-Wastewater Loans	1420	1610*	1000	880*	
Water-Wastewater Grants	596	717	587	671	
Water-Wastewater Guarantee	50	50	50	50	
Solid Waste Grants	4	4	4	4	
Small Systems Revolver	1	1	1	1	
Intermediary Re-lending	18.9	19	16	18	
RCDI	6	22	5	6	
RMAP	6	8	6	6	

**includes $110 million in 1 percent loans*

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Fact Sheet Section 502 Direct Loans; Fiscal Year 2024 (FY 24) Appropriations

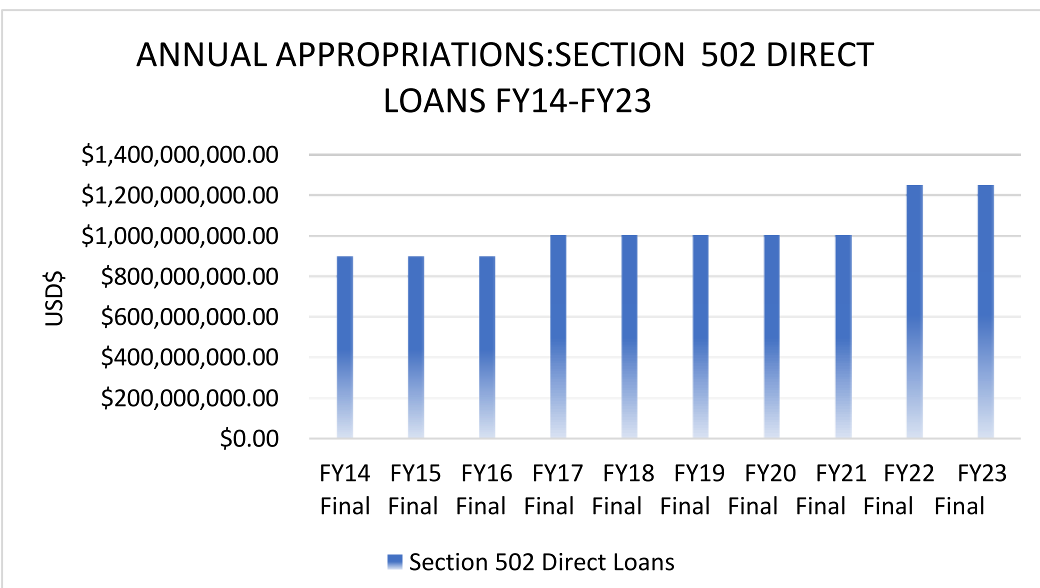
The Section 502 direct loan program administered by the Rural Housing Service of the U.S. Department of Agriculture (USDA) provides direct long-term subsidized loans, as low as one percent, to rural households with incomes not exceeding 80 percent of median. As required by law, at least 40 percent of the loan funds available go to very low-income households – with incomes not exceeding 50 percent of median. Section 502 is the only federal program of its kind and the most deeply targeted homeownership mortgage product in America.

In FY 23, USDA made 7100 Section 502 loans totaling $1.7 billion (including #-$1.25 billion in FY 23 regular appropriations and appropriations from the American Rescue Plan).

Section 502 loans are made at a market interest rate and subsidized at a graduated interest, depending on family income. Borrowers may obtain 100% financing, and loans are generally for 33 years (with a 38-year option for those below 60% of the area median household income), ensuring sustainable home ownership. Minority households make up 40 percent of Section 502 borrowers.

In many cases, Section 502 loans are used with the Mutual Self Help Housing program, which works with families who build their homes, gaining "sweat equity" through their labor.

Over the last ten years, through annual appropriations, the annual program level for Section 502 loans has hovered around $1 billion.



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FY 24 Update

The outlook for FY is for a much smaller program than FY 23. The higher interest rate environment for FY 24 and limitations on domestic discretionary spending have made sustaining Section 502 challenging. While both House and Senate Appropriations Committees increased Budget Authority (BA) for Section 502 loan subsidies, neither bill included an amount sufficient to maintain the FY 23 level.

The House Appropriations Committee provides $86 million in BA to support an estimated $900 million in loans **in HR 4368, the FY 24 Agriculture Appropriations Bill**.

The Senate FY 24 AG Appropriations Bill recommends $62 million in BA, which provides a loan level of $850 million. S. 2131 also recommends a fundamental change in the subsidy available to eligible households, increasing the floor on interest rates from 1 percent to 2 percent. This provision reduced the BA necessary for the loan level recommended in the Senate bill.

The 1 percent loan rate has existed since the early 1970s and is almost exclusively by very low-income households. One percent of loans are used almost exclusively by very low-income families. This increase to 2 percent translates into $10,000 in additional income to qualify for a Section 502 loan.

Section 502(d) of the Housing Act of 1949 sets aside 40 percent of Section 502 loans for very low-income borrowers (30 percent on a state-by-state basis). If loans at the 1 percent interest rate are unavailable, a substantial amount of Section 502 loan funds may go unobligated.

Section 502 (d) of the Housing Act of 1949, as amended:

Amendments of 1983[1]—
(1) not less than 40 percent of the funds approved in appropriation Acts for use under this section shall be set aside and made available only for very low-income families or persons; and
(2) not less than 30 percent of the funds allocated to each State under this section shall be available only for very low-income families or persons.[2]

The 1 percent loan rate has existed since the early 1970s and is used almost exclusively by very low-income households. It is key to meeting the 40 percent allocation requirement for very low-income families.

While steep increases in housing costs and prices have recently abated, the previous two years have limited affordability in rural America, especially for families with limited economic means. The House and Senate bill cuts will reduce housing opportunities in rural communities nationwide. The proposed increase in interest rates in S. 2131 will make it even more difficult for very low income households to purchase or build their own homes.

NRHC Supports Bipartisan Amendment to S 2131

Sens. Cassidy (R, LA), Carper (D, DE), and Smith (D, MN) have proposed an amendment, SA 1281,

Their amendment reduces the direct appropriation from USDA Rural Development Expenses from $ 351 million to $331 million. This would result in a 3.7 percent reduction in the S&E account. The amendment uses the $20 million to restore the minimum interest rate to one percent for Section 502 borrowers and set the program level at approximately $793 million.

In recent years, Congress has invested in rebuilding the administrative capacity of USDA's Rural Development Mission Area. In Fiscal Year 2022, Congress increased appropriations for Rural Development's expenses by some $50 million from $300 to $350 million. It is important to note that the Inflation Reduction Act further augmented Rural Development's administrative budget by providing $100 million in mandatory appropriations to implement REA provisions in the Act.

It is clear from the outlines of the Senate bill that USDA's Rural Development will have less money to administer. Rural Development programs in the Senate bill are over $1 billion below the FY 23 rate.

While rebuilding the administrative capacity of Rural Development is important, it is not more important than providing homeownership loans to rural families with limited economic means.

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[1] November 30, 1983.

[2] Section 105(b)(1) of the Housing and Community Development Technical Amendments Act of 1984, Pub. L. 98–479, approved October 17, 1984, amended paragraphs (1) and (2) to read as shown. Section 105(b)(2) of such Act provides as follows:
''(2) Notwithstanding any other provision of law, the provisions of section 502(d) of the Housing Act of 1949, as amended by paragraph (1), shall apply with respect to fiscal year 1985 and thereafter, and the provisions of such section, as so amended, may not be changed or superseded except by another provision of law which amends such section.''.

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Fact Sheet USDA Farm Labor Housing – Section 514/ 516

Housing Conditions for Migrant and Seasonal Farmworkers

There are approximately 3 million migrant and seasonal farmworkers in the United States. These essential workers show up to work every day to maintain our domestic food supply. Unfortunately, they also face the greatest housing challenges of all rural people. According to the most recent National Agricultural Workers Survey, 33% of all farm workers and 45% of migrant farmworkers live in crowded dwellings[1]. Moreover, farmworkers and their families also suffer from poverty. 61% of farmworkers earn incomes below the poverty line. Consequently, three out of every five farmworker families live below the federal poverty line.

The crisis has only been exacerbated by the health and economic consequences of the pandemic. According to the National Center on Farmworker Health:

"Overcrowded *and substandard housing conditions are a major concern for the potential of COVID-19 to spread through agricultural worker communities. A single building may house several dozen workers or more, who often sleep in dormitory-style quarters, making quarantining or social distancing efforts difficult, if not impossible. Limited access to restrooms and sinks, at home and in the field, may complicate hygiene prevention efforts."*[2]

This lack of funding for new on- and off-farm worker housing and increasing demand comes when the farm laborer population becomes more settled. For example, an additional 45,560 farmworker housing units are needed in California to alleviate critical overcrowding in farmworker households.

Data Sources: National Agricultural Workers Survey." January 2018; California Institute for Rural Studies, "Farmworker Housing Study and Action Plan For Salinas Valley and Pajaro Valley." June 2018

Sections 514 and 516

Sections 514 and 516 are the only federal programs providing affordable loans and grants to purchase, construct, or repair rental housing for America's farm laborers. Section 514 Farm Labor Housing Loans provide below-market financing for up to 33 years. Section 516 grants are typically used in conjunction

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[2] *http://www.ncfh.org/msaws-and-covid-19.html*

with Section 514 loans. Increasing USDA-financed projects also received other capital, including the Low Income Housing Tax Credit.

Not only is there a substantial need for new housing for agricultural workers, but previously financed farm worker housing needs repair and renovation. According to a 2016 USDA report, indicated a need for replacement reserves totaling $187 million for the 15,893 units financed by USDA.

The FY 24 budget request proposed financing some 27 farm labor housing developments.

$ in millions	FY 23 Final	FY 24 Budget	FY 24 House	FY 24 Senate
514 Farm Labor Housing Loans	$20	50	13	25
516 Farm Labor Housing Grants	$10	18	5	8.7

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Fact Sheet Section 523 Mutual Self-Help Housing

Section 523 Mutual Self-Help Housing (MSH) technical assistance program is the only federal program combining "sweat equity" homeownership opportunities with technical assistance and affordable loans under USDA's Section 502 direct loan program.

Self Help participants work together nights and weekends to build their own homes. They contribute 65% of the labor necessary to build their home, and their 'sweat equity' results in substantial savings over the cost of a comparable contract-built home. This allows families with lower incomes to participate and is a key tool for meeting the statutory requirement that 40 percent of Section 502 loans go to very low-income families.

MSH organizations work with low-income families to build homes in rural communities. These organizations assist families in preparing their Section 502 loan applications, organize groups of 8-12 families who will work together, provide training in construction basics, and supervise the construction of self-help homes.

In 2022, 78 MSH grantees completed construction on 882 homes; at least 40% of the families participating in MSH construction were very low-income. The average saving MSH families achieved through their sweat equity was $66,162.

Over 37,000 families are waiting to participate in Mutual Self-Help housing. Seventy-three organizations have expressed interest in the MSH technical assistance program.

Status of Appropriations

FY 23 Final: $32 million

FY 24 Budget: $40 million

FY 24 House: $25 million

FY 24 Senate: $32 million

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Fact Sheet S. 2790. Rural Housing Service Reform Act of 2023

NRHC supports S. 2790, the Rural Housing Services Reform Act of 2023, and S. 1490, the Strategy and Investment in Rural Housing Preservation Act, sponsored by Sen. Shaheen. Both bills include important improvements to federal rural housing programs administered by the U.S. Department of Agriculture (USDA) and its Rural Housing Service (RHS).

Rural America needs improved housing programs and policies. Of the 25 million units located in rural and small communities, over 5 percent, or 1.5 million, of these homes are considered either moderately or severely substandard; more than 30 percent of the nation's housing units lacking hot and cold piped water are in rural and small-town communities; and on some Native American lands, the incidence of homes lacking basic plumbing is more than ten times the national level.

USDA must address two significant problems in its rural rental housing portfolio. The first is the deteriorating conditions of its developments. A 2016 USDA report estimated that $5.596 billion was needed to preserve USDA's rental housing stock (including farm labor, Multi-family Preservation, and guaranteed developments) over the next 20 years. Of that amount, $4.7 billion relates to Section 515 developments.[1] The second problem facing USDA is maturing mortgages. Although Section 515 was established in 1968, the high point of Section 515 production was 1977-1985. As a result, today and in the near future, there is a rising tide of maturing mortgages that could reduce the availability of affordable rural rental housing. The Government Accountability Office, USDA, and, most recently, the Housing Assistance Council, in testimony before the Senate Banking Committee, have all documented the increasing rental housing loan maturity rate.[2]

As Congress considers these important bills, NRHC recommends the following improvements.

1. Eligibility for Decoupling: USDA has approximately 13,000 multi-family housing loans with an outstanding loan balance of $9 billion. According to HAC's data, over two-thirds of these loans mature after 2032. The average number of loans maturing annually between 2023-2027 is approximately 100; that annual average increases to about 600 for 2028-2032 and increases substantially thereafter. The timetable of maturing loans provides an opportunity to phase in a preservation and decoupling program. It gives USDA time to build its administrative capacity, policies, and procedures to address the steep increase in maturing loans after 2032. NRHC recommends including language that limits decoupling and related assistance to only those loans that mature within the four-year notification period. This would ensure that USDA addresses loans that mature in the short run and avoid a rush of prepayment of loans that expire in future years.

Suggested Language

On page 10, line 22, strike maturing loans and insert " loan a that matures within the four-year notification period specified in subsection (b)."

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[1] USDA 2016 Rural Development Multi-Family Housing Comprehensive Property Assessment," U.S. Department of Agriculture Rural Development (March 1, 2016). https://www.rd.usda.gov/sites/default/files/USDA-RD-CPAMFH.pdf

[2] Statement for the Record of David Lipsetz, President & CEO, Housing Assistance Council U.S. Senate Committee on Banking, Housing, and Urban Affairs Housing, Transportation, and Community Development Subcommittee May 2, 2023 https://www.banking.senate.gov/imo/media/doc/Lipsetz%20Testimony%205-2-23.pdf

"(f) DECOUPLING OF RENTAL ASSISTANCE.—

"(1) RENEWAL OF RENTAL ASSISTANCE CONTRACT.—If the Secretary determines that a loan that matures within the four-year notification period specified in subsection (b) for a project cannot reasonably be restructured in accordance with subsection (c) because it is not financially feasible or the owner does not agree with the proposed restructuring, and the project was operating with rental assistance under section 521, the Secretary may renew the rental assistance contract, notwithstanding any provision of section 521, for a term, subject to annual appropriations, of not less than 10 years but not more than 20 years.

2. Establish a system for setting the rents for decoupling rental assistance: Implementing a decoupling program will require USDA to establish new policies and procedures for rental assistance. In this process, it will be important to implement cost-effective and efficient administration of rental assistance that also protects tenants' health and safety, which can be accomplished, at least in part, by requiring a comparison of operating costs under a budget-based or public housing operating subsidy approach. We recommend language that requires that rents are based on the lower of either a budget-based or operating cost adjustment factor authorized under Section 524 of the Multi-family Assisted Housing Reform and Affordability Act of 1997. (A similar provision was included in S. 1389, a previous version of the RHS Reform Act.)

3. Provide an incentive for low-cost financing for project improvement: Among the conditions for approval of a decoupling application is that an owner submits a plan identifying resources and a timetable to make necessary improvements as USDA requires. Most, if not all, USDA multi-family developments need repair; a 2016 USDA report estimated that $5.596 billion was required to preserve USDA's rental housing stock (including farm labor, Multi-family Preservation, and guaranteed developments) over the next 20 years. Of that amount, $4.7 billion relates to Section 515 developments.[3] USDA should establish a priority for decoupling applications that provide below-market, low-cost, or no-cost financing for improvements to the project as a way to limit the cost to the federal government;

Suggested Language (f)

On Page 12, line 8, insert a new sentence at the end. "In reviewing such plans, the Secretary will provide a priority to making use of available subsidized federal, state, and local housing financing sources. "
''(4) CONDITION FOR APPROVAL.—

' ''(A) PLAN.—Before the approval of a rental assistance contract authorized under this section, the Secretary shall require the owner to submit to the Secretary a plan that identifies financing sources and a timetable for renovations and improvements determined to be necessary. In reviewing such plans, the Secretary will provide a priority to making use of available subsidized federal, state, and local housing financing sources.

4. Require an Interim Report on Preservation, Restructuring, and Decoupling: In conjunction with phasing in restructuring and decoupling, USDA should prepare an interim report with recommendations based on the experience from 2023-2027. Administration of the program in these early years should provide information on the success and obstacles USDA has encountered as it takes on a much larger number of maturing mortgages, the process for determining rental assistance and evaluating properties not in the USDA rural housing portfolio, the frequency of transfers or sales to nonprofit, as well as an analysis of the sources of financing and continued affordability requirements imposed (if any) for decoupled properties by their financing source.

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[3] USDA 2016 Rural Development Multi-Family Housing Comprehensive Property Assessment," U.S. Department of Agriculture Rural Development (March 1, 2016). https://www.rd.usda.gov/sites/default/files/USDA-RD-CPAMFH.pdf