



Housing Assistance Council

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ADMINISTRATION PROPOSES ELIMINATING MANY RURAL HOUSING PROGRAMS

If the Bush Administration's budget for fiscal year 2008 proposed winds of change for rural housing, the FY 2009 budget proposes a hurricane. As it did last year, the Administration proposes no funding for the U.S. Department of Agriculture's major direct loan programs – Section 502 direct for homebuyers and Section 515 for organizations developing rental housing – as well as USDA's Rural Community Development Initiative and the U.S. Department of Housing and Urban Development's Rural Housing and Economic Development program. This year zeroes are also suggested for Section 523 support for community organizations that run self-help "sweat equity" programs, rental housing preservation efforts, and Section 514/516 farmworker housing loans and grants.

USDA: One Big Number and Many Zeroes

Rental Assistance and Vouchers

The budget does propose a very large increase in the Section 521 Rental Assistance (RA) program, from \$482.1 million in 2008 to \$997 million in 2009. This increase is needed because RA contract lengths were shortened over the last several years, thus reducing the appropriations needed each year from 2004 to 2008. In FY 2004 Congress's appropriation cut contracts to four years instead of the previous five years. In FY 2007, contracts were shortened further, most to two years and some to one year. All RA contracts issued in FY 2008 will be for one year. This means that in FY 2009 the contracts issued in 2005, 2007, and 2008 will need to be renewed. RD estimates that in 2009 about 230,000 of the 280,000 existing contracts will need to be renewed at a total cost of close to \$1 billion.

The Rental Assistance request contains two innovations. First, the Administration proposes to use \$100 million of the \$997 million for a "pilot voucher program" for RA-eligible tenants. Few details are given, but it appears these vouchers would replace RA for some tenants in Section 515 properties. Unlike RA, which is project-based and remains with a property when a tenant moves out, each voucher would be tenant-based and would move with the tenant.

It seems these vouchers would be unlike the vouchers issued by USDA since 2006 for tenants who live in properties where Section 515 mortgages have been prepaid. RA is available only where a Section 515 loan exists, so tenants in a prepaid property lose their RA and receive vouchers to help them afford the rents in non-Section 515 properties, whether they remain in the prepaid property or move elsewhere. In contrast, the new vouchers would replace RA in properties that remain in the Section 515 program.

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The budget's second new rural housing proposal would require every tenant receiving RA or a voucher to pay a minimum rent of \$50 per month.

Direct and Guaranteed Lending

The budget would eliminate or reduce all of USDA's direct lending programs, and would instead emphasize loan guarantees. Unfunded programs would include Section 502 direct loans for single-family home purchases, Section 515 loans for multifamily housing development, and Section 514 farm labor housing loans. Section 504 repair loans would be greatly reduced, from \$34.7 million in FY 2008 to \$17.7 million.

Guarantees of loans made by private lenders – which cost the government far less than direct loans – would be substantially increased. The Section 502 guaranteed mortgage program would increase from \$4.2 billion in 2008 to over \$4.8 billion in 2009. Section 538 guarantees for rental housing would jump from \$130 million to \$300 million. There are no guarantee programs for repair loans or farmworker housing loans.

The 2008 budget said USDA planned to propose legislation to authorize subsidized guaranteed single-family housing loans for very low- and low-income rural residents, and then request funding for those loans. Such legislation was never introduced in Congress, and the 2009 budget does not mention the possibility of subsidized Section 502 guarantees. The 2009 budget would specifically prohibit providing subsidies for Section 538 multifamily housing guaranteed loans.

This year's budget, like last year's, also proposes raising the fee on new Section 502 guaranteed loans from 2 percent to 3 percent, explaining "this causes the loans to be less costly for the government without a significant additional burden to the borrowers, given that they can finance the fee as part of the loan." Guarantee fees on Section 538 loans, on the other hand, would be prohibited.

Grants

Last year the Administration proposed a sharp cut in funding for the Section 523 self-help technical assistance (TA) program, which supports community organizations that run self-help "sweat equity" programs for low-income first-time homebuyers. This year, the budget suggests defunding Section 523 entirely, explaining that "demand for that program hinges on funding for single family direct loans," which would receive no funding under this budget. Congress increased the program's appropriation for FY 2008 rather than cutting it, but even the \$39 million it provided is not enough to renew all expiring self-help TA contracts in 2008. Rural Development announced in late January that it will renew the contracts of performing grantees (that is, TA contractors who are meeting contract requirements) at 60 percent of their past funding levels. RD will not consider applications from any new organizations in FY 2008.

Preservation of Rental Housing

Rural Development has devoted serious attention to rental housing preservation over the last few years. Recent budgets have acknowledged the importance of rehabilitating Section 515 properties and assisting tenants displaced by loan prepayments, while requesting low funding levels. This year, USDA's budget summary explains that because legislation proposed by the Administration in 2005 to authorize preservation efforts has not passed Congress, the budget requests no funding for preservation efforts.

H.R. 5039, a bill based on the Administration's 2005 proposal, passed the House Financial Services Committee in 2006, and a revised bill, H.R. 4002, is currently pending in the same committee, whose Chairman, Rep. Barney Frank, has announced that rental preservation will be a top committee priority in 2008.

The budget not only provides no new preservation funding, but also proposes to cancel \$20 million of the balance remaining in the revitalization program account from previous appropriations. Any other remaining funds could be used to provide vouchers for tenants in Section 515 properties whose owners prepay their mortgages.

USDA Rural Development Program (dollars in millions)	FY 2006 Approp.^a	FY 2007 Approp.^a	FY 2008 Proposed Budget	FY 2008 Approp.	FY 2009 Proposed Budget	FY 2009 HAC Recommendations
Loans						
502 Single Fam. Direct	\$1,141	\$1,141	\$0	\$1,129.4	\$0	\$1,500
502 Single Family Guar.	3,681	3,681	4,848	4,220	4,849	4,800
504 Very Low-inc. Repair	35	35	22.9	34.7	17.7	30
514 Farm Labor Hsg.	38	38	14	27.7	0	50
515 Rental Hsg. Direct	100	100	0	70	0	150
538 Rental Hsg. Guar.	100	100	200	130	300	150
Rental Prsrv. Revlg. Loans	3	3	0	3	0	c
Grants and Payments						
504 Very Low-inc. Repair	30	30	30	30	30	30
516 Farm Labor Hsg.	14	14	4	10	0	50
523 Self-Help TA	34	34	9.5	39	0	60
533 Hsg. Prsrv. Grants	10	10	9	9	12	15
521 Rental Assistance ^b	653	616	567	482.1	997	997
542 Rural Hsg. Vouchers	16	16	27.8	5	0	c
Rental Prsrv. Demo.	9	9	0	20	0	50 ^c
Rural Cmnty. Dev't Init.	6	6	0	6.3	0	12

a. Figures shown for FY 2006 and 2007 are before 1 percent across-the-board cut.

b. Rental Assistance contracts were for four years in FY 2006, for two years in FY 2007, and for one year in FY 2008. The budget proposes one-year contracts in 2009.

c. HAC recommends a total of \$50 million be appropriated for USDA's Multifamily Rental Preservation Demonstration, Section 542 preservation vouchers, and the Rental Preservation Revolving Loan Fund (PRLF), to be allocated among those three programs by USDA. USDA should allocate at least \$6 million for the PRLF, the same amount available in FY 2006 and 2007 (in both years USDA added funds from other accounts to the \$3 million appropriation).

HUD: Cuts and Increases Proposed

Many HUD programs would face substantial cuts in the proposed 2009 budget. Reductions are sought for Community Development Block Grants, tenant-based rental assistance, the Public Housing Capital Fund, Section 202 housing for the elderly, and Section 811 housing for the disabled. As in past years, the HUD Rural Housing and Economic Development program and the HOPE VI program are proposed for complete elimination. Congress in the past has not gone along with these zero numbers for either program. The proposed 2009 budget also has some increases – for homeless programs, HOME, project-based rental assistance, the Public Housing Operating Fund, and fair housing.

Detailed analyses of the HUD budget are available from several sources, including the Center on Budget and Policy Priorities, www.cbpp.org, and the National Low Income Housing Coalition, www.nlihc.org.

HUD Program (dollars in millions)	FY 2006 Approp.^a	FY 2007 Approp.^a	FY 2008 Proposed Budget	FY 2008 Approp.	FY 2009 Proposed Budget
Cmty. Devel. Block Grants	\$4,220	\$3,771.9	\$3,035.6	\$3,865.8	\$3,000
HOME (Mortgage Forecl. Mitigation)	1,750 --	1,750 --	1,967 ^b --	1,704 --d	1,967 --e
Tenant-Based Rental Asstnce.	15,574	15,920	16,000	16,391	16,031
Project-Based Rental Asstnce.	5,088	5,976	5,813	6,381.8	7,000
Public Hsg. Capital Fund	2,464	2,464	2,024	2,439	2,024
Public Hsg. Operating Fund	3,600	3,864	4,000	4,200	4,300
Public Hsg. Revtlztn. (HOPE VI)	99	99	0	100	0
Native Amer. Hsg. Block Grant	630	630	627	630	627
Homeless Assistance Grants	1,326.6	1,441.6	1,561	1,586	1,636
Hsg. Opps. for Persons w/ AIDS	289	289	300	300	300
202 Housing for the Elderly	734.6	734.6	575	735	540
811 Housing for Disabled	236.6	236.6	125	237	160
Fair Housing	45.5	45.5	45	50	51
Rural Hsg. & Econ. Dev. (RHED)	17	17	0	17	0
Self-Help Hmownshp. (SHOP)	20	19.8	39	26.5	39
Lead Hazard Control	152	152	116	145	116
Housing Counseling	42	44.5	50	50c	65

a. Figures shown for FY 2006 and 2007 are before 1 percent across the board cut.

b. \$200 million in counseling and foreclosure prevention activities is provided to the Neighborhood Reinvestment Corporation.

c. Housing counseling funding is under the HOME program.

d. Foreclosure prevention activities moved to appropriation for Neighborhood Reinvestment (not in HUD).

e. \$25 million would be provided separately (not in HUD's funding) to the Neighborhood Reinvestment Corporation (NeighborWorks America) for foreclosure prevention activities.

Congress will consider the Administration's budget as it decides appropriations for fiscal year 2009 (which begins October 1, 2008), but is not bound by the budget.

Complete budget documents are available at <http://www.gpoaccess.gov/usbudget/> or <http://www.budget.gov>.