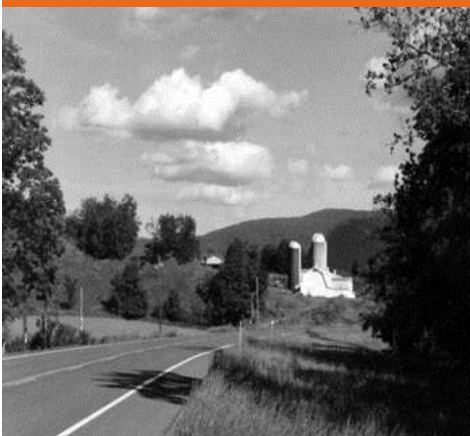


# RURAL RESEARCH NOTE

## THE HOUSING ASSISTANCE COUNCIL

The Housing Assistance Council (HAC) is a national nonprofit organization that supports affordable housing efforts in rural areas of the United States. HAC provides technical housing services, seed money loans from a revolving fund, housing program and policy assistance, and research and information services. *HAC is an equal opportunity lender.*

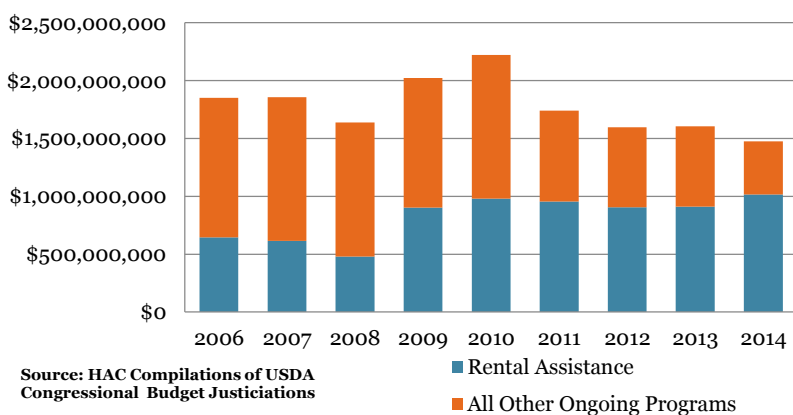


November 27, 2013

## AS OVERALL PROGRAM FUNDING FOR USDA/RURAL DEVELOPMENT SHRINKS, THE NEED FOR RENTAL ASSISTANCE HAS GROWN

Section 521 Rental Assistance is the single largest line item for ongoing programs<sup>1</sup> within the USDA/Rural Development budget. This has been the case for most years since at least Fiscal Year 2006 (the earliest year for which data were readily available). While this is not a new development, it is important to understand the bigger picture. Since FY 2010, total funding for Rural Development's ongoing programs has been declining. At the same time, funding for Rental Assistance has been relatively steady or increasing, and it is expected to keep rising. Given the current strong trend towards reducing government spending, Rental Assistance costs threaten to take over funding for the rest of USDA's rural housing programs, and even other programs that fall in the Rural Development section of the department.

**Rental Assistance Vs Funding for All Ongoing RD Programs By Fiscal Year**



<sup>1</sup> Ongoing funding does not include funds from the American Recovery and Reinvestment Act of 2009.

## Background on Rental Assistance

The USDA Rural Housing Service Section 521 Rental Assistance program provides rental subsidies to approximately 270,000 rural tenants living in some properties financed by the Section 515 Rural Rental or Section 514/516 Farm Labor Housing programs. Rental Assistance subsidy reduces the tenants' monthly rent so that they pay about 30 percent of household income. Tenants receiving Rental Assistance generally have very low incomes. With incomes at or below 50 percent of Area Median Income, these tenants could not otherwise afford to pay their rent. Rental Assistance is provided through contracts with owners of USDA-financed rental projects in which RD commits payments on behalf of tenants in a designated number or percentage of the units.

## Rental Assistance Contracts Converted From Multi-year to Annual Funding

For many years, Rental Assistance contracts were written for 20 years. USDA estimated and committed the funding needed for the full contract term. The contract lengths changed several times over the years to shorten the terms as project rents increased. Beginning in FY 2008, the contract terms were shortened to one year. As funding from the multi-year contracts ran out, Rental Assistance units were converted to one-year contracts. As the contract terms shortened, the number of units to be funded each year increased. Annual RA costs increased to nearly \$1 billion, compared to the FY 2008 appropriation of \$482.1 million.

Since FY 2009, the Section 521 program provided annual Rental Assistance contracts to subsidize between 200,000 and 220,000 rural tenants. The remaining rental assisted units (65,382 units at the end of FY 2012) continued to operate with funding remaining on their multi-year contracts. This funding is beginning to run out, however, leading to further increases in the number of annual funded units.

### USDA Rural Development Rental Assistance Obligations FY 2006 - 2014

	Fiscal Year	RA Units Funded	Dollar Obligations	Average Cost per Unit	Contract Term In Yrs
<b>Actual</b>	2006	43,597	\$646,570,837	\$3,708	4
<b>Actual</b>	2007	83,111	\$616,020,000	\$3,706	2
<b>Actual</b>	2008	121,568	\$478,815,366	\$3,939	1
<b>Actual</b>	2009	210,618	\$902,496,468	\$4,285	1
<b>Actual</b>	2010	219,037	\$978,779,659	\$4,469	1
<b>Actual</b>	2011	218,494	\$953,709,786	\$4,365	1
<b>Actual</b>	2012	206,217	\$904,652,994	\$4,387	1
<b>Estimate</b>	2013	190,697	\$837,053,728	\$4,389	1
<b>Projected</b>	2014	230,693	\$1,015,050,000	\$4,400	1

In its FY 2014 budget request, RD requested an increase of \$105.9 million over its FY 13 appropriation level based on the anticipated need to fund an additional 26,000 units that will exhaust the funding under their multi-year contracts. The estimate of 26,000 units accounts for nearly 40 percent of the 65,382 RA units with multi-year contracts. This leaves 39,382 Rental Assistance units to be funded in future years. Based on the current average Rental Assistance unit cost, an additional \$160.4 million will be needed.

## Impact of FY 2013 Sequestration

Since USDA budget preparation begins two years in advance, the estimate of \$105.9 million was based on anticipated full funding of FY 13 Rental Assistance needs. In March 2013, Congress passed a final appropriations bill for the current fiscal year. The appropriation bill included the full amount of USDA's request for Rental

Assistance, but it was subject to a 5 percent sequester and a 2.5 percent across the board cut. This reduction in funding resulted in the loss of about \$65 million to the Section 521 Rental Assistance program affecting approximately 15,000 units in roughly 600 rental properties. Based on the average unit cost, we estimate that the total Rental Assistance shortfall in FY 2013 could be as high as \$66 million.

USDA worked with MFH borrowers through a variety of loan servicing options. Ultimately, the owners had to absorb the loss of Rental Assistance funds for approximately one month. Contracts that were not renewed from FY 2013 funding have been renewed with funding intended to address renewals in 2014.

## Contact Us

### **HOUSING ASSISTANCE COUNCIL**

1025 Vermont Avenue, Northwest  
Suite 606  
Washington DC 20005

202-842-8600  
hac@ruralhome.org  
www.ruralhome.org

### FOR MORE INFORMATION ON RENTAL ASSISTANCE

USDA Rural Development Notifies Rural Rental Housing Borrowers Regarding Section 521 Rental Assistance Shortfall

<http://www.ruralhome.org/information-and-publications/announcements/694-usda-rural-development-notifies-rural-rental-housing-borrowers-regarding-section-521-rental-assistance-shortfall>

USDA Rural Rental Assistance Program (Section 521):

<http://www.ruralhome.org/storage/documents/rd521ra.pdf>

---

## **HOUSING ASSISTANCE COUNCIL**

