Housing Assistance Council
Washington, DC

www.ruralhome.org

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RURAL RESEARCH BRIEF

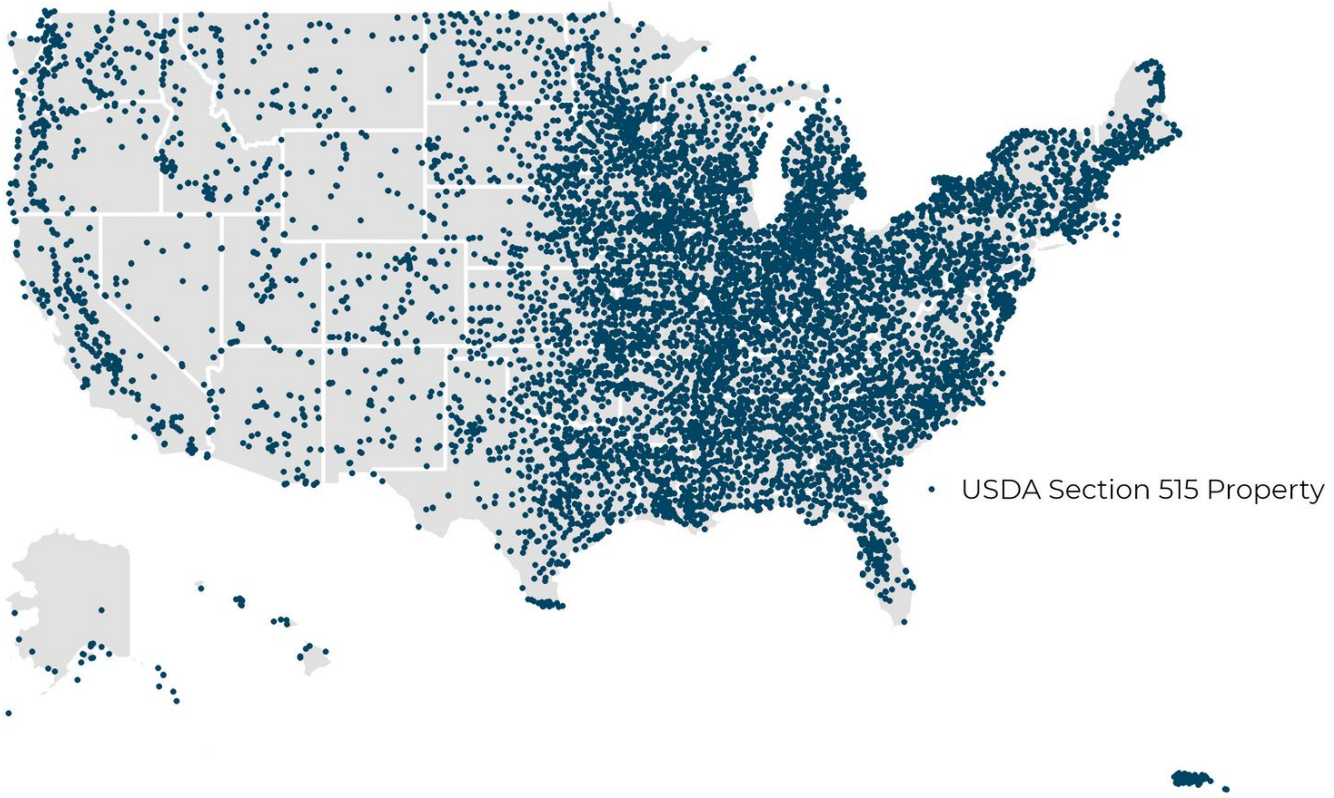
Rural America is Losing Affordable Rental Housing At An Alarming Rate

Photo: Jennifer Emerling, *There is More Work to Be Done*

An Update On Maturing Mortgages in USDA's Rural Rental Housing Program

IN MANY RURAL COMMUNITIES, USDA SECTION 515 PROPERTIES ARE AMONG THE FEW SOURCES OF AFFORDABLE RENTAL HOUSING

USDA Section 515 Properties, 2021



Source: Housing Assistance Council Tabulations of USDA Data

Section 515 Rural Rental Housing properties financed by the U.S. Department of Agriculture (USDA) are an important source of rental housing in many rural communities. Since the program's inception in 1963, Section 515 Rural Rental Housing loans have financed nearly 28,000 rental properties containing over 533,000 affordable apartment homes across rural America. There is at least one USDA Section 515 property in 87 percent of all U.S. counties.

While an important resource to many rural communities, the availability of these homes is declining. A recent US senate report noted "the alarming number of multi-family housing mortgages scheduled to mature in the next few years. As these mortgages mature, projects and units will be removed from USDA's affordable rural housing program, placing very low income rural residents in jeopardy of untenable rent increases and possible eviction." [1]

THE NUMBER AND AVAILABLITY OF USDA-SUPPORTED RENTAL HOMES ARE DECLINING

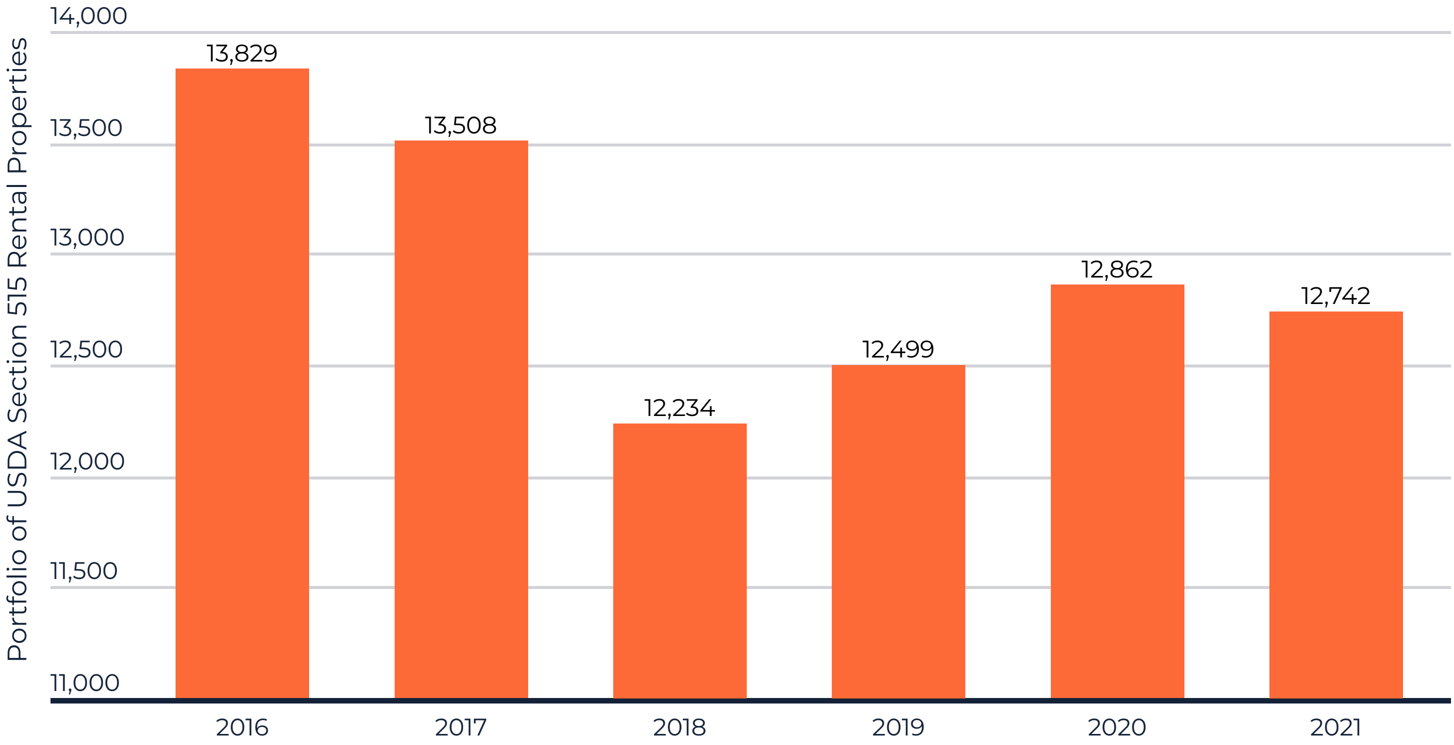
Few new construction Section 515 properties have been financed in the last several years, and many of the remaining loans are reaching maturity or are otherwise projected to leave the portfolio in the next few decades. The residual impacts of this trend are exponential. Once the last scheduled payment is made, the property owner is generally no longer subject to government oversight or regulations on use of their property (unless the project has other subsidies still in place), the federal government is no longer paying to support that housing, any remaining or replacement financing may have a higher interest rate than the USDA loan, the tenants are no longer eligible for USDA Rental Assistance, and in some instances, the homes may no longer be affordable for their tenants.

In 2016, USDA presented estimates of the date of the final mortgage payment on Section 515 properties based on the loan repayment schedule. This was known as mortgage maturity. Using the 2016 USDA data, a HAC analysis estimated that 332 properties containing 8,462 units could leave the program due to mortgage maturity between April 2016 and the end of calendar year 2021.

> **of the 921 properties that left the program over the past 5 years, only 199 were projected to leave**

HAC examined what actually happened during that five-year period. Using USDA data as of July 2021, HAC estimates there were 12,742 properties containing 395,007 units remaining in USDA' s Section 515 Rural Rental Housing portfolio. The Housing Assistance Council identified 921 Section 515 properties that left the portfolio between 2016 and July 2021 - nearly three times the original USDA projection for maturing mortgages alone during the five-year period. This finding is not entirely unexpected since the prior estimates were based only on mortgage maturity dates. Nearly 40 percent of the properties in the portfolio have prepayment rights.

Number of Active USDA Section 515 Rental Properties 2016-2021



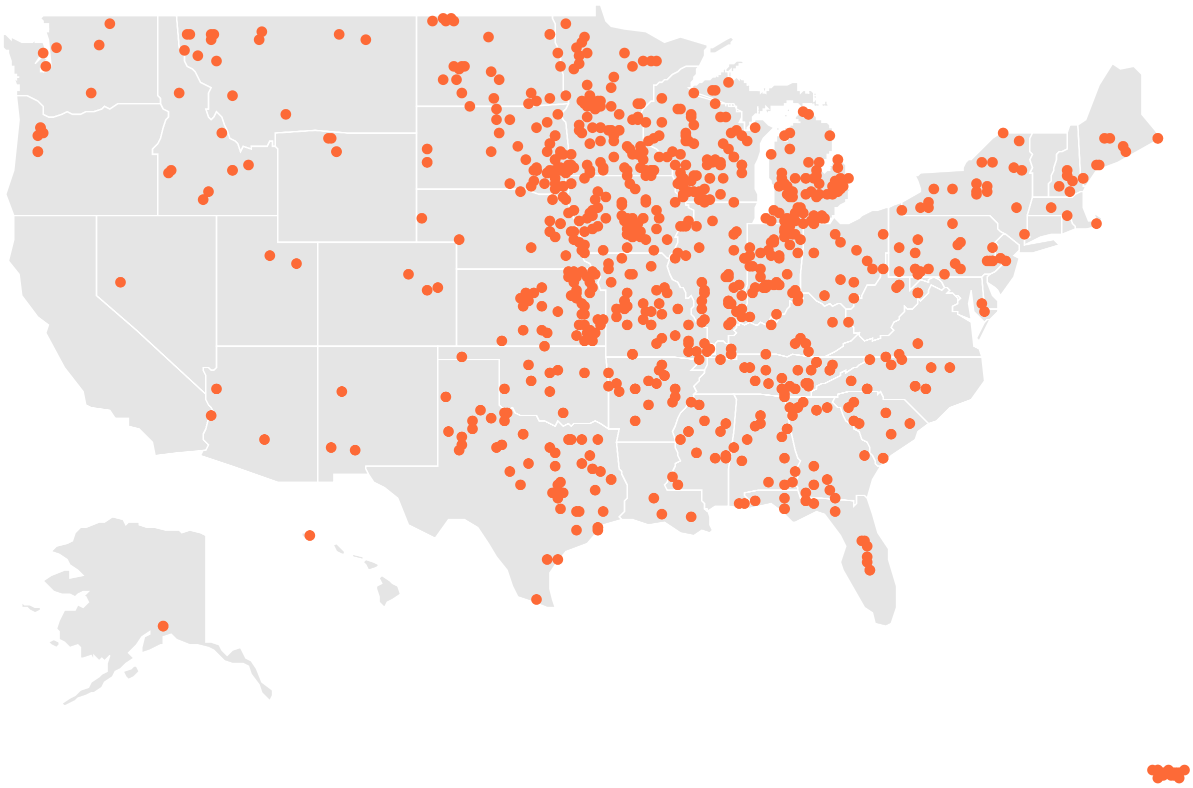
Source: HAC Tabulations of USDA Data.

USDA data on property exits indicates that a number of properties left the program between 2016 and 2018. In 2019, the data reflects a small increase in the number of properties resulting from production of new loans and loan modifications.[2] These factors partially explain the increase in the absolute number of properties in 2019 and 2020. There are still incomplete data, however, on the reasons for properties leaving USDA's portfolio which hinders the clarity of the analysis.

In addition to properties that left the program, the USDA financing on a number of properties has been consolidated making it appear that there are fewer properties in the portfolio.[3] The data indicates that 308 properties from the 2016 data have been consolidated into 131 properties.

USDA Section 515 Property Exits, 2016-2021

Exited Property



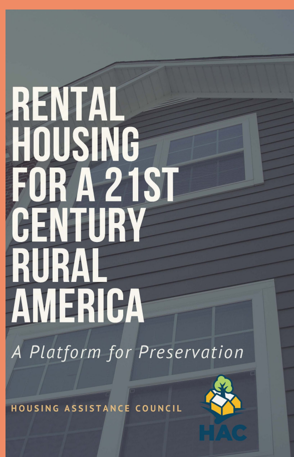
Source: Housing Assistance Council tabulations of USDA Data

CROSS-SUBSIDY: FEDERALLY-SUPPORTED RENTAL HOUSING OFTEN RELIES ON MULTIPLE SOURCES OF FINANCING TO MAKE IT AFFORDABLE FOR LOW-INCOME RESIDENTS

USDA Section 515 rural rental financing is often combined with other funding sources. Commonly used sources of federal subsidy include HUD HOME funds, Tax Exempt Bonds, and Low-Income Housing Tax Credits. An individual property may have one or more of these forms of additional federal subsidy.

Approximately two-thirds of all Section 515 tenants live in units that are rent subsidized through USDA’s Section 521 Rental Assistance program. Another almost 15 percent receive some other help with their rent. Twenty percent have no rental subsidy. Other forms of rental assistance include HUD Project-Based Section 8 or Housing Choice Vouchers. A small portion of tenants receive rental subsidies through some other program.

To learn more about USDA's Multifamily Housing resources and issues, download HAC's report ***Rental Housing For a 21st Century Rural America***



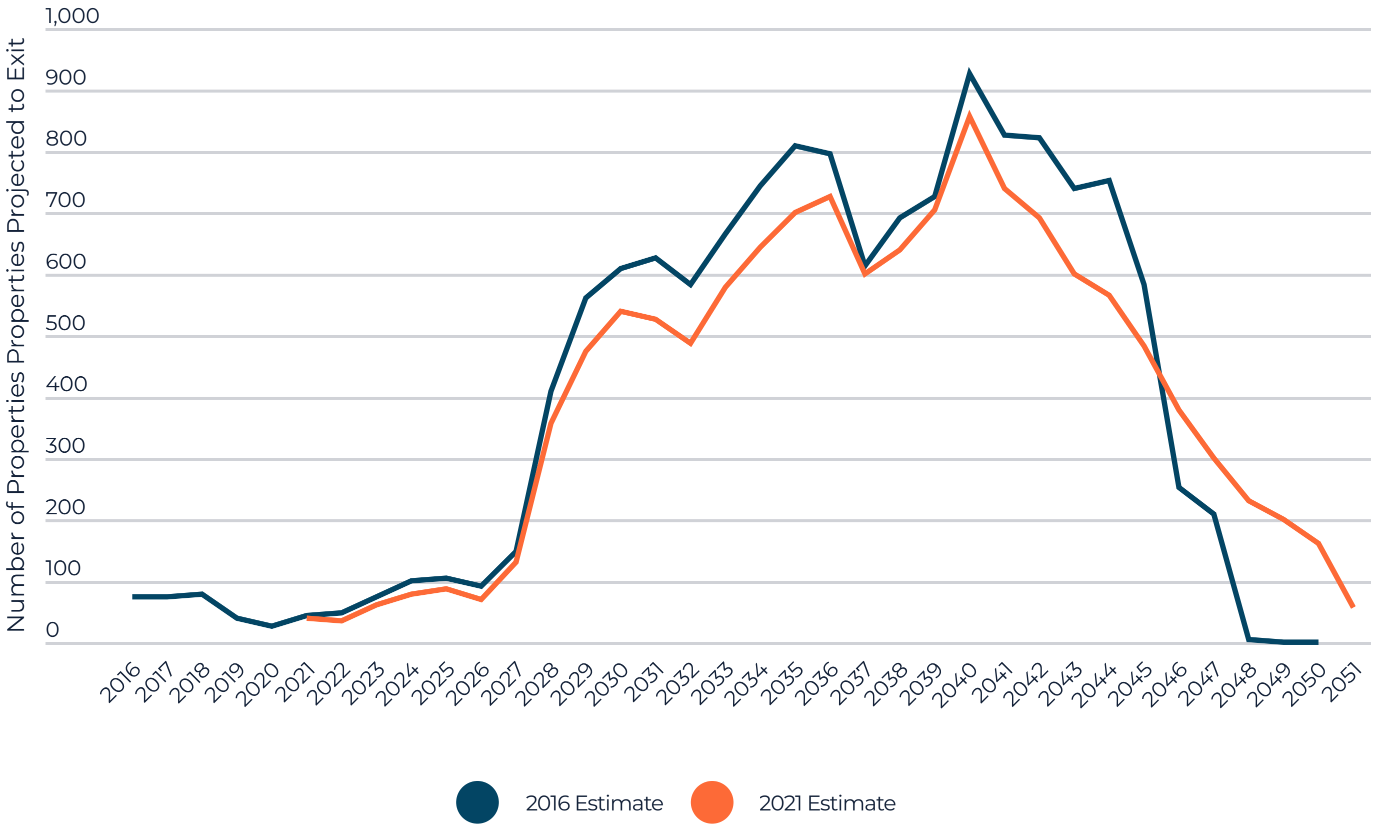
REVISITING THE MATURING MORTGAGE CURVE

The initial 2016 data estimated that 332 properties containing 8,462 units could leave the program due to mortgage maturity between April 2016 and the end of calendar year 2021. As of July 2021, 199 of the projected 332 properties left the program during this time frame. The remaining properties are still in the program with revised loan terms. There were also 722 properties that left the portfolio before the final mortgage payment. USDA advised HAC that these properties left for a variety of servicing reasons, either through foreclosure or after extended servicing for noncompliance.

Maturing USDA Section 515 Multifamily Loans

Estimated Loss of Properties to Loan Maturity

2016 and 2021



Source: Housing Assistance Council tabulations of USDA Data

RuralSTATs

USDA Section 515 Rental Housing

87%

Of U.S. counties have at least one USDA Section 515 property

921

Section 515 properties exited USDA's portfolio between 2016 and 2021

21,693

Section 515 units exited USDA's portfolio between 2016 and 2021

2/3

Of USDA Section 515 tenants are elderly or disabled.

$13,640

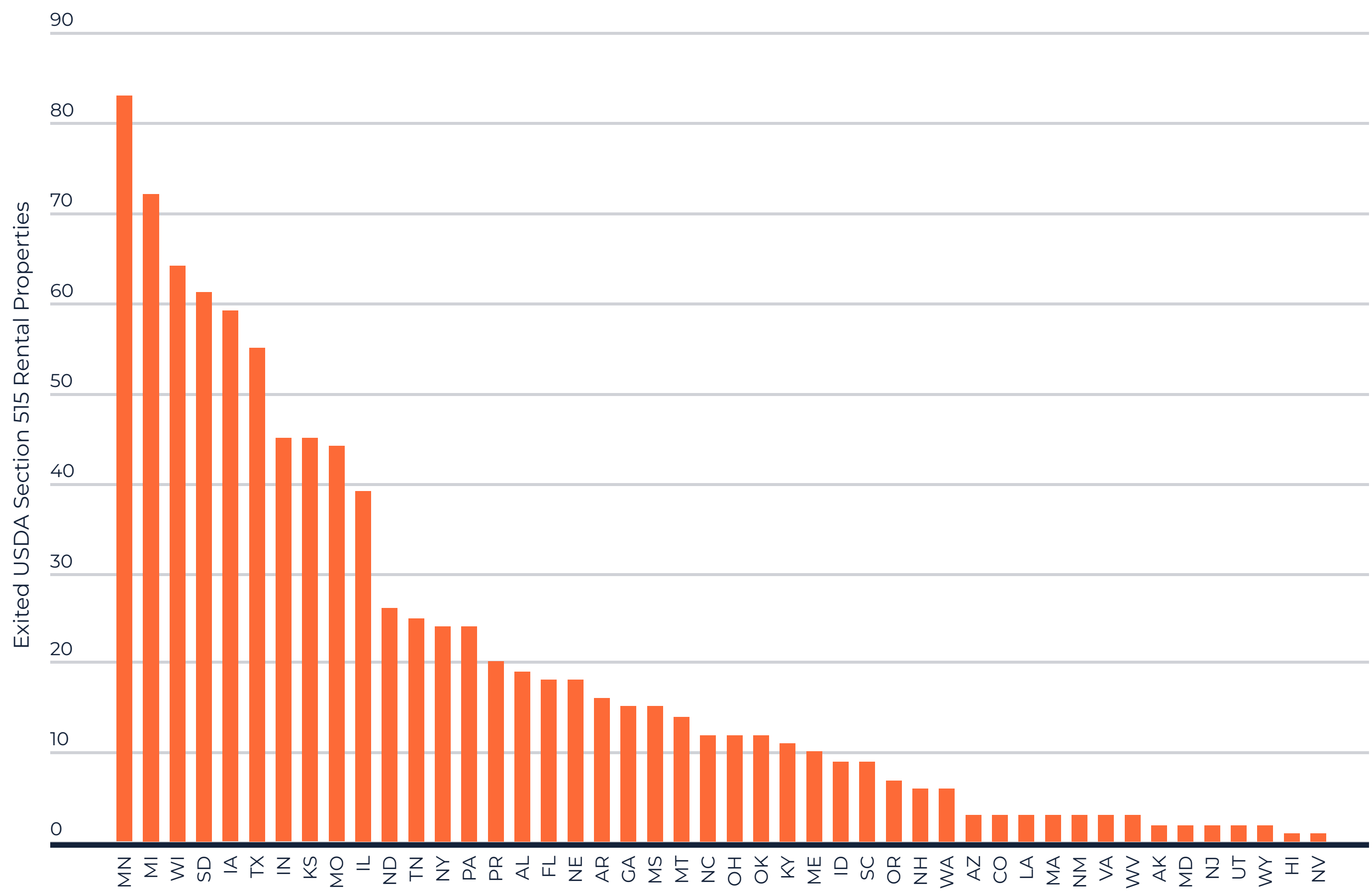
Average annual income of USDA Section 515 tenants.

Source: All figures derive from Housing Assistance Council tabulations of USDA Data

PROPERTY EXITS WERE CONCENTRATED IN THE MIDWEST AND SOUTH

Ten states including Minnesota, Michigan, Wisconsin, South Dakota, Iowa, Texas, Indiana, Kansas, Missouri, and Illinois represent over 60 percent of the properties - and nearly 49 percent of the units - that left USDA's portfolio between 2016 and 2021. In this same time period, no properties exited the program in California, Connecticut, Delaware, Rhode Island, and Vermont. Nearly three-quarters of the properties leaving the program were family-occupied properties. Approximately one-quarter of properties that exited were owned by nonprofit entities. A very small percentage of properties were owned by full profit entities, and the vast majority were owned by limited profit corporations.

USDA Section 515 Property Exits by State, 2016-2021



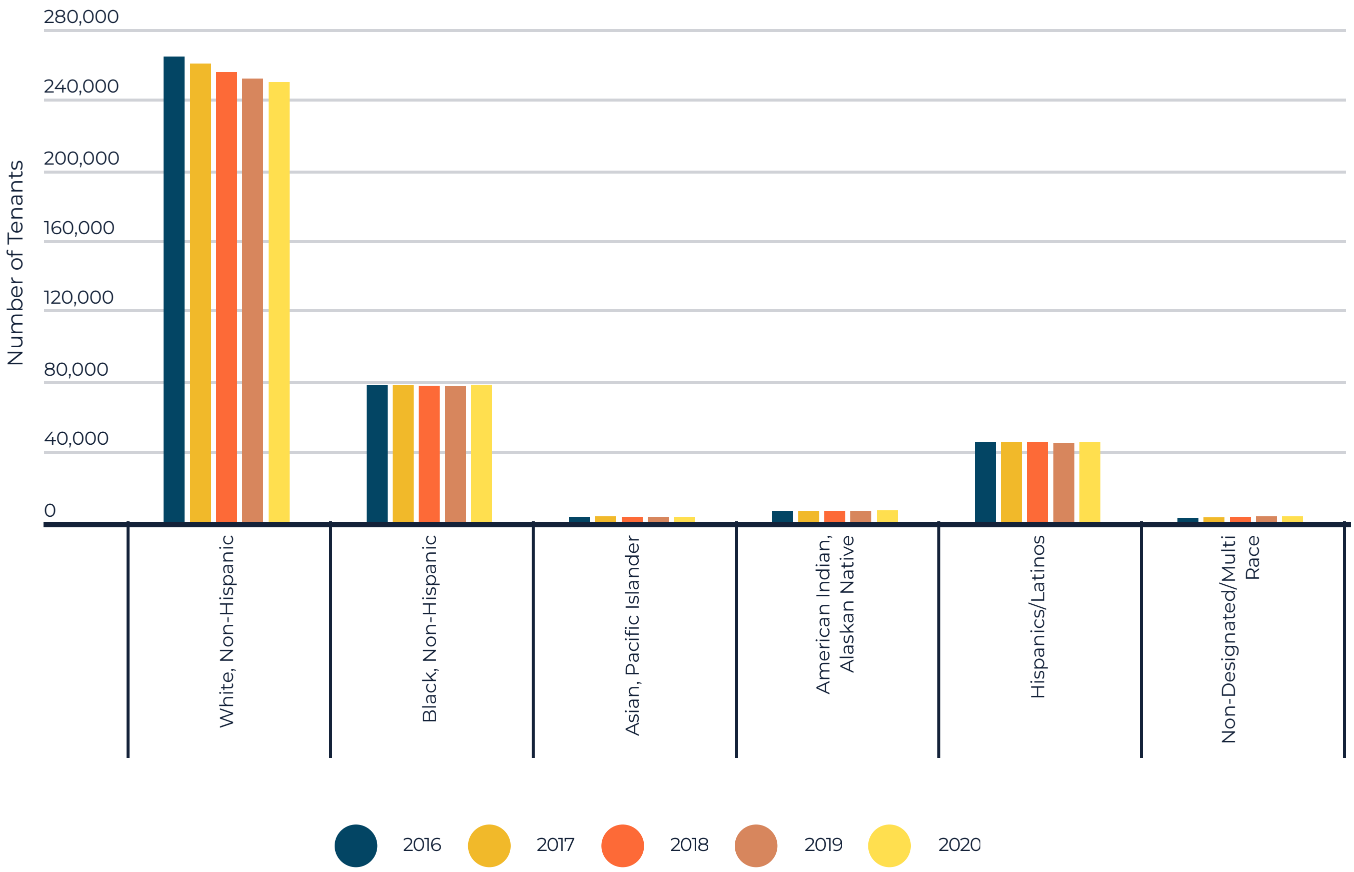
Source: Housing Assistance Council Tabulations of USDA Data

THE IMPACTS OF PROPERTY EXITS ON RESIDENTS ARE STILL LARGELY UNKNOWN

USDA's rural rental housing programs serve particularly low-income and vulnerable populations. The average household income of residents in USDA properties is $13,640, and tenants receiving rental assistance have average annual incomes of $11,380. Additionally, approximately two-thirds of Section 515 tenants are elderly or disabled.

Data on residents in USDA properties is somewhat sparse, and the understanding of what happens to properties and their residents after exit is even more limited. The chart below shows the change in Section 515 residency by race and ethnicity. As mentioned earlier, the greatest loss of properties occurred in the Midwest region. This region tends to have a more racially homogenous population, which is in line with data showing that the greatest loss in tenants has been among white non-Hispanic residents.

USDA Section 515 Portfolio Change in Tenant Characteristics, 2016-2020



Source: Housing Assistance Council Tabulations of USDA Data

ABOUT THE AUTHOR

Michael (Mike) Feinberg *is a Senior Policy Analyst at the Housing Assistance Council (HAC). In this capacity, he conducts research and develops various HAC information products. Before joining HAC, Mike was a Branch Chief in USDA's Single Family Housing Direct Loan Division where he managed the agency's Section 502 direct loan program. He is a graduate of Penn State with a bachelor's degree in Agricultural Economics and Rural Sociology.*

ABOUT THE DATA

Data for this brief derives from Housing Assistance Council tabulations of data from USDA/Rural Development Datasets, Multi-family Housing USDA Service Center Agencies Online Services, and from USDA's Multi-Family Housing Annual Fair Housing Occupancy Report. Occupancy data comes from USDA's Multi-Family Housing management systems that track loan level and tenant data.

Notes

1. Senate Report to accompany S. 1603, the fiscal year 2018 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Bill, S.Rept. 115-131 (July 20, 2017). https://www.appropriations.senate.gov/imo/media/doc/FY2018%20Agriculture%20Appropriations%20Bill,%20Report%20115- 131.pdf.
2. Some properties identified in USDA's 2016 portfolio data were not included in reports from 2017 and 2018, but were in the 2019 and 2020 data. We note that loan terms were extended on some properties and infer that other properties may have been reinstated for other reasons.
3. These data derive from a loan management system rather than a property inventory system.

The **Housing Assistance Council** is a national nonprofit organization that helps build homes and communities across rural America

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Photo: Rory Doyle. *There is More Work to Be Done*

HAC Housing Assistance Council