HAC
Housing Assistance Council

We help build homes and communities across rural America.

September 20, 2022

The Honorable Tina Smith & The Honorable Mike Rounds
Chair & Ranking Member
Housing, Transportation, and Community Development Subcommittee
Senate Committee on Banking, Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington, D.C. 20510

RE: Statement for the hearing record, "Examining the U.S. Department of Agriculture's Rural Housing Service: Stakeholder Perspectives"

Dear Chair Smith and Ranking Member Rounds,

The Housing Assistance Council (HAC) appreciates the opportunity to offer a written statement for the record for the Housing, Transportation, and Community Development Subcommittee hearing entitled "Examining the U.S. Department of Agriculture's Rural Housing Service: Stakeholder Perspectives."

HAC helps build homes and communities across rural America. Founded in 1971, headquartered in Washington, D.C., and working in all 50 states, HAC is a national nonprofit and a certified community development financial institution (CDFI). We are dedicated to helping local rural organizations build affordable homes and vibrant communities. We provide below-market financing, technical assistance, training, and information services. HAC also serves as rural America's "Information Backbone" with leading public and private sector institutions relying on HAC's independent, non-partisan research and analysis to shape policy.

Affordable, quality housing options are foundational for communities to thrive. Yet, a historic lack of access to adequate housing continues to plague rural America. Small towns and rural regions are diverse demographically and economically and face a wide array of local challenges and opportunities associated with the development of their communities and housing. While each place is unique, HAC has documented several themes that are present across many rural communities: In recent decades, many rural places have seen a loss of basic infrastructure and high-capacity local services. Persistent poverty is a predominantly rural condition — 81 percent of persistent poverty counties are rural in nature. Habitable rural housing is

1025 Vermont Ave., N.W., Suite 606, Washington, DC 20005
202-842-8600 hac@ruralhome.org ruralhome.org 202-347-3441

in severely short supply, and the adequate housing that does exist is often unaffordable because rural incomes average well below the national median. Rural housing lacks adequate plumbing and kitchen facilities at a rate well above the national average, and overcrowding is not uncommon in some rural regions. Decades of stagnant rural house prices, especially in high-poverty areas, have denied owners the wealth and mobility so often associated with buying a home. And racial inequity is endemic as the result of housing policies and banking practices that excluded rural people of color.

The USDA's Rural Housing Service (RHS) programs are critical to the future of rural communities. These programs have suffered from decades of funding cuts and lack of modernization. The following are some RHS policy proposals that would help address some of the challenges and inequities we see in rural America.

MULTIFAMILY PROGRAMS

Although homeownership is more common in rural areas than in urban and suburban communities, rental options remain a crucial part of the affordable housing landscape. Rural Development's Section 515 program provides an especially important housing opportunity for many rural communities. Since the program's inception in 1963, Section 515 Rural Rental Housing Loans have financed nearly 28,000 properties containing over 533,000 affordable apartment homes across rural America. The average annual income of people living in Section 515 properties is only $14,665[1]. For many low-income rural residents, purchasing a home is not an option, and the Section 515 program provides them with affordable rental units.

Despite the importance of the Section 515 program for creating and maintaining multifamily rural housing, many of these properties are aging out of the program through mortgage maturations, resulting in the loss of thousands of rural affordable rental units each year. Between 2016 and 2021, 921 properties, which contained 21,693 units, left the Section 515 program[2]. And due to lack of appropriated funding, no new Section 515 units have been added to the program in over a decade. When properties leave the program, the owners are no longer required to maintain the affordability of the units or otherwise comply with the standards of the program.

[1] 2021 Rural Development Multi-Family Housing (MFH) Annual Fair Housing Occupancy Report, https://www.rd.usda.gov/sites/default/files/RDUL-MFHreport_0.pdf
[2] An Update on Maturing Mortgages in USDA's Section 515 Rural Rental Housing Program - Housing Assistance Council (ruralhome.org)

The preservation of affordable housing options is critical to ensuring the well-being of rural communities across the country. For this reason, HAC is recommending several policy changes that would support the preservation of multifamily housing options.

Include Funding for Section 521 Rental Assistance to Cover ARPA Units

The most immediate, high-impact need we see in the RHS multifamily portfolio right now is the need to renew Section 521 rental assistance for the 27,000 families covered under the American Rescue Plan Act (ARPA), who are set to lose their assistance at the end of the month. ARPA included $100 million in funding for Section 521 rental assistance for previously unassisted units. This funding allowed RHS to extend rental assistance coverage to an estimated 27,000 units in 3,700 properties. Absent Congressional action, this funding expires at the end of Fiscal Year 2022. ARPA included no language suggesting that this 521 rental assistance was not to be included in the broader 521 appropriations account which Congress annually renews at its full level of need. This is in marked contrast to the Emergency Housing Vouchers (EHVs) provision of ARPA[3], which included a clear expiration date for the issuance/reissuance of EHVs, explicitly segregated EHVs from the broader Housing Choice Voucher renewal account, and included dedicated funding for the full anticipated renewal amount.

The Administration clearly expected that ARPA 521 rental assistance would be renewed, as its FY 2023 proposed Budget specifically included additional Section 521 rental assistance to continue coverage for these units. Unfortunately, neither the House nor Senate USDA appropriations bills included this critical funding. Allowing these units to fall out of the system would be disastrous for the families who are currently receiving that rental assistance, and would have deeply troubling implications for the prospects of preserving the quality and affordability of the essential USDA multifamily portfolio for the long term.

Below is a state-by-state chart showing how many units will lose their Section 521 rental assistance at the end of FY22 without Congressional action to renew this funding through the appropriations process.

[3] American Rescue Plan Act, Section 3202

202-842-8600 hac@ruralhome.org ruralhome.org 202-347-3441
1025 Vermont Ave., N.W., Suite 606, Washington, DC 20005

ARPA Section 521 Rental Assistance Number of Projects and Units		
State	**Number of Projects**	**Number of Families Losing Rental Assistance**
ALABAMA	184	1710
ALASKA	0	0
ARIZONA	7	45
ARKANSAS	77	353
CALIFORNIA	175	1369
COLORADO	22	136
CONNECTICUT	33	166
DELAWARE	13	51
FLORIDA	144	1178
GEORGIA	253	3206
HAWAII	0	0
IDAHO	6	6
ILLINOIS	90	222
INDIANA	170	442
IOWA	15	18
KANSAS	38	76
KENTUCKY	195	1654
LOUISIANA	138	1826
MAINE	60	153
MARYLAND	76	711
MASSACHUSETTS	16	28
MICHIGAN	232	1041
MINNESOTA	109	204
MISSISSIPPI	118	1447
MISSOURI	197	641
MONTANA	11	17
NEBRASKA	7	8
NEVADA	10	77
NEW HAMPSHIRE	22	72
NEW JERSEY	29	187
NEW MEXICO	18	55
NEW YORK	30	118
NORTH CAROLINA	102	664
OHIO	140	634

OKLAHOMA	57	496
OREGON	44	142
PENNSYLVANIA	73	640
PUERTO RICO	0	0
RHODE ISLAND	3	7
SOUTH CAROLINA	138	1659
SOUTH DAKOTA	15	18
TENNESSEE	125	1291
TEXAS	266	1704
UTAH	15	67
VERMONT	10	31
VIRGIN ISLANDS	0	0
VIRGINIA	104	1290
WASHINGTON	90	512
WEST VIRGINIA	66	369
WISCONSIN	44	70
WYOMING	6	15
Grand Total	3793	26826

Authorize Important Multifamily Preservation Programs

Several of the current USDA preservation programs are funded through appropriations but are not authorized. The Multifamily Preservation and Revitalization (MPR) program, the Preservation Revolving Loan Fund (PRLF), and the Multifamily Preservation Technical Assistance (MFTA) program all play key roles in addressing the preservation crisis, but because they are not authorized, their status is instable. Authorizing these three programs is a critical step in ensuring they are stably funded into the future.

The MPR program allows existing properties in the Section 515 rental housing and Section 514/516 farmworker housing programs to refinance their loans and receive more funding to help revitalize their properties and maintain affordability. This program not only preserves the affordability of rental housing through continued government oversight but also provides owners with the capital they need to maintain and repair their aging properties. Recent estimates indicate that $30 billion in funding for the MPR program is needed over the next 30 years to preserve 80 percent of the existing Section 515 portfolio.

The PRLF program was funded through appropriations for several years between 2005 and 2011. It allowed RHS to make long term (30 years), very low interest (1%) loans to private nonprofit organizations, and state and local housing finance agencies, to provide revolving loans for the preservation and revitalization of Section 515 and 514/516 properties. HAC alone has used PRLF funding to preserve over 1,300 units in 18 states, but the program has been unfunded since FY2011. (However, USDA continued issuing NOFAs through 2014 using unobligated funds.)

To help address the growing crisis of multifamily maturing mortgages, the MFTA program was first funded through Congressional appropriations in FY2017. The program provides competitive grants to eligible nonprofit organizations and public housing authorities (PHAs) to provide technical assistance and other services to enable affordable housing preservation through the transfer of Section 515 properties from current owners to nonprofits or PHAs. The original intent of the program was two pronged: to subsidize preservation transactions by providing individual property owners with technical assistance in the sale, restructuring, or acquisition of properties; and to focus on transforming the program through research and policy development. To date, only the first intent has been funded in the first two program rounds.

Authorizing these three programs will help ensure they are stably funded into the future, that the intent of the programs is better reflected in use of funds, and that they remain part of the suite of preservation tools available at RHS.

<u>Improve Opportunities for Mission-Focused Nonprofits to Preserve Maturing Properties</u>

Preserving the Section 515 portfolio requires collaboration with RHS, current owners, and public and private sector purchasers. However, the current process for transferring properties is overly burdensome and prohibitively difficult for small, mission-focused nonprofits. Many of these properties are aging and in need of repair. When new buyers want to purchase Section 515 properties, all immediate and long-term repair and rehabilitation needs must be identified by a Capital Needs Assessment (CNA). The nonprofit purchaser must demonstrate the availability of reserves to adequately cover the cost of addressing the property’s capital needs – an often insurmountably high bar.

Instituting a “two-step” transfer process for nonprofits trying to maintain the affordability of multifamily housing could streamline the process and increase preservation of properties. If properties could be transferred to a new nonprofit owner prior to the identification of funding sources for all repairs identified in the CNA and the reserve requirements adjustment, a significant administrative barrier to preservation could be removed.

RHS has been working on a nonprofit "transfer tool," which may prove helpful for this process, but the release of the tool has been repeatedly delayed.

Nonprofit preservation efforts could also be enhanced by setting aside funding in both the Section 515 and MPR programs for smaller and lower capacity organizations. These nonprofits often struggle to be competitive with the larger and more powerful organizations, especially with current funding so limited. MPR applications have been closed for four years as RHS works through its waiting list, which is projected to last another four years. These smaller organizations often work in areas that have the deepest need, specifically persistently poor communities. Preservation funding needs to be equitably distributed to ensure that geographies are not being left out due to lack of capacity.

<u>Increase Data Transparency</u>

Despite the importance of USDA properties, there is limited data on them accessible to the public. This makes it challenging for organizations to aid in the preservation of this affordable housing. Releasing more data on the current housing stock, including information on why properties leave the programs (maturation, prepayment, foreclosure, or other servicing issues) and risk rankings for properties, would improve preservation outcomes and stakeholder understanding of the issues.

Increasing data transparency would also make rural housing research more robust and could help USDA identify which properties are working best and which programs are most helpful. Non-governmental research offers a different perspective and would help USDA and other agencies work more efficiently.

Establishing a preservation advisory committee to work with USDA to develop a plan to ensure the long-term preservation of rural housing options, as laid out in the Strategy and Investment in Rural Housing Preservation Act (H.R. 1728), would also improve communication and allow for better stakeholder involvement.

<u>Extend Section 521 Rental Assistance for All Units</u>

Approximately 20 percent of the families living in USDA rental housing do not receive rental assistance from USDA, HUD or state sources. Most of these 67,000 unassisted households are paying more than 30 percent of their income in rent and include the elderly, disabled and children. (In 2021, ARPA brought the number of unassisted households down to 41,589, but this number is likely to rise again as pandemic related assistance runs out.[4])

To address this, Section 521 Rental Assistance should be extended to all Section 515 units to help families in need. This will also stabilize the finances of many developments, encouraging preservation.

Parameters for Decoupling Rental Assistance and RHS Mortgages

Under current law, the availability of Section 521 Rental Assistance to residents of a Section 515 or 514/516 property is tied to the term of the mortgage. When the mortgage is paid off, the property loses its Rental Assistance. Decoupling the mortgage and the rental assistance has been considered as a solution to this situation. HAC would prefer to see RHS's multifamily programs funded at a level that would adequately meet the portfolio's preservation needs. However, thousands of units are leaving the program each year and that funding has not materialized to meet the need.

As a result, RHS needs a suite of preservation strategies to be available in the absence of adequate funding. If decoupling is considered, it should be paired with increased funding for preservation programs and a few parameters should be met in order to ensure long-term affordability for the properties:

- Properties looking to decouple should have to sign a restrictive use agreement and a 20-year Rental Assistance contract (subject to annual appropriations), to maintain long-term affordability.
- Properties looking to decouple should have to demonstrate that they have tried to access other preservation funding before pursuing decoupling as a last resort.
- Nonprofit transfers should be incentivized, as covered earlier in these comments.

Strengthen the Rural Voucher Program

Under the current appropriations, the RHS Section 542 rural housing voucher subsidy is set at the time of prepayment and never changes as rents increase or household income decreases. As a result, voucher holders face displacement from their housing if they have a loss of income or their rents are increased. This issue could be resolved by making the RHS voucher subsidy identical to the HUD housing choice voucher subsidy.

[4] 2021 Rural Development Multi-Family Housing (MFH) Annual Fair Housing Occupancy Report, https://www.rd.usda.gov/sites/default/files/RDUL-MFHreport_0.pdf

SINGLE-FAMILY PROGRAMS

In recent years, homeownership nationwide, including in rural areas, has become more expensive and harder to maintain. Inadequate access to mortgage credit, an aging rural housing stock, high construction and rehabilitation costs, small balance mortgages, complex appraisal issues, and barriers to the secondary mortgage market, all contribute to the difficulties rural homebuyers and the small financial institutions who serve them often face. USDA programs play an important role in making homeownership a viable option for rural communities.

Improve the Section 504 Program

Aging housing stock is a significant challenge for many rural areas, and homeowners are often older and on a fixed income, making home repair a challenge. The RHS's Section 504 Single Family Repair Loans and Grants program provides direct loan and/or grant funds for home repair to very low-income applicants who do not qualify for conventional bank financing. However, inefficiencies in the program have deterred potential applicants and have even resulted in funds left on the table in some years, despite huge need on the ground. Some potential Section 504 improvements include:

- Encourage RHS to streamline the 504 process. USDA has begun some of this already, but it is often as onerous to complete a $20,000 Section 504 loan/grant as a $150,000 Section 502 mortgage.
- Increase the threshold for the mortgage requirement on a 504 loan above $7,500. The current threshold was set 22 years ago, in 2000, and has never been adjusted for inflation. A promissory note would be appropriate security for loans under $15,000.
- Reinstate "packaging grants" through the Section 525 Technical and Supervisory Assistance Grant Program so that nonprofits can help USDA offices process Section 504 applications. Using nonprofits to assist with packaging has been a helpful tool in the Section 502 direct program.
- Allow loans under $25,000 to be closed without a title company so that title insurance, escrow, and similar processes would not be needed.

CAPACITY BUILDING PROGRAMS

Geographic equity for rural places is a stated priority for the Administration. but no amount of federal investment will succeed in creating lasting rural equity if not paired with robust capacity building to ensure the most underserved and persistently poor rural places are in a position to access available federal resources. There are several programs that would provide communities with much needed capacity building support, including the proposed Rural Partnership Program and the well-established Rural Community Development Initiative.

Authorize the Rural Partnership Program

The proposed Rural Partnership Program (RPP) would empower rural regions by supporting locally led planning and capacity building efforts and providing flexible funding to meet critical needs. The proposed program would have two types of funding: grants for direct activities and projects and grants for organizations providing technical assistance. Having funds dedicated to capacity building and technical assistance would allow organizations to better support their communities. Authorizing RPP and ensuring that it is structured in a way that will proactively and equitably serve historically underserved and persistently poor communities would help transform the capacity of rural places to improve housing conditions.

Authorize the Powerful Rural Community Development Initiative

The Rural Community Development Initiative (RCDI) provides funding to nonprofits, public bodies and qualified for-profit groups to support housing, community facilities and community and economic development projects in rural areas. The funds can go towards homeownership education, technical assistance to sub-grantees, and other programming to build local organizations' capacity and technical knowledge.

Currently, the program is funded through appropriations but not authorized. Authorizing RCDI would provide the program with the long-term stability it needs. Non-statutory improvements to the program could also help it be even more effective. There is currently a $250,000 per-awardee cap, which is not statutory. This cap limits how much organizations can do with their funds, specifically larger groups that may have the capacity to do more. Additionally, RCDI's 1:1 match requirement can be challenging for organizations to meet, especially those serving the most persistently poor rural regions. These regions are the most in need of capacity building, but requirement for matching funds can make it difficult to deploy these investments in exactly the type of place that needs it the most. And finally, recent additions to the RCDI NOSA – specifically the requirement that applicants proposing to serve one or more Federally recognized tribes must include a resolution of support with its application from the Tribes it proposes to serve – can also make it unduly burdensome to serve the communities who need it most. Encouraging RHS to increase the per-awardee cap, waive or rebalance the matching requirement, and eliminate burdensome application requirements would help the program serve persistently poor communities more robustly.

RHS STAFFING AND OPERATIONS

RHS plays a unique role in rural communities as a service provider and a connector to funding and program opportunities. Well-trained and community-focused staff is critical to RHS best supporting rural communities. Current staffing shortages and uncertainty about processes and the chain of command, particularly as transactions move across branches within the multifamily housing division, have real implications for organizations and individuals trying to work with RHS programs. Bureaucracy and lack of clear guidance from RHS slow down the application process for many organizations and individuals. Additionally, because after decades of consolidating and closing offices there are fewer staff in rural communities, people are less likely to be connected to USDA programs that could address their needs. Better training for field staff and a clearer chain of command/order of operations could help lessen these slowdowns and help better serve rural communities. To this end, assigning an application "relationship manager" who is accountable for an application or transaction through the process and across branches from start to finish could help resolve uncertainty and improve processing times.

Technological updates are also a critical element of improving the RHS services. Current technology at RHS is vastly out of date, slowing down processing times. Using newer technology could also improve data collection, which could better inform which programs should be funded and where funds should go.

SERVING PERSISTENTLY POOR AREAS

Federal resources often flow to the path of least resistance – typically higher capacity communities with the ability to easily absorb such investments. Ensuring that infrastructure funding makes it to our nation's most persistently poor place takes deliberate, proactive effort. Using Congressman James Clyburn's 10-20-30 formula as an overlay for current and new programs would help target resources to areas of persistent poverty.

RHS should also be encouraged to proactively explore ways to better serve historically underserved areas. Proposals like the Native CDFI Section 502 direct intermediary re-lender concept from your Native American Rural Homeownership Improvement Act, which was also included in the Administration's FY2023 budget and the House FY2023 Agriculture Appropriations bill, should be used as models for improving RHS program impact in Indian Country and other underserved regions.

CONCLUSION

High quality rural housing is critical to maintain the health and well-being of communities across the U.S. USDA programs make renting and owning feasible options for people through rental assistance, financing options, and capacity building opportunities. RHS has had a major impact on rural communities despite its ever-shrinking budget. The age of the housing stock in many rural areas is beginning to show, and with shifts in Section 515 availability and other USDA programs, the future health of rural communities is at risk. Improving multifamily options and rental assistance would help people who cannot afford to buy a home stay in their communities. Reinvesting in single-family housing support would help current and future homeowners improve their homes. Strengthening capacity building programs would help communities develop in sustainable and impactful ways. Finally, improving staff training and upgrading technology at RHS would help USDA better serve rural communities. The shifts outlined above would improve the quality of housing options and the quality of life for many rural Americans.

HAC
202-842-8600 hac@ruralhome.org ruralhome.org 202-347-3441
1025 Vermont Ave., N.W., Suite 606, Washington, DC 20005

Thank you both for your focus on USDA's RHS programs and your support for our rural communities. We appreciate the opportunity to share our comments on this critically important topic.

Sincerely,

David Lipsetz
President & CEO