



We help build homes and communities across rural America.

July 31, 2023

Joaquin Altoro
Administrator, Rural Housing Service
USDA Rural Development
1400 Independence Ave., SW, Rm 5014
Washington, DC 20250-0701

RE: Decoupling Section 521 Rental Assistance & Section 515 Mortgages

Dear Administrator Altoro,

The Housing Assistance Council (HAC) appreciates the opportunity to comment on the preservation needs of the U.S. Department of Agriculture's (USDA) multifamily housing portfolio, and specifically on the topic of decoupling Section 521 Rental Assistance and Section 515 mortgages. We applaud the Rural Housing Service (RHS) for engaging with stakeholders on this issue, both via listening sessions and through this comment period.

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.

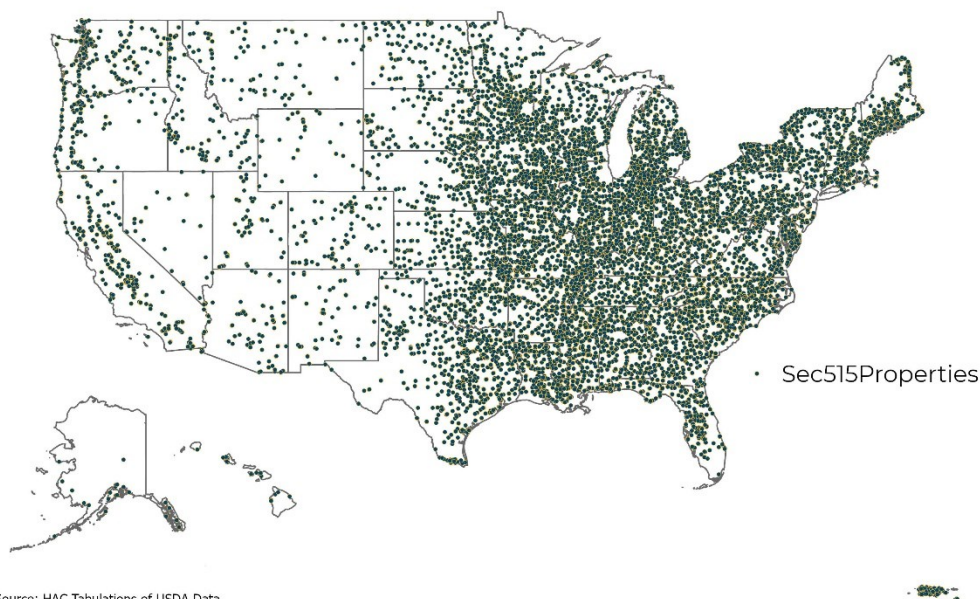
All aspects of HAC's work have crossed paths with USDA multifamily preservation – HAC makes loans to preserve Section 515 properties, is a preservation technical assistance provider, and has engaged in extensive research and policy work on preservation topics. In 2018, HAC conducted a comprehensive assessment of USDA's multi-family housing investments to better understand this issue and inform strategies that preserve this resource for rural communities and residents.¹ HAC also serves as the convener for the Rural Preservation Working Group (RPWG), a group of over 30 housing organizations – local, regional, and national in scope – who all

¹ "Rental Housing for a 21st Century Rural America: A Platform for Preservation." Housing Assistance Council. September 2018. <https://ruralhome.org/rural-america-is-losing-its-affordable-rental-housing/>

have an interest in USDA multifamily preservation. And finally, preservation has been a core component of our annual policy priorities.²

Multifamily rental units financed by USDA through the Section 515 program are an important source of housing in many rural communities. More than 87 percent of all counties have at least one USDA multifamily property. Today, there are nearly 13,000 Section 515 rental properties providing around 400,000 affordable homes to families and individuals across rural America. However, due to federal funding cuts, no new Section 515 housing has been developed in over a decade, and the existing properties are increasingly losing their affordability provisions. Once the mortgage on the property matures, the units lose their rental subsidy and thus their affordability. For many rural communities, these units constitute the only affordable rental housing available. Significant public and private commitment is needed to address this rising crisis. Over 900 Section 515 properties and 21,000 units were lost from the program between 2016 and 2021,³ demonstrating that the preservation needs of the portfolio are not being met by current funding sources.

USDA SECTION 515 MULTIFAMILY HOUSING PROPERTIES, June, 2021



² "2023 Rural Housing Policy Priorities." Housing Assistance Council.
<https://ruralhome.org/our-work/policy/policy-priorities/>

³ "Rural America is Losing Affordable Rental Housing at an Alarming Rate: An Update on Maturing Mortgages in USDA's Section 515 Rural Rental Housing Program," Housing Assistance Council. 2022, <https://ruralhome.org/update-maturing-mortgages-usda-section-515-rural-rental-housing-program/>.



Proposals to decouple Section 521 Rental Assistance and Section 515 mortgages have been discussed within the rural housing stakeholder community for nearly a decade, and more recently have been included both in the Administration's budget and in bipartisan legislation in Congress. Decoupling would allow property owners to retain the Rental Assistance contract after the mortgage is paid off, which both benefits the tenants who will continue to receive this essential rental assistance and serves as a valuable asset for the preservation prospects of the property as a whole.

Historically, HAC has encouraged Congress to robustly fund USDA multifamily housing programs at a level where both preservation and new construction can be accomplished without the need to decouple Rental Assistance and mortgages. However, as the preservation crisis rises before us and thousands of units are lost from the portfolio each year, it has become increasingly apparent that the level of funding necessary to preserve these critical units is unlikely to be appropriated. For that reason, HAC supports decoupling, with the caveat that strong long-term affordability protections must be in place in any decoupling effort.

Make Long-Term Affordability Parameters A Priority

HAC's greatest concern with respect to the concept of decoupling has long been the importance of guaranteeing long-term affordability for units as they decouple. Residents need to have confidence that their Rental Assistance is securely in place, and funders need to have confidence in the continuation of Rental Assistance as a source of funds for the operation of the property. This can be achieved through having owners commit to 20-year Rental Assistance contracts (subject to annual appropriations) and use restriction agreements upon decoupling. Long-term federal project-based Rental Assistance is a key component of preserving financing and ensuring long-term affordability. Only when owners, lenders, and investors can count on the reliability of a long-term project-based Rental Assistance contract for an assigned project will they commit to long-term affordability.

Consider A Pilot Concept

To ensure that any unanticipated hurdles in the decoupling process are resolved and that USDA has a chance to gear up for this powerful new tool, we would suggest that the Agency consider implementing decoupling as a pilot program for a set number of units per year for the first several years to iron out any challenges.



Similar pilot programs for multifamily preservation, including the Rental Assistance Demonstration at the U.S. Department of Housing and Urban Development, began as pilot programs to give Agency staff a change to establish the process before opening the door to a potentially unmanageable number of applications.

Clarify The Annual Rent Increase Process

For decoupling to be successful, USDA will need to clarify the process for annual rent increases. For example, HUD has the option of an operating cost/budget-based annual rent increase rather than an Operating Cost Adjustment Factor (OCAF)-type increase. OCAF increases with periodic mark up to market generally work well for HUD contracts in urban areas but may not work well in rural places where market rents are not as strong or where market rents are not increasing as fast as expenses. In HAC's opinion, there needs to be an opportunity for operating cost increases to result in rent increases when the OCAF increase is not enough to meet the needs of the property.

Establish A Plan For Units Without Rental Assistance

USDA should establish a plan for how units in Section 515 properties that are not currently assisted with Section 521 Rental Assistance will be handled at the time of decoupling. Eighty-five percent of tenants in the USDA multifamily portfolio are receiving Rental Assistance through the Rural Housing Service.⁴ Of the remaining 15 percent, many are receiving rental assistance through HUD or other state or local sources, or are not cost burdened, but there remains a small number of tenants (1.4 percent of the portfolio)⁵ who are cost burdened and not receiving any rental assistance. HAC supports expanding Section 521 Rental Assistance to all eligible units in the portfolio. But if that cannot be achieved, then a plan should be made for the units that do not have Rental Assistance after decoupling. Owners who are decoupling will need clear guidance on how they are expected to handle these units.

Maintain Support For The Entire Suite of Preservation Programs

In addition to supporting decoupling, USDA must continue to strongly support all the other available preservation strategies, including significantly

⁴ "2022 Rural Development Multi-Family Housing (MFH) Annual Occupancy Report." USDA. https://www.rd.usda.gov/sites/default/files/RDUL-MFH_Occupancy_Report.pdf

⁵ Ibid.



more robust funding for programs like Section 515, the Multifamily Preservation and Revitalization Program (MPR), the Preservation Revolving Loan Fund (PRLF, which has not received appropriated funding in many years), and the Multifamily Preservation Technical Assistance Program. Decoupling should never be interpreted as a justification to defund these other critical preservation tools, or alternative mechanisms for protecting vulnerable tenants – such as rural housing vouchers—where keeping the homes in the 515 portfolio isn’t feasible.

Establish A Plan For Prepayments

Based on HAC’s research, the majority of properties leaving the USDA multifamily portfolio currently are likely prepayments as opposed to maturing mortgages.⁶ For that reason, the treatment of prepayments has been a part of the broader conversation around decoupling. HAC shares the concern of other stakeholders around the potential incentivizing of prepayments if decoupling is extended as an option for both prepayments and maturing mortgages. Nevertheless, the Agency needs to establish a plan to address prepayments. While extending decoupling for use with prepayments might not be the answer, at least in the immediate term, we would welcome a dialogue with USDA on other options to stem the tide of prepayments.

Improve Data Transparency

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.

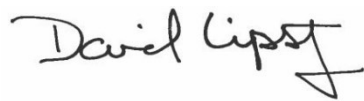
⁶ “An Update on Maturing Mortgages in USDA’s Section 515 Rural Rental Housing Program.” Housing Assistance Council. March 2022. <https://ruralhome.org/update-maturing-mortgages-usda-section-515-rural-rental-housing-program/>



Establishing a preservation advisory committee to work with USDA to develop a plan to ensure the long-term preservation of rural housing options would also improve communication and allow for better stakeholder involvement.

Thank you for the opportunity to provide comments on this important topic. HAC stands ready to assist in any way we are able as USDA completes this report to Congress and potentially begins to move forward to implement decoupling.

Sincerely,



David Lipsetz
President & CEO

