



USDA Rural Rental Assistance Program (Section 521)

Housing Assistance Council

June 2008

Section 521 Rural Rental Assistance (RA) is available in some properties financed by the Section 515 Rural Rental or Section 514/516 Farm Labor Housing programs of the U.S. Department of Agriculture's Rural Development Housing and Community Facilities Programs office (RD). It covers the difference between 30 percent of a tenant's income and the monthly rental rate.

Purpose

RA is a project-based program, providing an additional subsidy for tenants in Section 515- or 514/516-financed rental housing with incomes too low to pay the RD subsidized rent from their own resources. RD pays the owner the difference between the tenant's contribution (30 percent of adjusted income) and the monthly rental rate, which is calculated based on the owner's project costs.

Eligibility

Properties: Rental Assistance may be used in both existing and newly constructed RD Section 515- or 514/516-financed developments. Projects must be established on a nonprofit or limited profit basis.

Tenants: Persons with very low and low incomes, elderly persons, and persons with disabilities are eligible if they are unable to pay the basic monthly rent within 30 percent of adjusted monthly income. Very low income is defined as below 50 percent of the area median income (AMI); low income is between 50 and 80 percent of AMI. In new projects, 95 percent of those assisted must have very low incomes. In existing projects 75 percent of new tenants must have very low incomes.

Terms

RD and the project owner execute a one-year contract in which RD commits payments on behalf of tenants in a designated number or percentage of the units. Additional units may be covered if funds are available and an additional contract is executed. The agreement may be renewed as many times as funds are made available. RD State Directors may transfer unused and unneeded contracts or portions of contracts to other projects.

Priority

Overall priority is provided to renewal of expiring contracts.

A portion of the RA appropriation every year is used for RA in Section 515 and 514/516 projects whose owners want to prepay their mortgages. Additional RA can be used as an incentive for an owner to keep the RD mortgage, or to assist a nonprofit organization or public agency purchasing a property and assuming the mortgage.

Priority for RA in housing newly financed by Section 515 is given to a project either if a market study indicates the greatest percentage of prospective tenants need RA or if the area has the greatest housing need within the state and is selected for funding in accordance with the regulations.

Comments

The request for Rental Assistance is generally initiated by the property owner. If the borrower does not request it, however, tenants eligible for RA may petition the owner to obtain it for them. There is an RD appeals procedure if RA is denied by the owner.

In existing projects, demand for RA far exceeds supply. In a typical year, renewals account for most of RA funds.

Costs for the RA program have risen significantly over the last few years. As housing costs increased, RA contract lengths were shortened to reduce the appropriations needed each year beginning in fiscal year (FY) 2004. Congress's FY 2004 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 at a cost of nearly \$1 billion, compared to the FY 2008 appropriation of \$482.1 million.

Regulations

Regulations for all USDA RD multifamily housing programs, including Section 521 Rental Assistance, are compiled in 7 CFR part 3560. Three handbooks

provide additional details about different aspects of the program. HB-1-3560 covers loan origination, HB-2-3560 addresses asset management, and HB-3-3560 describes project servicing.

Additional Information

For additional information on Section 521 Rental Assistance and RD, contact the National Office, 1400 Independence Avenue, S.W., Washington, D.C. 20250; 202-690-1533, or your Rural Development State Office, which can be identified at http://www.rurdev.usda.gov/recd_map.html or contacted by telephone through 202-720-4323. RD regulations and handbooks are available online at <http://rurdev.usda.gov/regs>. The regulation at 7 CFR part 3560 is included in each handbook as Appendix 1.

Housing Assistance Council

Founded in 1971, HAC is a national nonprofit corporation headquartered in Washington, D.C. that helps local organizations build affordable homes in rural America by providing below-market financing, technical assistance, research, training, and information services. HAC's programs focus on local solutions, empowerment of the poor, reduced dependency, and self-help strategies. HAC is an equal opportunity lender.

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