November 7, 2011

The Honorable Daniel Inouye
Chairman
United States Senate Appropriations Committee
722 Hart Senate Office Building
Washington, D.C. 20510

The Honorable Thad Cochran
Ranking Member
United States Senate Appropriations Committee
113 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senators Inouye and Cochran:

As you begin conference on H.R. 2112, the Agriculture, Rural Development, Food and Drug Administration and Related Agencies Appropriations bill for Fiscal Year (FY) 2012, the undersigned organizations ask you to remember the importance of and need for your support of rural housing programs. While we understand the budget constraints that the conference committee is facing, we urge you to provide funding for a segment of the housing market that is often forgotten but needs resources to operate effectively.

In rural America, the key rental housing programs have been and remain the Rural Development (RD) multifamily programs. RD programs often work in tandem with other federal housing programs, but in rural America, RD multifamily housing programs cannot be replaced. The multifamily portfolio, which consists of more than $11 billion in Section 515 loans alone, is a critically important affordable housing resource for low-income rural residents. We urge you to turn your focus to the rural affordable rental housing stock as you begin conference consideration of H.R. 2112.

Specifically, we urge your support for the following:

<u>Section 538 Guaranteed Rural Rental Housing Program:</u>

We support the Senate language that will allow upfront and annual fees to be charged for the Section 538 Guaranteed Rural Rental Housing program at a program level of $130 million. The fees will make the program revenue neutral, thus continuing a program that will further preserve the existing rural housing portfolio, accommodate new construction, and create much needed jobs in rural communities throughout the country.

The Administration's Fiscal Year 2012 budget proposal would eliminate funding for the Section 538 Guaranteed Rural Rental Housing Program. The justification in the budget for this elimination was two fold: first, the Department of Housing and Urban Development's (HUD) Federal Housing Administration (FHA) programs can provide the same funding and, second, the increase in the subsidy rate for the program due to high numbers of defaults.

The default rates have been overstated by RD. The default rates have thus led to a higher subsidy rate for the program. The Office of Management and Budget (OMB) uses a statistical model for determining default rates of programs. The model uses among other facts, historical trends for the programs. However, it does not take into account changes designed to improve the program's trends. This is very apparent with the Section 538 program. From 1996 to 2003 the Section 538 operated as a demonstration program. During those years, there were five loans identified as in default. An independent contractor, hired by the agency also showed that the default rates of the program were substantially less than first reported.

While HUD has several multifamily mortgage insurance programs, none of these programs can take the place of the Section 538 program. HUD's programs are designed for larger, more expensive properties than we generally see in rural areas. Moreover, the Section 538 program is a vital program for preserving existing Section 515 properties. In general, rural housing transactions and properties are much too small for HUD programs.

Multifamily Housing Revitalization Program:

The elimination of the Multifamily Housing Revitalization (MPR) program would essentially eliminate any organized preservation program at RD. The MPR program has broad support, and we urge support of the Senate's $2 million funding level.

The Administration's Fiscal Year (FY) 2012 budget does not request funding for what has been RD's primary preservation program during the last several years-- the Multifamily Housing Revitalization Program (MPR). The Agency in its budget notes that "the most cost effective and justified repairs have been achieved." We respectfully disagree. In fact, the Administration's budget statement is contradicted by RD's own conclusions in proposing and supporting the MPR program each year over the past four years when the Agency set its goals at restructuring over 7,000 transactions. To date, more than 8,000 applications have been submitted, far surpassing the agency's initial estimates, indicating a continued need for funding of the MPR program.

Section 515 Multifamily Rural Rental Housing Program:

T**he Senate's version of H.R. 2112 would provide $64.5 million for the Section 515 Multifamily Rural Rental Housing program, and we urge you to support this level.** The Section 515 program administered by Rural Development's (RD) Housing and Community Facilities within the Department of Agriculture (USDA) is one of the few resources that enable the very low-income and low-income renters in rural America to access decent, safe, and affordable housing. The Section 515 program also reduces homelessness and overcrowding. The demographics of the residents in these complexes are as follows: the average annual tenant income is $10,500; 72% of the households in the complexes are headed by women; 41% are headed by an elderly person; and 26% of the households are headed by a minority.

Approximately 70,000 residents pay more than 30% of their income toward rent, and 25,000 pay more than 50%, yet these families remain in RD housing. Although they are heavily rent-burdened, these families see RD housing as their best alternative. In many of America's rural communities, there have not been other safe and sanitary alternatives for very low-income residents.

Rental Assistance:

We urge you to support the Senate level of $904.7 million for the Section 521 Rental Assistance (RA) program for Fiscal Year 2012. The RA program is an essential component of the Section 514/515 program. RA provides much needed subsidy to very low-income residents by paying the difference between 30% of a resident's income and the basic rent required to operate the property. Sixty-three percent of 515 units are subsidized with RA. The RA program must continue to provide sufficient funds for both current levels of RA and sufficient additional RA to support increasing program costs. The Administration's Fiscal Year 2012 budget request would reduce funding for RA to $906.5 million, almost $73 million less than the FY 2010 level and almost $50 million less than the FY 2011 level. The House version of H.R. 2112 would further cut RA to $891 million.

In justifying the reduction in budget authority, the agency in its FY 2012 budget briefings indicated that they intend to manage their use of RA more efficiently and foreclose on properties that are classified as "D" properties or have health and safety violations. In order to reach the numbers, the agency would have to cut 60,000 RA units from its existing inventory. These reductions are unattainable since the agency's own statistics (October 4, 2011 Unnumbered Letter entitled "Results of the 2011 Multifamily Annual Fair Housing Occupancy Report") over the last three years, show an increase in the number of units being serviced with RA. Further reductions as proposed by the House version of the FY 2012 Appropriations Bill would negatively impact an additional 3500 units. While we have major concerns that the Senate version of H.R. 2112 would not adequately fund RA for the year, the Senate's proposal would not have as much of a negative impact on contract renewals as the House level.

In advance, thank you for your support of rural housing programs.

Council for Affordable and Rural Housing
Enterprise Community Partners, Inc.
Institute of Real Estate Management
Institute for Responsible Housing Preservation
National Affordable Housing Management Association
National Apartment Association
National Association of Affordable Housing Lenders
National Leased Housing Association
National Multi Housing Council

cc: House and Senate Conferees to H.R. 2112