

May 8, 2015

The Honorable Jerry Moran
Chairman,
Agriculture, Rural Development, Food and Drug Administration and Related
Agencies Appropriations Subcommittee
Senate Appropriations Committee
SD 224
Washington, D.C. 20510

The Honorable Jeff Merkley
Ranking Member
Agriculture, Rural Development, Food and Drug Administration and Related Agencies
Appropriations Subcommittee
Senate Appropriations Committee
SH 313
Washington, D.C. 20510

Dear Senators Moran and Merkley:

The undersigned organizations would like to take this opportunity to outline their concerns regarding the proposed Fiscal Year (FY) 2016 budget for the United States Department of Agriculture's (USDA) Rural Housing Service (RHS) multifamily housing programs. The undersigned organizations also represent for-profit and non-profit property owners, developers, management companies and lenders who are involved in the development of new and the preservation of the existing affordable rural rental housing portfolio in this country. In rural areas throughout the country, there continues to be an overwhelming need for both affordable and decent housing. The need for rental housing is even more acute. With lower median incomes and higher poverty rates than homeowners, many renters are simply unable to find decent housing that is also affordable. Neither the private nor the public sector can produce affordable rural housing independently of the other. We would therefore ask you to consider the following issues as you begin deliberation of the RHS's budget:

The Section 521 Rental Assistance (RA) program is perhaps the most essential component of the Section 514/515 programs. RA provides deep subsidy and makes properties affordable 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. The Administration's proposed budget is to fund the RA program at \$1.172 billion, which, while a slight increase from the \$1.089 billion level in FY 2015, may not keep pace with renewing RA Contracts. Some RA Contracts have been funded from a reserve that RHS has almost completely drawn down.

Further, RHS's proposed program changes, while meant to increase flexibility, will have the opposite effect and will displace residents. RHS is requesting a provision that valid RA contracts, in full compliance, be renewed only at the Secretary's discretion. Congress already rejected this language in the Administration's FY 2015 budget document and should do so again. This level of vagueness will create uncertainty in the program and when attempting to attract partners to the program. The Administration is again asking for a provision to renew each RA contract only once during the FY 2016 fiscal year. This should not be included as it will lead to hardship in FY 2016. The program escaped harm in FY 2015 because the provision was first included in the FY 2015 Appropriations Act, enacted in December 2015, after RHS project budget approval process that occurs each September. We urge Congress to advise RHS to hold a stakeholders meeting to develop a broadly supported set of legislative proposals.

These proposals would put the Section 515 portfolio in financial jeopardy as property owners will not be able to cover their mortgage payments and operating expenses without rental assistance unless they raise rents to make up the losses. The consequence of raising rents is great financial hardship for their very low-income residents if the subsidy does not cover their rent, or worse, residents being forced to move because they can no longer afford to stay.

The owners of these properties entered into long-term agreements with RHS to provide affordable housing based on the flow of rental assistance funds in addition to the mortgage loan provided by the Department. Further, if such discretion is granted the Secretary, the viability of rehabilitating and preserving these properties as affordable housing through leveraging of new private capital will be greatly compromised, as lenders and investors will view such transactions as far too risky. In light of the fact that the capital needs of the portfolio are estimated at two billion dollars, it would be very poor public policy to implement such detrimental program changes.

The FY 2016 budget is also proposing changes to the rural housing voucher program that will allow vouchers to be available for residents when a Section 515 mortgage expires.

Under current law, when a Section 515 mortgage expires, Section 521 RA also expires. The Administration is proposing that the voucher program be expanded to cover residents in those properties impacted by expiring mortgages.

The industry supports RHS's administrative efforts to extend or defer the pay-off date for expiring Section 514 and 515 mortgages for owners agreeing to such extensions. However, we would also support a decoupling of RA contracts, through a short legislative fix, which will then allow the RA contract to continue after payment in full. Asset management would remain with RHS since it is an agency well versed on managing the needs of rural properties and rural residents.

The budget proposal indicates that RHS will be submitting to Congress a multifamily housing reinvention legislative package that will include changes to the RA and rural voucher programs, as well as provide permanent authority for preservation of the Section 515 portfolio. We believe that the legislative proposals need to be thoroughly reviewed by the Congressional authorizing committees (the Senate Banking, Housing and Urban Affairs and the House Financial Services Committees), and that hearings on RHS's programs and proposals should be a priority for these Committees.

The proposed FY 2016 budget requests \$19 million for the Multi-Family Housing Preservation and Revitalization (MPR) Demonstration program. While MPR is a good concept, it has been implemented in various ways, and many strategies have not been successful. We believe that RHS needs to have a stakeholder meeting and to confer with the Senate Banking, Housing and Urban Affairs Committee and the House Financial Services Committee on what has been successful and what has not worked, before making the program permanent.

The undersigned organizations also support the Administration's proposed FY 2016 request of \$42.3 million for the Section 515 Direct Loan Program, an increase of \$13.9 million over the FY 2015 level. Further, we would ask that the Section 538 loan guarantees, funded by the industry itself through guarantee premiums, be expanded to \$200 million per year as requested in the Administration's proposed FY 2016 budget. In addition, since the program is revenue neutral we do not believe it is necessary for the agency to issue Notice of Funds Availability (NOFA) every year.

Again, we thank you for your support of RHS's multifamily programs. We look forward to working with you to ensure that all of the agency's programs are adequately funded and continue to serve this country's low-income residents throughout rural America.

Sincerely,

Council for Affordable and Rural Housing

Institute for Real Estate Management

National Affordable Housing Management Association

National Apartment Association

National Association of Home Builders

National Leased Housing Association

National Multifamily Housing Council