

July 29, 2014

The Honorable Robert Aderholt  
Chairman  
Subcommittee on Agriculture, Rural  
Development, Food and Drug  
Administration, and Related Agencies  
House Appropriations Committee  
Washington, D.C. 20515

The Honorable Sam Farr  
Ranking Member  
Subcommittee on Agriculture, Rural  
Development, Food and Drug  
Administration, and Related Agencies  
House Appropriations Committee  
Washington, D.C. 20515

Dear Senators Pryor and Blunt:

Our organizations, which represent for-profit and non-profit property owners, developers, managers and lenders who are involved in the development and preservation of affordable rural rental housing, are writing to express our serious concern regarding a provision included in H.R. 4800, the *FY2015 USDA, Rural Development, Food and Drug Administration and Related Agencies Appropriations Act*. The provision prohibits the re-renewal of Section 521 Rental Assistance (RA) contracts within a current 12-month contract period. We believe that this provision will put some multifamily rental apartment complexes financed by the USDA's Section 515 and 514 programs in financial jeopardy.

The Section 521 Rental Assistance (RA) program provides project-based rental assistance to properties financed under the Section 515 Multifamily Rental Direct Loan program. The portfolio currently includes about 15,000 projects that provide housing for about 700,000 low-income individuals, many of whom are elderly. Almost 285,000 households receive rental assistance. The average annual income of these tenants is about \$11,000. There are restrictions on the amount of rent that property owners may charge to occupants. The Rural Housing Service (RHS) must approve project rents, which are based on the debt service for the loans and reasonable operating and maintenance expenses.

In May, our organizations strongly urged members of the Appropriations Committee to reject the legislative proposals requested by the Administration in its FY2015 budget request to give the Secretary discretion to: (1) not renew annual Section 521 RA contracts with owners of Section 515 properties; (2) provide funding for less than 12 months; and (3) set priorities in terms of which contracts to renew. We stated that those 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 can create great financial hardship for very low-income residents if they stay in place or are 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 were to be granted to the Secretary, the viability of rehabilitating and preserving these properties as affordable housing through leveraging of new private capital will be fatally 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

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estimated at two billion dollars, it would be very poor public policy to implement such detrimental program changes.

We are extremely appreciative that committee members declined to include the Administration's proposals related to RA contracts in the FY2015 appropriations bill. RA contracts will continue to be funded for 12 months. However, the provision prohibiting the re-renewal of contracts within the current 12-month RA period has the potential to cause great distress. It is our understanding that approximately three percent of the properties receiving RA fall short each year. These shortfalls are not caused by a lack of financial discipline on the part of the owners, but rather are due to a variety of reasons, including: a property's rents fall outside statewide averages; RD-approved rents or utility allowances increased during a contract period; higher-needs residents moved in during the year; or a project used a higher percentage of RA units than in the past.

Currently, the Department has the ability to renew contracts within the current 12-month period, thus, rental short-falls have not been an issue. The provision eliminating the re-renewal flexibility will result in some properties without sufficient funds to pay mortgage debt, maintain the property and pay employees. Further, some of these properties, particularly those recently preserved with funding from other public and private sources, will default on their current obligations to Fannie Mae, Freddie Mac, Ginnie Mae, private lenders and equity investors. This will jeopardize Section 515 properties and invite foreclosure actions, fatally compromising current and future efforts to leverage non-RD resources to preserve these properties.

We do not believe that the new authority included in the bills will meet Congress' goal of setting the RA program onto a sustainable course. We ask that the Committee reconsider the provision in question and remove it from the bill.

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

Sincerely,

Institute of Real Estate Management  
National Apartment Association  
National Affordable Housing Management Association  
National Association of Home Builders  
National Leasing Housing Association  
National Multifamily Housing Council