

# NAHMAanalysis

NATIONAL AFFORDABLE HOUSING MANAGEMENT ASSOCIATION

## Ensuring NAHMA Members Receive the Latest News and Analysis of Breaking Issues in Affordable Housing

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### **Rural Affordable Housing:**

#### **Avenues for Preservation and New Construction**

Across the country, rural communities are at a heightened risk of losing access to affordable housing. As rural affordable housing projects exit federal programs, Congress, federal agencies, and the housing industry have begun ramping up preservation efforts. This NAHMAanalysis looks at current approaches – through industry research, federal legislation and agency guidance – to protect and expand the rural affordable housing portfolio for residents, owners, and managers.

#### **Maturing Mortgage Crisis**

The US Department of Agriculture (USDA) maintains an affordable multi-family housing portfolio of roughly 14,000 properties nationwide. In addition to subsidizing rents for very low- to moderate-income households through rental assistance, USDA's Rural Development (RD) Rural Housing Service (RHS) program office supports affordable rental housing through loans, guarantees, and grants.

USDA began making its first Rural Rental Housing loans in 1963; Rural Development's Section 515 30-year loans can be amortized for up to 50 years, and depending on when the loan originated, may be able to be paid off in advance (i.e., leave the program early). Once the Section 515 loan obligation is fulfilled, the property is no longer required to maintain its affordability (serving households with incomes below a certain percentage of the area median, and limiting resident rent contributions to 30% of their income); additionally, tenants living in the property also lose access to USDA's Section 521 project-based rental assistance.

Many of these loans will reach maturity in the coming years, resulting in a crisis-level loss of affordable units – unless property participation in the program is preserved or new units are financed at a faster rate.

#### **Rural Communities**

Rural communities are especially vulnerable to housing instability. With just over 400,000 housing units in the USDA rural multi-family portfolio, every unit matters; in many cases, the loss of one affordable property in a rural area represents total loss of housing affordability for the affected community.

The average resident household income in Section 515 properties was \$13,600 as of 2016, and HUD's annual worst case needs report found one in every four very low-income rural renters to be extremely cost burdened and/or inadequately housed, and not receiving federal housing assistance.

### **Industry Research**

The affordable housing industry, including NAHMA and our partners, have been monitoring the maturing mortgage crisis closely. In fact, the Housing Assistance Council (HAC) recently analyzed USDA's calculated "loan maturity" (property exit dates) for Section 515 properties, projecting a significant increase in property loss beginning in the next decade and peaking in 2040.

In order to protect affordable housing for rural communities and incentivize property owner participation, NAHMA and our industry colleagues have worked with both lawmakers in Congress and agency staff at USDA to promote portfolio preservation and expansion.

### **Congressional Approaches**

In recent congressional cycles, lawmakers have turned their attention to the issue of rural housing portfolio preservation in a number of ways – portfolio "preservation" meaning rehabilitating an aging property, or maintaining the property's affordability for low-income residents (or both).

Most notably, key lawmakers have reintroduced a set of bills called the "Rural Housing Preservation Act" in the Senate (S. 2567 by Senators Jeanne Shaheen from New Hampshire and Tina Smith from Minnesota) and the "Strategy and Investment in Rural Housing Preservation Act" in the House (H.R. 3620 by Subcommittee Chairmen Lacy Clay and Emanuel Cleaver, both from Missouri). The bills each propose a number of important adjustments to promote portfolio preservation and protect rural residents:

- Permanently authorize the Multifamily Preservation and Revitalization (MPR) demonstration program, which restructures loans for existing Rural Rental Housing to allow for capital improvements and extended participation in the federal affordable housing programs;
- "Decouple" Section 521 rental assistance from the term of the Section 515 mortgage, offering tenants project-based rental assistance even after the property's mortgage has matured; and
- Expand the Section 542 voucher program, which provides vouchers to tenants in properties where the USDA-financed mortgages were prepaid and the project is no longer maintained as affordable.

The House bill further authorizes \$1 billion to carry out the MPR program, which would help clear substantial backlog in this key preservation demonstration program. The bill also requires

USDA to come up with a plan for the preservation of rural multifamily housing backed by USDA loans, and establishes an advisory committee to advise USDA in implementing this plan. H.R. 3620 passed the House this year with substantial bipartisan support, signaling congressional momentum to address rural housing issues.

Additionally, congressional appropriators have provided annual funding for USDA's Preservation and Revitalization (MPR) demonstration, in addition to Rural Development's permanent housing programs. The fiscal year 2020 USDA funding bill, which was finalized in late 2019 along with the rest of the government's spending levels after a series of short-term Continuing Resolutions, saw a significant increase for both the MPR demonstration and the Section 542 vouchers.

The Fiscal Year 2020 appropriations bill also includes the following key preservation provisions:

- Renewed incentives for nonprofits and PHAs to purchase and preserve rural properties;
- An option for property owners to request 20-year contracts for the Section 521 Rental Assistance agreements, instead of the current one-year contracts, subject to annual appropriations; and
- Funding for agency-provided technical assistance to facilitate acquisition and preservation of multifamily properties.

NAHMA commends the preservation efforts in Congress and strongly supports the Rural Housing Preservation bills, and we urge lawmakers to also provide resources for new construction of rural housing units: Because of urgent mortgage maturity and property capital needs, most activity related to the USDA's Section 515 program is used for preservation of the existing portfolio. A new agency mechanism or specific capital appropriations set-aside for new construction of federally-subsidized rural housing units may need to be established by Congress in order to address the housing needs of our rural communities without sacrificing preservation efforts.

### **Agency Efforts**

In recent years, leadership and staffing changes at the USDA have brought new approaches to the rural affordable housing challenges. NAHMA and our industry colleagues continue to work closely with the agency to develop and implement improvements to rural property management and development.

By all accounts, agency staff at the Rural Development office are taking portfolio preservation seriously: After years of backlog building up in the MPR program, the agency has said that it will focus on clearing the current application pipeline. Additionally, agency staff will apply a more comprehensive portfolio prioritization strategy to their preservation activities based on portfolio risk factors and attempt to level the playing field while addressing the most dire preservation needs first.

The Rural Development team welcomes industry input to help improve rural housing owner, developer, and manager processes. Specifically, the agency staff has said they will look closer at the kinds of issues NAHMA members have reported when working with RD financing and the Low-Income Housing Tax Credit (LIHTC) program. The agency staff have also said they will look into simplifying owner/manager forms where possible, as well as reissue guidance for owners regarding options for handling a maturing mortgage.

Lastly, in order to address the unique challenges of the rural affordable housing portfolio, agency staff have said they are looking at innovative approaches to rental assistance and avenues for new construction funding. The department has also been working to realign its multifamily housing staffing structure. As the agency continues its work, NAHMA's Rural Housing Committee can help inform the agency's efforts to advance and preserve the portfolio.

### **Next Steps for NAHMA**

Protecting, expanding, and streamlining the rural affordable housing portfolio is a key priority for NAHMA. Not only during our bi-annual NAHMA meetings, but also throughout the year, NAHMA's government affairs staff helps our members share information with the Rural Development office at USDA about challenges in administering rural housing properties and ideas for improving the process. For example, in the spirit of constructive feedback, NAHMA members can weigh in with NAHMA's Rural Housing Committee with ideas for reducing burden and overcoming challenges when working with RD and tax credits, or options for improving the current forms.

NAHMA members can also advocate with Congress for preservation and new construction funding. For example, emphasizing the need for more MPR funding with congressional appropriators can help clear the application backlog and promote the health of the rural portfolio. NAHMA also strongly supports the provisions in rural housing preservation bills introduced in Congress (H.R. 3620 / S. 2567), such as decoupling and voucher expansion.

As the rural portfolio matures, capital needs and affordability preservation take on heightened urgency. The more education Members of Congress receive from housing providers and residents regarding the state of the rural portfolio, the better. NAHMA members and our Rural Housing Committee leaders are invaluable in our effort to work with Congress and federal agencies to advance, preserve, and expand the rural affordable housing portfolio.