

May 16, 2014

Representative Robert Aderholt  
Subcommittee on Agriculture, Rural  
Development, Food and Drug  
Administration, and Related Agencies  
2362-A Rayburn Housing Office Building  
Washington, DC 20515

Representative Sam Farr  
Subcommittee on Agriculture, Rural  
Development, Food and Drug  
Administration and Related Agencies  
1016 Longworth House Office Building  
Washington, DC 20515

Dear Chairman Aderholt and Ranking Member Farr:

We are writing to alert you to our serious concerns regarding the Administration's FY2015 proposed legislative proposals for the U.S. Department of Agriculture's (USDA) Rural Housing Service (RHS) programs. The undersigned organizations represent for-profit and non-profit property owners, developers, managers and lenders who are involved in the development and preservation of affordable rental housing and participate in the USDA multifamily rental housing programs.

Of specific concern are legislative changes that would give the Secretary wide discretion in decisions regarding the renewal of rental assistance contracts under the Section 521 Rental Assistance (RA) program. Section 521 RA is project-based rental assistance provided to properties financed under the Section 515 Multifamily Rental Direct Loan program. Created in 1968, Section 515 of the Housing Act of 1949 authorized USDA to make loans to provide affordable rental housing for low- and moderate-income families in rural areas. 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 property owners may charge to occupants, and RHS must approve project rents, which are based on the debt service for the loans and reasonable operating and maintenance expenses.

We strongly urge members to reject the legislative proposals requested by USDA 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. 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 they stay in place 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 USDA 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 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 estimated at two billion dollars, it would be very poor public policy to implement such detrimental program changes.

We believe that because the RA program ran short of funding at the end of FY2013 due to sequestration (requiring some property owners to take drastic steps to find funds to cover the shortfall), the USDA has concluded it must have authority to short-fund contracts and even make determinations that some contracts should not be renewed. The proposed legislative language included in the FY2015 budget request is so open-ended, it could grant the Secretary the authority to end the program simply by not renewing contracts over time. If allowed to set priorities for RA contract funding, the USDA would be able to choose the best-performing (i.e., those with the least RA need), while allowing the rest of the portfolio to decline and eventually default. In the meantime, owners and residents would live from month to month wondering when the budget axe will fall.

We are acutely aware of the very difficult budget environment facing all discretionary spending programs. However, we believe that there are measures that could be taken by the Department to ensure a more sustainable RA program than those proposed in the FY2015 budget request. Many of those are included in the recommendations of the Rental Policy Working Group (RPWG), which is composed of the White House Domestic Policy Council (DPC), National Economic Council (NEC), Office of Management and Budget (OMB), and the U.S. Departments of Housing and Urban Development (HUD), Agriculture (USDA), and the Treasury.

These recommendations for administrative changes would better align the operation of Federal rental policy across agency programs. As many affordable rental housing developments are financed by multiple programs, eliminating duplicative requirements and assigning lead agencies for various program requirements holds promise for reducing costs across many programs, not just one. Eliminating duplicative physical property inspections, standardizing financial reporting forms and requirements and implementing the Enterprise Income Verification (EIV) system for all agencies are examples of cost-saving measures that could be put into place.

However, to achieve the best results, the work of the RPWG should go further to include analysis of statutory and regulatory changes that would further the goal of increasing efficiency, reducing costs and aligning procedures and practices across programs. To be clear, we are not advocating for the consolidation or elimination of any existing housing programs. While we understand that the work of the RPWG is a time-consuming effort, it will be well worth it. Stakeholders have been involved in the RPWG efforts and would welcome the opportunity to continue to do so.

We also believe that legislative action is needed to authorize a viable permanent preservation program for the Section 515 portfolio. Preservation activities have been operating as a demonstration program for years, and the amount of funding has been inadequate to make a significant impact on the overall portfolio. The preservation program must work with other tools, such as the Low Income Housing Tax Credit (LIHTC), because there will not be sufficient funding from appropriations to address the portfolio's needs. Further, the Department's funding requests have been erratic, causing confusion and difficulty in planning for the rehabilitation needs of the properties. Uncertainty caused by shifting RA management policies and "on the fly" changes to prepayment incentive practices has made it difficult for willing and interested funding partners to be supportive. RHS must be more transparent, seek dialogue on tough issues and publish proposed big policy changes so the industry has a chance to help RD find policies that work.

Finally, we strongly urge members to provide sufficient funds to RHS to improve its technology systems and to ensure there is sufficient staff to administer these important programs. Training

is also critical; the financing of preservation transactions is complex and requires expertise not only in RHS regulations but also those for the LIHTC program, state housing finance agency underwriting requirements, and other agency funding programs that may be used in these transactions. Hiring and retaining skilled staff will also help create efficiencies and, in the longer term, reduce program costs.

We appreciate the opportunity to present our views on the proposed FY2015 budget proposals for the USDA multifamily housing programs, and we urge you take the necessary steps to ensure that these programs remain viable.

Sincerely,

Council for Affordable and Rural Housing (CARH)  
Institute for Real Estate Management (IREM)  
National Affordable Housing Management Association (NAHMA)  
National Apartment Association (NAA)  
National Association of Home Builders (NAHB)  
National Leased Housing Association (NLHA)  
National Multifamily Housing Council (NMHC)