

# 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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### Proposed Rule to Make the Rural Development Voucher Program Permanent

#### Background

In fiscal year 2006, the U.S. Department of Agriculture established the demonstration Rural Development Voucher Program (RDVP) and set forth the general policies and procedures for use of these vouchers. Rural Development (RD) Vouchers are only available to low-income tenants of rural multifamily properties where the Section 515 loan has been prepaid either through prepayment or foreclosure action, prior to the loan's maturity date and after September 30, 2005.

When the owner of a Section 515 property pays off the loan prior to the maturity date, the RD affordable housing requirements and rental assistance subsidies are generally discontinued. Rents may increase for low-income tenants and they could also be responsible for the full payment of rents. The RD Voucher assists these tenants by providing an annual rental subsidy that will supplement rental payments.

RD Vouchers are tenant-based rental subsidies administered by the USDA-Rural Housing Service (RHS). The maximum voucher amount for the RDVP is the difference between the comparable market rent for the family's former Section 515 unit and the tenant's rent contribution on the date of the prepayment. The Agency monitors the prepayment request, foreclosure process and obtains a rent comparability study for the property 90 days prior to the date of prepayment or foreclosure.

An eligible family or individual that is issued an RD Voucher may elect to use the assistance in the same project or may choose to move to another location. However, while the voucher may be used in other properties financed by RD, it cannot be used in combination with the Section 521 Rental Assistance program, nor can it be used in units subsidized by HUD's Project-Based Section 8 program.

#### Proposed Rule

With the general success of the demonstration program, USDA-RHS has now proposed to establish a permanent regulation for the RDVP. The proposed rule was published on August 14, 2013 in the *Federal Register*.

This proposed rule contains no major changes to the methods currently used in the demonstration program. The Agency has chosen to issue the proposal with language from the

demonstration program that is consistent with recent appropriations language, in anticipation that such legislation will be continued. The current program, which was funded through regular appropriations, differs somewhat from the program authorized under Section 542 of the Housing Act of 1949.

As mentioned previously, the voucher could be used at the prepaid Section 515 property or any other rental unit that complied with agency inspections and where the owner accepted the voucher. Yet many RD-financed multifamily housing properties that prepay the Section 515 mortgage or are subject to a foreclosure action are no longer located in rural areas. It was decided that limiting the use of vouchers to rural areas exclusively would result in a hardship on tenants who choose to use their vouchers at their formerly RD-financed properties.

The proposed rule will continue to use the comparable market rent studies for voucher calculation. Once the tenant has found a unit, the Agency will ensure the unit meets inspection standards. RD will then execute a Rural Development Assistance Payments (RDAP) contract with the O/As, who must also execute a one-year lease with the tenant. The term of the RDAP contract and the lease should be concurrent; O/As will receive payments through electronic transfers.

For specific information on the RDVP's guidelines and requirements, the Federal Register (Doc. 2013-14397) recommends the "[Rural Development Voucher Program Guide](#)", which may be obtained by contacting any RD office.

### **NAHMA's Comments**

On October 15, 2013, NAHMA submitted comments on the proposed rule. NAHMA staff consulted with our Rural Housing Committee members to address any concerns or issues that O/As have with the RDVP. Members generally agreed that the demonstration program is successful and that a permanent regulation would be good for multifamily housing providers and tenants. Members of the Committee highlighted three program policies for comment.

#### **1. The RDVP is an Excellent Tool in Times of Transition**

Members agreed that in the demonstration program, the voucher served low-income Americans well in providing them with stability and reassurance in times of property transition. A major objective of the program is to provide low-income tenants of properties financed through Section 515 with vouchers in the event that their rent increases after prepayment of the mortgage. With the voucher, tenants could remain in their housing, and they did not have to relocate if the property was no longer in a "rural" area.

#### **2. Voucher Calculation Method**

The comparable market rent method for voucher calculation works for both tenants and O/As. The voucher amount is the difference between the current market rent for the unit and the tenant's rent contribution on the date of prepayment. Members found that it eased the rent calculation burden for both the tenants and the O/As and also provided greater stability for the residents who wanted to remain in their current units after prepayment of the Section 515 mortgage.

#### **3. Vouchers are Not Limited to Rural Properties**

Under the demonstration program, RD allowed the voucher to be used at a prepaid Section 515 property or any other rental unit that passed Agency physical inspection standards and where the landlord accepted the voucher. With the proposed rule, RD will continue allowing tenants to use the voucher anywhere, including properties that are not located in rural areas.

NAHMA members agree that limiting the use of vouchers to rural properties exclusively would harm tenants. If tenants were not permitted to use the voucher in other non-rural housing, they may be required to move away from employment or other essential resources such as public transportation. Allowing tenants to use their vouchers in areas that do not meet all requirements of a "rural" area definition increases the usefulness of each individual voucher.

### **Conclusion**

Overall, this proposed rule has been well received by NAHMA members. The Rural Development Voucher Program was successful in demonstration, and it will most likely continue success if current policy remains. In FY 2013, the rural voucher demonstration program was appropriated \$11 million, and has been operated by utilizing a Notice of Funding Availability (NOFA) published annually in the *Federal Register*. The Catalogue of Federal Domestic Assistance estimates that the fiscal need for rural vouchers could rise to \$13 million. A permanent regulation for this program will then give it more prominence and attention for its effectiveness.