

## 2016 Housing Matters! Conference

# Crisis in Rural Housing: Preservation of USDA Section 515 Affordable Housing

# Rural Affordable Housing

- 28% of rural residents rent
- In 2012, the median household income for rural renters was \$25,833: 37% less than all rural incomes and 49% less than the national rate
- Rural poverty rates are generally higher (17.7%) than in urban areas (14.5%) and national rates (15.0%)
- 33% of rural renters live in poverty
  - Rural renters are 3.4 times more likely to live in poverty than rural homeowners and 18% more likely than renters nationally
- 48% of rural renters are cost burdened

# Section 515 Housing

- For over 50 years, USDA RD has financed affordable rental housing through Section 515.
- Section 515 is a principal source of affordable rental housing in rural America.
- More than 634,500 individuals live in housing financed by Section 515: 13,829 projects; 416,396 units
- 94 percent of Section 515 tenants have annual incomes below \$12,000 (\$10,000 for tenants receiving rental assistance).
  - 45 percent of occupants are elderly or disabled.
  - 28 percent of occupants are persons of color
  - 71 percent are women headed households

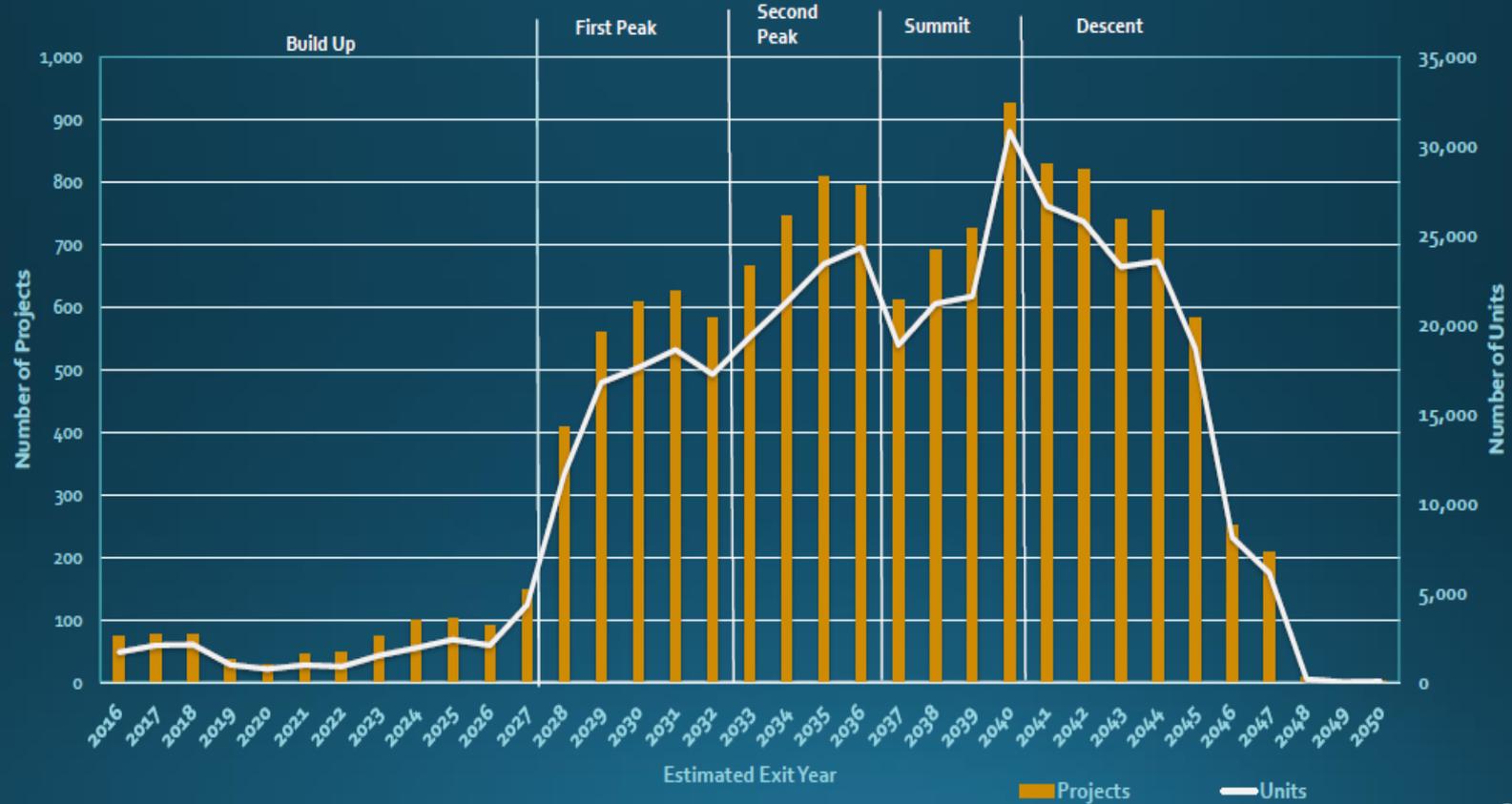
# Condition of Inventory

- The Section 515 direct loan program for new construction was effectively canceled in 2012. Funding has been redirected to revitalizing existing properties.
- As of the fall of 2014, more than 93,000 units developed with USDA financing had exited the program.
- An estimated \$2.6 billion over the next 20 years is required to preserve existing 515 properties and assist owners to maintain properties as affordable housing.
- 88% of properties are between 21 and 40+ years old.

# Section 515 Housing Maturing Mortgages

- Once the USDA loan is paid in full, owners are under no obligation to maintain the properties as affordable housing. After the loan matures, tenants living in these properties are also no longer eligible for USDA's Rental Assistance.
- Maturing mortgages are the most significant current problem. USD RD estimates that on average 74 properties/1,788 units will mature annually between 2016 and 2027; 556 properties/16,364 units annually between 2028 and 2032; and 22,600 units between 2033 and 2041. This is approaching 268,000 units of 392,000 currently, and 434,000 residents.
- Information on Section 515 maturing mortgages on the USDA website: <http://www.rd.usda.gov/programs-services/housing-preservation-revitalization-demonstration-loans-grants>. Click on "Forms & Resources" tab, and scroll down.

## Maturing USDA Section 515 Rural Multifamily Loans Estimated Loss of Properties and Units to Loan Maturity, 2016 - 2050



# What's at Stake

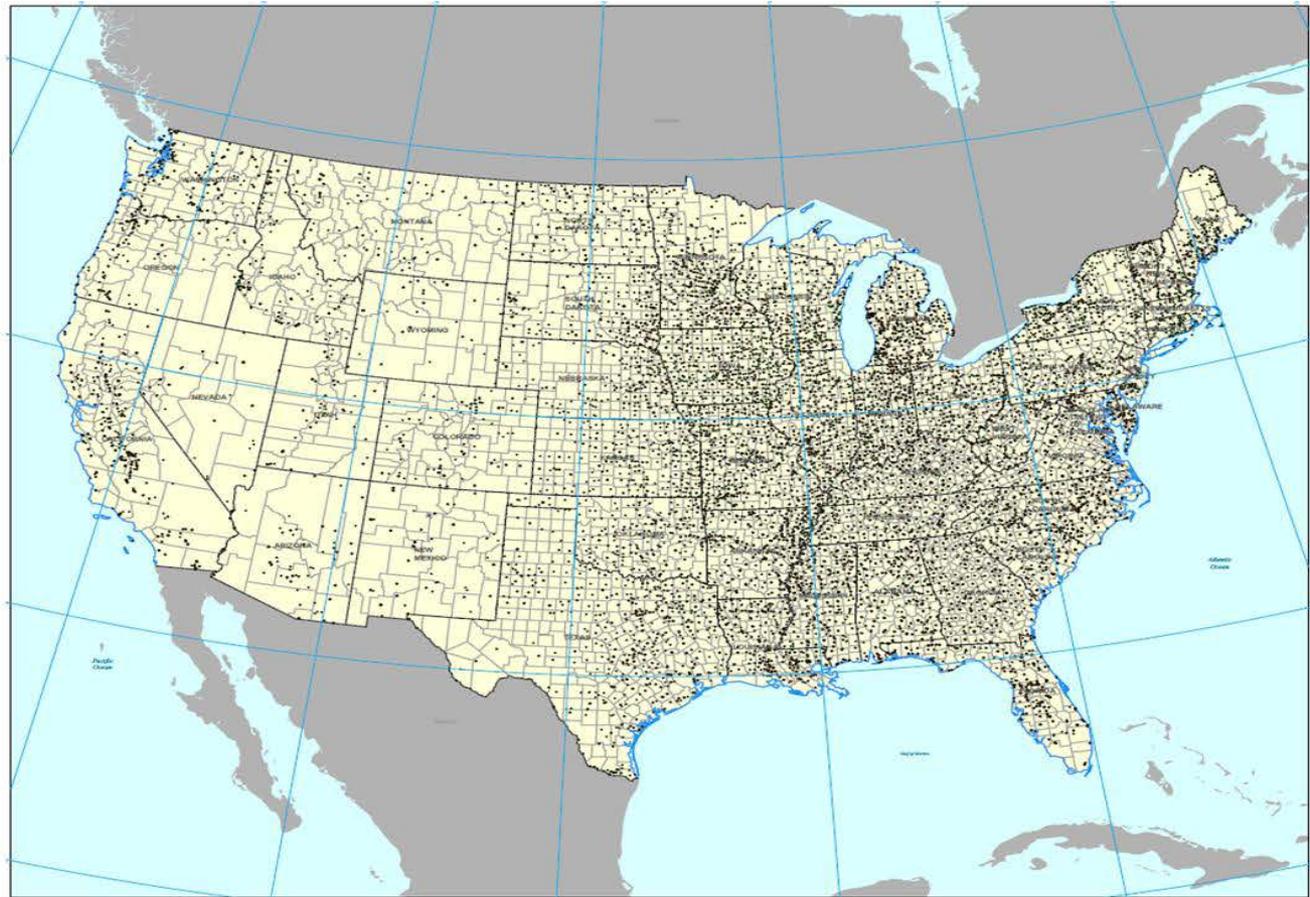
- In 2004, USDA assessed the disposition of its Section 515 properties. It concluded in a report that 61 percent of the properties had the right to prepay their Section 515 mortgages. When the Section 515 loan is prepaid the property is no longer subject to the USDA requirements that keep its units affordable for lower-income tenants. Prepayment also means tenants can no longer receive USDA Section 521 Rental Assistance because it is available only for tenants in properties with active USDA mortgages.

# USDA Rural Development Transaction Opportunity

Alaska



Hawaii



### Legend

- MFH 515 Housing for Families
- MFH 515 Housing for the Elderly
- MFH 514/516 Farm Labor Housing

# Impact of Preservation

- Preserving affordable housing not only helps low-income families and seniors maintain access to clean, decent, and affordable housing and basic community services, but also protects millions of taxpayer dollars that have been invested in affordable rental housing over the past decades.

# USDA Preservation Strategies

- It is imperative that we continue to invest in innovative strategies to preserve rural, affordable housing through programs like the...
  - USDA Multi-Family Preservation and Revitalization Demonstration (MPR) program.
  - USDA Rural Development Voucher Demonstration program
  - USDA Multi-Family Housing Preservation Revolving Loan Fund Demonstration Program.
  - USDA Section 542 Voucher Demonstration Program

# Barriers to USDA Preservation Tools

Barriers to accessing USDA's Preservation Tools:

- USDA Regulations and practices lack conformity with LIHTC, complicating funding opportunities
- USDA Processing delays can jeopardize preservation efforts
- Cumbersome USDA policies can also undermine preservation efforts

# LIHTC

- LIHTC has replaced Section 515 as the principal source of financing for affordable rental housing in rural America
  - Since 1986, more than 270,000 rental units in rural communities
- Without the ability to be paired with other targeted federal subsidies, including Section 515 and Section 521 Rural Rental Assistance (Section 521), LIHTC often cannot keep rents low enough to serve rural America's most vulnerable residents.
- LIHTC is far less able to serve poorer and more remote rural communities without leveraging Section 515 and rental assistance funding.

# Banks and Section 515 Preservation

- Finding a willing third-party lending partner is difficult for a number of reasons.
  - First, there are both fewer banks and fewer multifamily housing properties in rural areas, making it somewhat more difficult to identify multifamily lending expertise for a particular project.
  - Second, the complexity and small size of the deals means they will cost the bank as much as a larger transaction to process, but generate smaller fees, making them less attractive.
  - A third issue affecting the ability to find lending partners are the difficulties associated with what are sometimes quite protracted pre-closing periods. The risk thereof can be a powerful disincentive for banks to participate in the preservation of Section 515 housing.

# Banks and Section 515 Preservation

- While there are many reasons why the development and preservation of affordable rental housing can be unattractive to commercial bank lenders, especially those in rural areas, banks and savings and loan institutions should not be overlooked as sources of preservation funding.

# Bank Options & Opportunities

- LIHTC equity purchase
- Bond equity purchase
- LIHTC debt financing: gap, bridge equity, or construction loans
- Multi-family residential loans with USDA RD Section 538 Guarantee (Ginnie Mae conforming)
- Capitalize non-profit developers or CDFIs that directly finance preservation of Section 515
- Partner with affiliate or independent mortgage companies, real estate investment firms, and USDA RD
- Sponsor FHLB AHP grants
- Debt financing to real estate development firms that purchase and/or manage a portfolio of Section 515 properties

## Senate Fiscal Year 2017 Appropriations Bill (S. 2956)

The Senate Fiscal Year 2017 Appropriations Bill (S. 2956) includes several notable changes to USDA's multifamily housing programs:

- The Secretary is directed to implement provisions and provide incentives to facilitate the transfer of USDA multifamily properties to nonprofit organization and public housing authorities that commit to keeping the properties in the RHS multifamily housing program, including, but not limited to:
  - Allow such nonprofit entities and public housing authorities to earn a Return on Investment (ROI) on their own resources to include proceeds from low income housing tax credit syndication, own contributions, grants, and developer loans at favorable rates and terms, invested in a deal; and
  - Allow reimbursement of organizational costs associated with owner's oversight of asset referred to as "Asset Management Fee" (AMF) of up to \$7,500 per property.
- The report includes language directing the Secretary of USDA to engage affordable housing advocates, property owners, tenants, and other interested parties, to find long-term solutions to maintaining affordable housing properties in rural America.
- The Senate bill further recommends \$1 million for a new pilot program for grants to qualified non-profit organizations and public housing authorities to provide technical assistance to USDA multifamily housing borrowers
  - The purpose is to facilitate the acquisition of Rural Housing Service multifamily properties by non-profit housing organizations and public housing authorities that commit to keeping the properties in the USDA multifamily housing program for a set period of time.

# Sources & Resources

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