

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

February 11, 2019

Memorandum

To: Members, Committee on Financial Services

From: FSC Majority Staff

Subject: February 14, 2019, “The Affordable Housing Crisis in Rural America: Assessing the Federal response”

The Subcommittee on Housing, Community Development, and Insurance will hold a hearing entitled, “The Affordable Housing Crisis in Rural America: Assessing the Federal Response” on Thursday, February 14, 2019 at 2:00 p.m. in room 2128 of the Rayburn House Office Building. This will be a one-panel hearing with the following witnesses:

- **Gideon Anders**, Senior Staff Attorney, National Housing Law Project
- **Bob Rapoza**, Executive Secretary, National Rural Housing Coalition
- **David Lipsetz**, Chief Executive Officer, Housing Assistance Council
- **Andres Saavedra**, Senior Program Officer, Rural Local Initiatives Support Corporation
- **Tanya Eastwood**, President, Council for Affordable and Rural Housing

Purpose

This hearing will examine the affordable housing challenges in rural communities, including homelessness, rental housing, and homeownership. In particular, this hearing will focus on the issue of prepayment and maturation of Section 515 Rural Rental Housing Loans and Section 514 Farm Labor Housing Loans, as well as legislative proposals to address aspects of these programs that put rural residents at risk of displacement.

Rural Housing Overview

Rural America spans nearly three-quarters of the country’s land, and is home to more than 46 million people, or about 15 percent of the population.¹ Changes in the rural economy have negatively affected the job markets in many rural areas, contributing to higher poverty rates and severe housing affordability issues. The aging housing stock in rural areas has also resulted in higher rates of residents living in moderately or severely substandard housing that may, for example, lack basic plumbing, and pose a risk to the health and safety of residents.² Moreover, racial minorities in rural areas are three times more likely to live in substandard housing, putting them among the worst-housed demographic group in the entire nation.³

¹ USDA Economic Research Service, “Rural America at a Glance: 2017 Edition,” Economic Information Bulletin 182, November 2017.

² Housing Assistance Council, “Taking Stock: Rural People, Poverty, and Housing in the 21st Century,” 2012.

³ *Id.*

In the past two decades federal investment in rural housing programs, particularly for low- and very-low income households has dwindled, with little to no new funding for development of new affordable housing. As explained later in this memo, this resulting trend of fewer affordable units will be exacerbated over the next several decades by the projected loss of hundreds of thousands of federally-subsidized rental housing units, which in many communities is the only safe, decent, and affordable rental housing available.

While the Department of Housing and Urban Development (HUD) programs include rural residents, Congress also established several rural housing programs under the U.S. Department of Agriculture (USDA) to respond to the unique housing challenges that rural residents face, including the prevalence of substandard housing conditions, the challenges of farm workers remaining stably housed despite the seasonal nature of their work, and the lack of access to affordable mortgage credit in some rural areas. These rural housing programs administered by USDA are generally much smaller than HUD programs and are designed to provide affordable rental housing and expand access to homeownership. Similar to HUD programs, the funding levels for USDA housing programs are insufficient to fully meet the needs of rural residents.⁴

Homelessness in Rural America

Although homelessness affects communities across the country, it presents distinct challenges in rural areas. For example, estimating the number of people experiencing homelessness in rural areas is more difficult than in urban areas because there may be fewer shelters where people experiencing homelessness congregate and larger geographies may make it more difficult to locate those who are experiencing unsheltered homelessness. Data in HUD's 2018 Annual Homeless Assessment Report (AHAR) shows that there are approximately 100,000 people experiencing homelessness in largely rural Continuum of Care jurisdictions,⁵ but this may be a low estimate due to limitations of the PIT count methodology in rural areas. The 2018 AHAR also shows that families with children living in rural areas made up almost half of all families with children living without shelter (47 percent) in this country. Additionally, the largest percentage growth in individuals experiencing homelessness occurred in rural areas.

Lack of access to resources such as transportation, health care, and other services can also pose greater challenges to those experiencing homelessness or at risk of homelessness in rural areas, as well as to those seeking to help them.⁶ For example, loss of access to a personal automobile for an unstably housed individual in a rural area could be far more devastating than it would be for an individual who has access to public transportation in urban areas. Further, the coordination of both housing and supportive services is important to effective interventions serving people experiencing homelessness, but in rural areas, the logistical aspects of ensuring that people experiencing homelessness (or who are at risk of homelessness) are connected to the supportive services that they need can be far more difficult than in densely populated urban areas.⁷

The Lack of Affordable Rental Housing in Rural America

⁴ See e.g. HUD, "Worst Case Housing Needs 2017 Report to Congress," August 2017, *stating* that more than 30 percent of very low-income rural renters had worst case housing needs in 2015 (4 million renters).

⁵ U.S. Department of Housing and Urban Development Office of Community Planning and Development, "The 2018 Annual Homeless Assessment Report (AHAR) to Congress, Part 1: Point-in-Time Estimates of Homelessness" December 2018.

⁶ See e.g. Housing Assistance Council, "Rural Voices: Rural Homelessness," March 2016.

⁷ *Id.*

While the cost of rental housing in rural areas is generally lower than in urban areas, poverty is higher and incomes are lower in these areas, which tend to offset the potential benefits of lower rental costs for residents. For example, the poverty rate in rural areas was 16.4 percent in 2017 compared to 12.9% for urban areas.⁸ Data compiled by the National Low Income Coalition show that there is a shortage of over 719,000 rental housing units in rural areas that are both affordable and available to the lowest income families.⁹ The Housing Assistance Council has also reported that renters in rural areas are more likely to have affordability problems and are twice as likely to live in substandard housing than rural owners.¹⁰ Over one-third of rural rental units are at least 55 years old and many of these properties are facing significant maintenance issues that have not been addressed.¹¹

The stock of affordable housing units supported by USDA's Section 515 Rural Rental Housing Loans and Section 514 Farm Labor Housing Loans is also aging, and there is not yet a coherent strategy from Congress or USDA to preserve these units and prevent displacement of tenants.¹² Section 515 and Section 514 are USDA-backed multifamily loans that provide low interest, long-term multifamily loans to support affordable rental housing. There are approximately 14,000 Section 515 and 514 properties across the country that are home to nearly 400,000 families with an average income of \$13,181.¹³

Most of the residents in Section 515 rental housing, and 514 farm labor units also receive rental subsidies through the Section 521 Rental Assistance (RA) program, which ensures that tenants pay no more than 30 percent of their incomes for rent. The average income for families living in Section 515 and 514 properties receiving RA is less than \$11,000.¹⁴ The RA contracts are tied to the Section 515 and 514 loans on the properties, which means that when the loans mature, are prepaid, or foreclosed upon, the RA also ends, putting low income residents at risk of displacement. A growing number of Section 515 and 514 loans are projected to mature in the coming decades. In fact, by 2050, nearly all Section 515 and 514 loans will have matured.¹⁵

Congress placed some requirements on the ability of Section 515 or 514 property owners to prepay their loans by passing the Emergency Low Income Housing Preservation Act of 1987 (ELIPHA), and more recently established the Multi-family Housing Preservation and Revitalization demonstration in FY 2006 to give USDA authority and tools to incentivize owners to remain in these programs. However, even with these requirements and incentives in place, 61 percent of the Section 515 and 514 properties with mortgages that matured between January 2014 and December 2017 exited the program and a growing number of loans are projected to mature in the coming decades.¹⁶ For residents impacted by a Section 515 loan prepayment, Congress has authorized USDA to provide them with Rural Development (RD) vouchers that allow them to stay in their homes or move to other housing. However, residents who are similarly facing displacement as a result of when a Section 515

⁸ USDA Economic Research Service, "Rural America at a Glance: 2018 Edition," Economic Information Bulletin 200, November 2018.

⁹ The National Low Income Housing Coalition, "The Gap: A Shortage of Affordable Homes," March 2018.

¹⁰ Housing Assistance Council, "Taking Stock: Rural People, Poverty, and Housing in the 21st Century," 2012.

¹¹ *Id.*

¹² See e.g. GAO, "Rural Housing Service: Better Data Controls, Planning, and Additional Options Could Help Preserve Affordable Rental Units," GAO-18-285, May 17, 2018.

¹³ USDA, "2017 Multi-Family Housing Annual Fair Housing Occupancy Report," April 6, 2018.

¹⁴ *Id.*

¹⁵ National Housing Law Project, "An Advocate's Guide to Rural Housing Preservation: Prepayments, Mortgage Maturities, and Foreclosures," 2018.

¹⁶ GAO, "Rural Housing Service: Better Data Controls, Planning, and Additional Options Could Help Preserve Affordable Rental Units," GAO-18-285, May 17, 2018.

loan matures or when a Section 514 loan matures or is prepaid are not offered vouchers because USDA lacks statutory authority to do so. There are also ongoing concerns that USDA is not requesting sufficient funding to ensure that all families eligible for a voucher can receive one.

Some USDA policy decisions may also have the effect of encouraging owners to prepay their loans, and thereby accelerate the loss of affordable housing in rural communities. In passing ELIPHA, Congress sought to prevent the displacement of residents by offering incentives to owners to remain in the 515 and 514 programs.¹⁷ ELIHPA also placed other restrictions on owners including only permitting loan prepayment when the owner agreed to a “use restriction” that would protect residents from being displaced by keeping the rent affordable.¹⁸ However, USDA has been offering RD Vouchers to affected residents, which some advocates allege violates ELIPHA because the practice effectively relieves owners of their obligation to maintain the units as affordable without the benefit of rental assistance.¹⁹ In the context of limited funding, allocating RD Vouchers to residents who would otherwise be protected by a use restriction could leave insufficient funding to protect residents in units that are not similarly protected.

Access to Homeownership in Rural America

The single-family housing market in rural America has several features that make it distinct from other parts of the country. For example, while rural areas tend to have comparatively high homeownership rates, the quality and value of housing is often lower than in other areas of the country, which can present greater challenges in accessing credit for purchase and rehabilitation. Access to credit in rural areas also depends more heavily on smaller financial institutions. In fact, depositories with less than \$10 billion in assets originated 31 percent of mortgage loans in rural areas compared to 18.1 percent in urban areas.²⁰

While loans backed by the Federal Housing Administration (FHA) and the government-sponsored enterprises (GSEs) play an important role in rural areas, USDA single-family loan programs help expand homeownership opportunities for comparatively lower income borrowers. Specifically, USDA’s Section 502 Guaranteed Loan program offers federal backing for loans issued by approved private sector lenders to low- and moderate-income families for purchase, construction, or rehabilitation of modest homes. Eligible borrowers can obtain financing for up to 100 percent of the appraised value of the home. The average income of borrowers who obtain Section 502 Guaranteed Loans is less than \$60,000.²¹ The Section 502 Direct Loan program provides direct mortgage loans for low and very low income families for purchase, construction, or rehabilitation of modest homes. Like the Section 502 Guaranteed Loan program, eligible borrowers can obtain financing for up to 100 percent of the appraised value of the loan through the Direct Loan program. Section 502 Direct Loans can also include payment assistance that lowers effective interest rates, depending on household income, to as low as one percent. The average income of borrowers who obtain Section 502 Direct Loans is less than \$33,000.²² Section 502 Direct borrowers are often assisted by USDA funded Section 523 Mutual Self-Help nonprofit grantees that help low and very low income families utilize their “sweat equity” to build their less costly homes.

¹⁷ 42 U.S.C. § 1472(c)(4)(B)

¹⁸ 42 U.S.C. § 1472(c)(5)(A)

¹⁹ See *McFalls v. Sony Perdue*, 2018 WL 785866 (D. Or., Feb. 8, 2018).

²⁰ Michael Calhoun, Tom Feltner, Peter Smith, “Supporting Mortgage Lending in Rural Communities,” Brookings Center on Regulation and Markets, January 2018.

²¹ Housing Assistance Council, “USDA Rural Development Housing Activity: Fiscal Year 2017 Year End Report,” 2018.

²² *Id.*

Legislative Proposals

- The “Strategy for Rural Housing Preservation Act of 2019,” is a discussion draft from Chairman Clay that would require USDA to come up with a plan for preserving Section 515 and 514 properties and preventing displacement of tenants. The bill would also require USDA to establish an advisory committee made up of various stakeholders to advise the USDA on implementing the plan. Lastly, the bill would require USDA to regularly report detailed information about the status of Section 515 and 514 properties.
- RHV_012 is a discussion draft that would expand eligibility for RD Vouchers to all residents of Section 515 and 514 properties that are at risk of displacement due to a loan maturation or foreclosure, and authorizes additional funding for the RD Voucher program to account for the expanded eligibility. The bill would also prevent USDA from offering the vouchers when the residents are already protected by a use restriction. The bill would also require USDA to fully utilize the RA program. Lastly, the bill would establish a pilot program to test the decoupling of RA contracts from Section 515 and 514 loans.
- “Rural Housing Preservation Act of 2019,” is a discussion draft from Representative Kuster that would decouple Section 515 and 514 loans from RA contracts and ensure that when a loan matures, a new RA contract is offered to the owner. It would also statutorily authorize the MPR demonstration program, and similar to Waters_012, it would expand eligibility for the RD Voucher program and prevent the allocation of vouchers in cases where residents would otherwise be protected by a use restriction.
- “VAWA Protections for Rural Women Act of 2019,” is a discussion draft from Representative Gonzalez that would ensure that women with RD Vouchers are protected under the Violence Against Women Act.
- Panett_009 is a discussion draft from Representative Panetta would increase the maximum amount of a loan or grant under Section 514 or 516 to \$3 million and make available upon request the self-scoring assessment for a Section 514 or 516 applicant. The draft bill would also require the USDA Secretary to consult with the Internal Revenue Service Commissioner and take actions to streamline and coordinate requirements for Farm Labor Housing developments with the requirements for Low Income Housing Tax Credits. Note that this provision is outside the jurisdiction of our Committee.