

# RENTAL HOUSING FOR A 21ST CENTURY RURAL AMERICA

*A Platform for Preservation*

HOUSING ASSISTANCE COUNCIL



# RENTAL HOUSING FOR A 21<sup>ST</sup> CENTURY RURAL AMERICA

USDA's Rural Rental Housing Portfolio:  
A Platform for Preservation

Housing Assistance Council

September 2018

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HAC is solely responsible for the accuracy of the statements and interpretations contained in this publication and such interpretations do not necessarily reflect the views of the United States Government.

The Housing Assistance Council is a national nonprofit organization that helps build homes and communities across rural America. Since 1971 HAC has supported local efforts to improve rural housing conditions. HAC provides technical housing services, financial products, policy analysis, research, and training and information services.

HAC is an equal opportunity lender and housing provider.

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# USDA's Rural Rental Housing Portfolio: A Platform for Preservation

## Housing Assistance Council

September 2018

### INTRODUCTION

The increasing lack of affordable housing is not just an urban problem. Rental housing options in rural America are not only sparse, but also declining. An important source of housing in many rural communities are rental homes financed by the U.S. Department of Agriculture (USDA) Section 515 direct loans. Today there are over 13,000 USDA rental properties providing more than 415,000 affordable homes to families and individuals across rural America.

The number and availability of these USDA-supported rental homes are declining. No new Section 515 properties have been financed in the last several years, and many of the remaining loans are reaching maturity or are otherwise projected to leave the portfolio in the next few decades. The impacts of this trend are problematic for rural renters and communities alike. Once a loan<sup>1</sup> is paid off, the property owner is no longer subject to government oversight or regulations on use of their property (unless the project has other subsidies still in place), the federal government is no longer paying to support that housing, any remaining or replacement financing has a higher interest rate than the USDA loan, the tenants are no longer eligible for USDA Rental Assistance, and in some instances, the homes may no longer be affordable for their tenants. At nearly all intersections, the coming wave of maturing mortgages is a crisis.

Further compounding the impacts on Section 515 tenants are their incredibly low incomes. The average household income of residents in USDA properties is just \$13,600.<sup>1</sup> These income dynamics combined with a majority senior or disabled population make Section 515 residents some of the most vulnerable renters in the nation.

The circumstance of declining rural mortgages was noted in a recent U.S. Senate Report:

*With demographic transformations such as the growth in single-person households and the burgeoning senior population, the need for adequate and affordable rental housing continues to grow in many rural communities. Simply*

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<sup>1</sup> As used in this paper, "a loan" refers to all USDA Section 515 financing on the property.

*put, affordable rental options are vitally necessary, but in short supply in rural America. USDA's Multi-Family Housing program, specifically Section 515, is a critical source of safe, decent, and affordable rental homes for low- and very-low income families, workers, and senior citizens and an anchor for building strong rural communities. Currently, there are approximately 13,800 Section 515 properties providing over 416,000 units of rental housing in USDA's portfolio. USDA's Section 515 properties are often the only decent and affordable rental housing in many rural communities and tenants in these homes include some of America's most vulnerable residents including elderly persons, people with disabilities, and families with extremely low incomes.<sup>2</sup>*

The Housing Assistance Council (HAC) conducted a comprehensive assessment of USDA's multi-family housing investments. This multi-faceted review of USDA's multi-family housing portfolio investigated not only the property characteristics, but also the tenant and market dynamics in which these properties exist. The report and its analyses recognize that USDA Section 515 rural rental housing is a public-private partnership, and that four key stakeholders and entities are extremely important within this partnership, including 1) the U.S. Department of Agriculture; 2) owners of Section 515 properties; 3) tenants residing in Section 515 properties; and 4) the public interest created by Section 515 investments and related outlays. The ultimate goal of this project is to inform strategies that help preserve this integral housing resource for rural communities and residents.

# EXECUTIVE SUMMARY

## RENTAL HOUSING FOR A 21ST CENTURY RURAL AMERICA

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HOUSING ASSISTANCE COUNCIL



## EXECUTIVE SUMMARY

**A Crisis.** The increasing lack of affordable housing is not just an urban problem. Rental housing options in rural America are not only sparse, but also declining. An important source of housing in many rural communities are rental homes financed by the U.S. Department of Agriculture (USDA). Today there are over 13,000 USDA rental properties providing more than 415,000 affordable homes to families and individuals across rural America.

No new USDA direct-financed rental housing has been developed in years, and the existing properties are increasingly losing their affordability provisions. The impacts of this trend are problematic for rural renters and communities alike.

**A Platform For Production.** The Housing Assistance Council (HAC) conducted a comprehensive assessment of USDA's multi-family housing investments. This multi-faceted review of USDA's multi-family housing portfolio considered not only the property characteristics, but also the tenant and market dynamics in which these properties exist. The report and its analyses recognize that USDA Section 515 rural rental housing is a public-private partnership, and that four key stakeholders and entities are extremely important within this partnership, including 1) the U.S. Department of Agriculture; 2) owners of Section 515 properties; 3) tenants residing in Section 515 properties; and 4) the public interest created by Section 515 investments and related outlays. The ultimate goal of this project is to inform strategies that help preserve this integral housing resource for rural communities and residents.

### The Picture of Section 515 Housing: Property, Market, and Tenant Dynamics

**USDA's Section 515 Rural Rental Housing is among the few rental housing resources specific to rural communities.** Since its inception in 1963, Section 515 has financed nearly 28,000 rental properties containing over 533,000 affordable apartment units.

**USDA's rental housing portfolio has a broad reach and impact across rural America.** There are approximately 13,829 Section 515 projects containing 416,396 rental units in the USDA portfolio. USDA's rental housing effort includes properties in every state and three territories, and there is at least one USDA rural rental property in 2,719, or 87 percent, of all U.S. counties.

**The Midwest and South may be disproportionately affected.** While Section 515 properties are located across the nation's rural landscape, roughly two-thirds of all properties and units are located in the South and Midwest regions of the country. One-third of all Section 515 projects, and nearly 40 percent of all the units, are located in the Southeast region alone.

**Tenants in Section 515 properties are among the most vulnerable households in the nation.** The majority of Section 515 rentals are occupied by seniors and people with disabilities. Tenants' annual income averages only \$13,600.

**80 percent of tenants in USDA properties receive some type of rental assistance.**

Approximately two-thirds of all Section 515 tenants live in units that are rent subsidized through USDA's Section 521 Rental Assistance program. Another 15 percent receive some other help with their rent, and the remaining 20 percent have no rental subsidy. More than one-third of those unassisted tenants are cost-burdened, paying more than 30 percent of their income for rent.

## **Projecting Loss of USDA Properties and Its Impact**

Significant numbers of Section 515 properties will be lost as affordable housing in the next few decades as their loans mature or leave the portfolio for some other reason. Nearly 90 percent of USDA's portfolio is over 20 years old. More than half of those properties are over 30 years old.

**Owners of Section 515 properties play a key role in the equation.** An owner, after paying off a loan and barring the presence of restrictive use provisions, has the option of either continuing to use the property for affordable housing or choosing some alternative use. When a Section 515 loan nears maturity or is eligible to prepay, an owner can pursue one of five general options regarding the status of their property: 1) prepay the loan; 2) pay off the loan at maturity; 3) foreclosure; 4) recapitalize debt; or 5) transfer ownership.

**Maturing mortgages are now the most pressing preservation issue for Section 515 properties.**

Assessed on a timeline "curve," mortgage maturity projections indicate that an average of 74 properties (1,788 units) per year will leave the program from 2016 to 2027. Maturities will then continue over three phases lasting four to five years each, with each involving about 2,800 to 3,000 properties containing about 82,000 to 92,500 units. Over 20 percent of the properties are expected to exit the program during each of these three phases. The last phase will last about ten years, with the final 30 percent of properties exiting during this phase.

**Prepayment is still an important consideration in the viability of the Section 515 portfolio.**

Between 2001 and 2016, loans were prepaid on 1,564 Section 515 properties resulting in 28,475 rental units leaving USDA's portfolio. Over the last five years an average of 86 properties and 1,643 units have prepaid annually. As of 2016, an estimated 5,300 Section 515 properties (38.2 percent of properties, encompassing over 150,000 units) are still eligible to prepay.

**When a USDA Section 515 loan ends for any reason, the property also loses its Section 521**

**Rental Assistance.** Some properties are restricted to low-income use for a period of time after they leave the program. In instances where there is no restrictive use provision, owners may increase rents to levels their low-income tenants may not be able to afford. Without restrictive use provisions in place, where there is a demand for higher-rent units, owners may convert their properties to market rents and displace current tenants.

**Over 1,600 USDA properties (48,000 units) are located in counties classified as high risk because their economies and rental markets are either declining or growing rapidly.** Tenants

in these at-risk properties are much more likely to be minorities than are Section 515 residents in general. They are also more likely to rely on USDA Rental Assistance.

**In over 300 counties Section 515 properties make up the majority of project-based federally subsidized units.** These counties are concentrated in the Plains states. In two-thirds of them, populations have declined since 2005 or 2010. Four out of five tenants in these properties are White. In 250 counties, focused in the Great Lakes, Plains, and Southeast, Section 515 accounts for 10 percent or more of all renter-occupied units. These counties' populations tend to be sparse, declining, and aging.

**Section 515 properties are located in 90 percent of counties with persistent poverty.** In 77 of these counties, Section 515 represents more than 10 percent of the total rental stock. Persistent poverty counties with Section 515 units are clustered in the Southeast. The tenants in these properties are disproportionately likely to be minorities, and disproportionately likely to rely on Section 521 Rental Assistance.

**Over 5,400 Section 515 properties are in counties where more than half of all rental households are cost-burdened.** The majority of these are located in the Southeast and Far West, with a relatively high percentage of African-American and Hispanic tenants.

**Looking back to solve forward.** An analysis of 2,034 properties that left the Section 515 program from 2005 to 2016 found that properties owned by nonprofit entities were less likely to leave than those owned by for-profits. Properties with few units were more likely to leave than were larger projects, and older properties were slightly more likely to leave than newer ones. Those in counties with growing populations were more likely to leave, while increases in unemployment rates were associated with a decrease in the likelihood of leaving the portfolio.

## **Expert and Stakeholder Input on Rural Multi-Family Preservation**

Nationally, there is a vibrant and robust community of practitioners, experts, and other stakeholders with unparalleled expertise on USDA's rental housing stock and broader issues related to rural rental housing. To provide context for the quantitative data analyses and additional information about the on-the-ground opportunities and challenges facing USDA's Section 515 portfolio, HAC convened or participated in roundtable discussions with stakeholders, and also reviewed comments and recommendations offered at a variety of forums over several years involving preservation efforts.

**The topic most often raised was the availability of cost-effective financing.** Stakeholders named many federal, state, and private sources of debt and equity. They described the Low-Income Housing Tax Credit program as essential for large-scale preservation because it has become the major source of financing for affordable rental housing. If another program gained the same level of importance, that program would become key as well.

**USDA Section 521 Rental Assistance was also identified as a critical preservation tool.** In addition, stakeholders supported use of USDA Section 542 vouchers. Stakeholders did note that, because these vouchers are tenant-based, they aid tenant households but do not help preserve affordable units in communities in the long term.

## **Preservation Strategies and Policy Recommendations**

Strategies to preserve rural rental properties balance on a fine line between aspirations, pragmatic realities, legal and contractual rights, and the possibility for meaningful action. The report and its analyses recognize that USDA Section 515 Multi-Family Housing is a public-private partnership, and that there are key stakeholders and entities around whom the strategies are developed:

1. The U.S. Department of Agriculture;
2. Owners of Section 515 properties;
3. Tenants residing in Section 515 properties; and
4. The public around Section 515 investments.

The following preservation strategies are presented with these stakeholders and the following principles in mind: the interests of several different parties must be protected; no one can have everything they want; some expense will be incurred; and resources are limited, so priorities must be established.

**1. USDA: USDA Rural Development and the Rural Housing Service are, of course, deeply involved in every aspect of rural rental housing preservation.** USDA is the lender and the regulator for its rural rental housing programs; the distributor of Rental Assistance and other financial assistance; and the approver of transferees, appraisals, foreclosures, and numerous other decisions involved in preservation. The research and the input of varied stakeholders surfaced several suggestions for USDA actions.

### **Strategies for USDA:**

Easy-to-use public data would increase transparency.

Improved accuracy of the public data is critical to make informed decisions.

USDA could help stakeholders learn more about the possible preservation uses of USDA's Community Facilities programs and the Business and Industry guarantee program.

USDA could provide or support an exchange where stakeholders can share information with each other.

Additional information and data would be useful.

**2. Owners and Purchasers: Preservation is possible only with the participation of Section 515 property owners and/or entities that may wish to purchase these properties.** All owners and purchasers could benefit from process improvement strategies, while other strategies must take account of their differing circumstances. Some owners with loans made before late 1989 have successfully sued for damages caused by retroactive prepayment limitations, while others have worked within the constraints of the prepayment statute. For instance, this study found that nonprofit owners were less likely to prepay than others.

**Strategies for Owners and Purchasers:**

Incentives help to keep owners in the Section 515 program.

The new preservation technical assistance program seems promising.

Simpler processes would make preservation easier.

Reductions in operating costs would also help make preservation more feasible.

Revisions in state LIHTC programs could better assist rental preservation with 9 percent credits.

USDA helps borrowers by continuing to provide information ahead of mortgage maturity.

**3. Tenants: The analyses in this report make clear the significant need for decent, affordable rental housing in rural America.** Preservation of existing units is particularly important because production of new units is not keeping pace with the demand. The vast majority of tenants in the existing Section 515 units are highly vulnerable: seniors, persons with disabilities living on fixed incomes, and single-parent families with children. Furthermore, rural areas and small towns usually have few affordable rental units available, and there is no guarantee that the owners of the available units will accept vouchers.

**Strategies for Tenants:**

USDA rural vouchers could help more tenants.

It should also be noted that voucher funding needs will continue to increase.

Improved communication could increase the voucher utilization rate.

Voucher payment amounts may need adjustments.

A standardized methodology could align determinations of impact on minority housing opportunities.

Preserving small and remotely located properties may be difficult but desirable when those rental units are needed in their communities.

**4. The Public Interest: Beyond the parties involved in the Section 515 program, broader public interests are implicated in preservation decisions.** Rural residents benefit when their neighbors, relatives, and coworkers have decent, affordable homes. Taxpayers are best served when public funds are used in the most efficient way possible. Private lenders benefit when they can participate in housing efforts, and other parties are aided by their involvement.

**Strategies for the Public Interest:**

Housing tax credits and USDA’s Section 538 loan guarantee program are useful preservation tools.

Increased private lender involvement would help meet the great need for preservation resources, and the new Duty to Serve obligations may yield new avenues for private lenders.

USDA’s subordination of Section 515 and 538 loans is a useful preservation tool.

Legislation authorizing the Multi-Family Preservation and Revitalization (MPR) program and the Preservation Revolving Loan Fund (PRLF) could add certainty to rural preservation efforts.

USDA’s vouchers cannot replace other preservation efforts.

State and local governments can help by funding state and local housing resources, including state housing trust funds and multi-family bond programs.

**5. Cross Cutting Strategies.** Perhaps every preservation strategy cuts across stakeholder groups, simply because preservation has many impacts. Addressing Section 521 Rental Assistance is certainly cross-cutting, if only because Rental Assistance has proved integral to so many preservation deals.

Reamortizing aging Section 515 loans is a significant preservation strategy.

Adding new Rental Assistance units to a property can provide important aid to keep properties in the program.

The concept of “decoupling” (separating the Section 521 and 515 programs so that a property can receive Section 521 Rental Assistance after its Section 515 loan matures or is prepaid) has both proponents and detractors.

## **A Platform for Preservation**

With demographic transformations such as the burgeoning senior population and changes in the locations of attractive jobs, the need for adequate and affordable rental housing looms large for many rural communities. Affordable rental options are a necessary part of a spectrum of housing options in rural America, yet they are too often in short supply.

Preserving existing decent, affordable rural rentals can help to meet the needs of aging rural residents, young families, and others with low incomes, as well as to make use of past

government investments. Given the current economic realities in the United States, such preservation requires planning ahead and setting clear priorities.

## A MULTI-FACETED ASSESSMENT: METHODS AND DATA

This analysis incorporated a multi-faceted review of USDA's multi-family housing portfolio including 1) general portfolio review, 2) projections of loss and risk of loss in USDA properties leaving the portfolio due to maturing mortgages, prepayment, or other reasons, 3) expert and stakeholder input, and 4) strategies for preservation. The analysis reviewed not only the property characteristics, but also the tenant and market dynamics in which these properties exist.

To help contextualize and augment the quantitative analyses, the study also incorporated qualitative data collection and information gathering. Descriptions and opinions about opportunities and challenges facing USDA's Section 515 portfolio were collected through four informal roundtables with a range of stakeholders. This input helps inform preservation strategies and policymaking.

The analyses, information, and findings presented in this report derive from HAC tabulations of various data sources. Much of the data comes from publicly available USDA program data and resources located on the Multi-Family Housing subsection of the Rural Development Datasets website.<sup>3</sup> Additionally, analyses in the report utilized other available data sources such as the U.S. Census Bureau's 2010 Census of Population and Housing and American Community Survey (ACS) Five Year Estimates. Other data incorporated into analyses include U.S. Department of Housing and Urban Development's Picture of Subsidized Households and various information from the U.S. Department of Agriculture's Economic Research Service (ERS), Bureau of Economic Analysis (BEA), and others.

For more information about data and methods, please consult Appendix A, *About the Study*.

# MULTIFAMILY HOUSING for 21st CENTURY RURAL AMERICA

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Rural Rental Properties



1



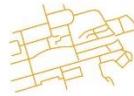
## The Picture of Section 515 Housing: Property, Market, and Tenant Dynamics

Data compilation to analyze components related to USDA's entire portfolio including:

- Number and size of properties
- Geography of USDA footprint
- Project type
- Ownership structure
- Operations
- Tenant Characteristics
- Market Characteristics

Aggregate analyses of these characteristics and indicators will provide a basis for stability and preservation approach to USDA's existing multifamily housing stock.

2



## Projecting Loss of USDA Properties and its Impact

Assess potential loss of stock in relation to business and market dynamics

- Loan prepayment
- Loan maturity
- Other loss
- Risk typologies and market indicators

3

## Expert and Stakeholder Input on Rural Multifamily Preservation



Nationally, and across many regions and communities, there is a vibrant and robust community of practitioners, advocates, and experts with unparalleled expertise on USDA's rental housing stock and the issue of rural rental housing.

To augment and provide context for the quantitative data analyses, a series of informal roundtables and interviews from a range of experts on rural Multifamily housing were conducted to inform preservation efforts.

4

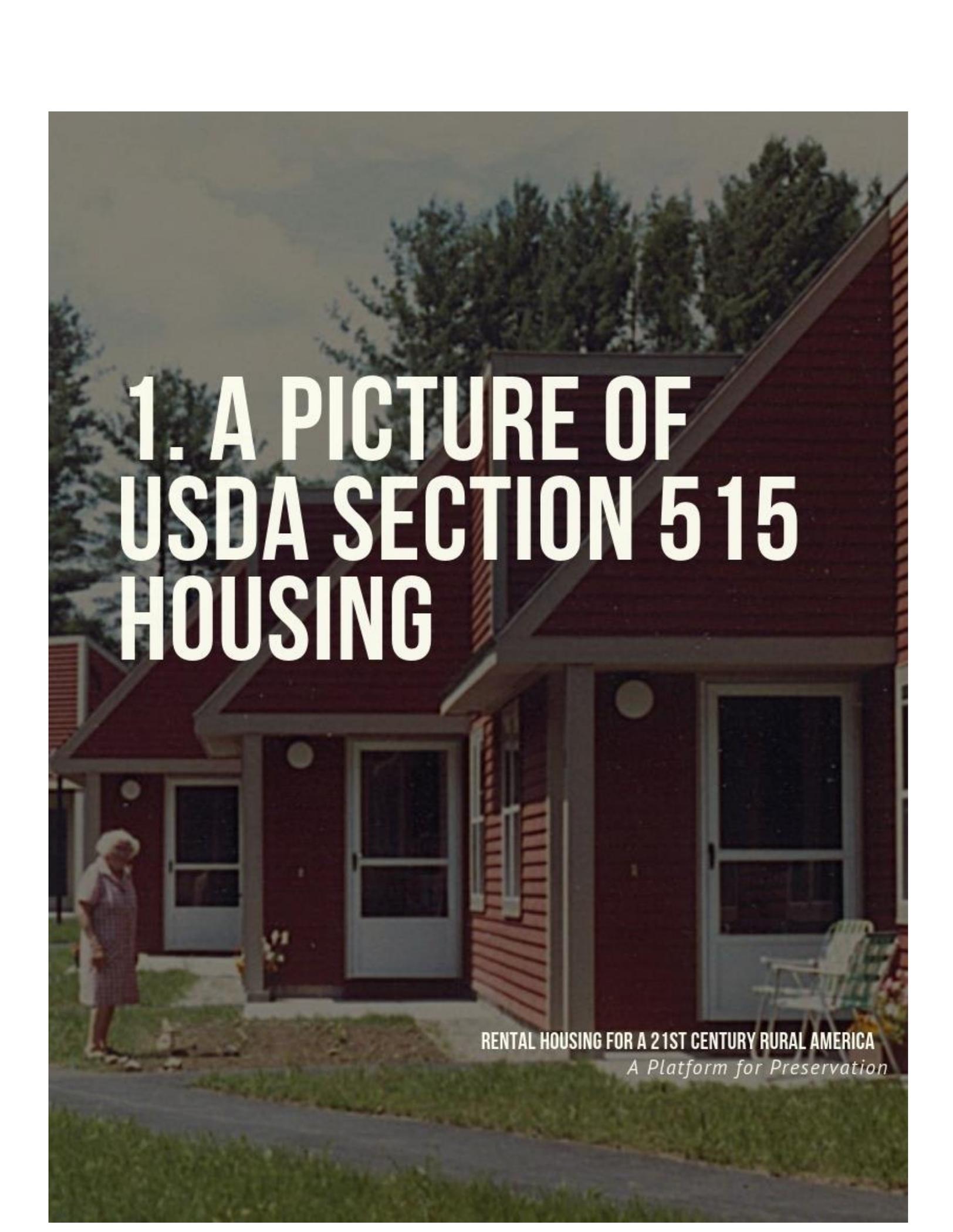
## Preservation Strategies and Policy Recommendations



In a culmination of the preservation assessment, the findings were analyzed to compile a series of comprehensive and cross-cutting strategies and policy recommendations that will help sustain, preserve, and enhance USDA's multifamily housing stock and efforts.

A Platform for Preservation

A multi-faceted review of the current USDA multifamily portfolio, with a focus on preserving this housing resource for rural communities and residents.



# 1. A PICTURE OF USDA SECTION 515 HOUSING

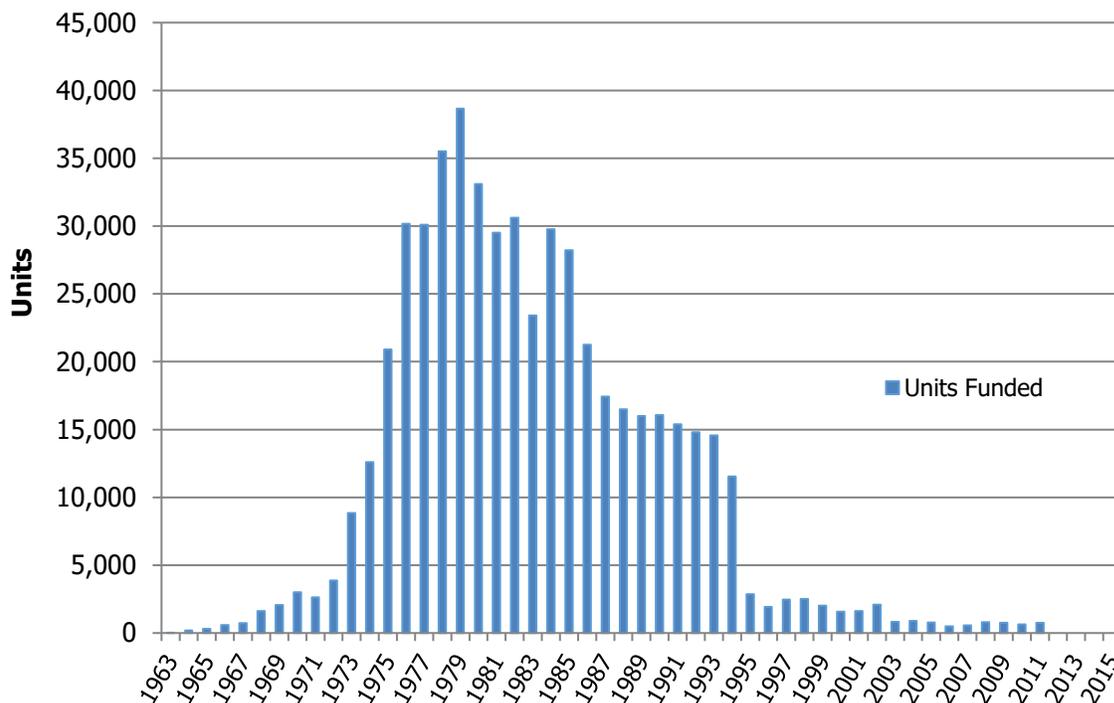
RENTAL HOUSING FOR A 21ST CENTURY RURAL AMERICA  
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## SECTION 1. THE PICTURE OF SECTION 515 HOUSING: PROPERTY, MARKET, AND TENANT DYNAMICS

### USDA's Section 515 Loans are Among the Few Rental Housing Programs Specific to Rural Communities

Since its inception in 1963, the U.S. Department of Agriculture's Section 515 Rural Rental Housing loans have financed nearly 28,000 rental properties containing over 533,000 affordable apartment units.<sup>1</sup> As of April 2016, there were 13,829 Section 515 properties containing 416,396 rental units in USDA's portfolio.<sup>11</sup> The Section 515 program was administered by USDA's Farmers Home Administration until 1995, and since then by its successor, the Rural Housing Service in USDA's Rural Development mission area (RD).

#### USDA Section 515 Rural Rental Housing Loans, FY 1963 - FY 2016



Source: HAC Tabulations of RD Data

The USDA Section 515 loan product provided long mortgage terms and interest subsidy to help make the rents affordable for low- and very low-income rural tenants. Section 515

<sup>1</sup> USDA Section 515 activity totals from Housing Assistance Council's USDA RD Historic Activity Through FY2015 webpage. Accessed 7/24/16 at <http://ruralhome.org/sct-information/usda-housing-program-data/rd-annual-obs/1324-fy15-rd-year-end-report>.

<sup>11</sup> This figure includes seven properties with zero units. Forty-eight additional cases were removed for having either no exit date or one listed as before 2016. The analysis successfully located 13,728 of these properties using geocoding with ArcGIS.

loans were made by USDA, acting as a lender. Borrowers used the funds to purchase buildings or land, to construct or renovate buildings, and to provide necessary facilities such as water and waste disposal systems. Portions of the available funds were set aside for nonprofit organizations, applicants serving counties and Colonias designated by USDA as underserved, and Rural Economic Area Partnership zones.

Individuals, partnerships, limited partnerships, for-profit corporations, nonprofit organizations, limited equity cooperatives, Native American tribes, and public agencies were eligible to apply. For-profit borrowers were eligible if they agreed to operate on a limited-profit basis. Borrowers had to be unable to obtain credit elsewhere that would enable them to charge rents affordable to low- and moderate-income tenants.

Very low-, low-, and moderate-income families; elderly persons; and persons with handicaps and disabilities are eligible to live in Section 515-financed housing. Very low income is defined as below 50 percent of the area median income (AMI); low income is between 50 and 80 percent of AMI; moderate income is capped at \$5,500 above the low-income limit.

Loans are for up to 30 years at an effective 1 percent interest rate and may be amortized over a period of up to 50 years. Over the program history, loan terms have changed. At one time, loans could be made for terms as long as 50 years. About 63 percent of the properties have loans with terms of 40 years or more. Nearly one-third of the properties have terms between 21 and 30 years. There are about 175 properties with loan terms of 20 years or less.

The median outstanding Section 515 loan balance per property is about \$646,000. Nearly 60 percent of the properties have an outstanding loan balance between \$500,000 and \$2,000,000. About 38 percent of the properties owe \$500,000 or less and the remaining properties have balances over \$2 million. Loan balances range from a low of \$21 to a high of \$8.9 million. Some of the properties also are encumbered by loans from other sources, including the Section 538 program. Information for specific properties on financing sources other than Section 515 loans, though it may be valuable in understanding the portfolio, was not available for this study.

Over one-third of the USDA Section 515 properties have more than one Section 515 loan outstanding. Most of these properties have two or three loans. About 3.5 percent of the properties have four or more loans – and a few of those have 10 or more loans. There are many reasons for the multiple loans including but not limited to repair or rehabilitation of an existing property, or an equity loan to keep the property in the program or to facilitate a sale to a new owner.

Funding for Section 515 has decreased substantially in recent decades and years. The Section 538 program, which guarantees multi-family housing loans made by private lenders, began operating in 1996 and, as Section 515 activity has declined, Section 538 has grown. For example, in 1996 the Section 515 program funded \$151 million while Section

538 guaranteed \$16 million. By 2015, Section 515 had \$28 million and Section 538 guaranteed loans of nearly \$114 million.<sup>4</sup>

Section 538 loans offer shorter loan terms (25 to 40 years) at market interest rates and provide no rental assistance subsidy, although tenant subsidy may be available from another funding source. Because Section 538 properties have shorter terms and higher interest rates, they have higher rents, and many tenants who could afford Section 515 rents cannot afford to live in Section 538 properties.

## **Over 80 Percent of Tenants in USDA Properties Receive Some Type of Rental Assistance**

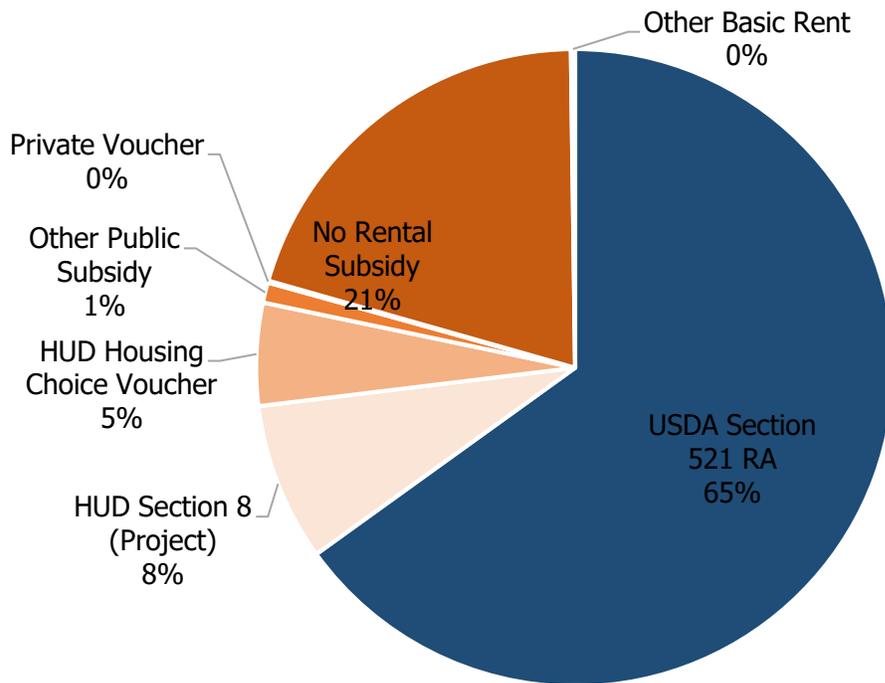
Section 515 tenants generally pay rent at a level calculated to make the property's budget feasible. Over 65 percent of all Section 515 tenants live in units that are rent subsidized through USDA's Section 521 Rental Assistance program. Tenants who receive this rent subsidy pay about 30 percent of adjusted income towards rent. About 13.2 percent of tenants receive rental assistance through HUD Project-Based Section 8 (8 percent) or Housing Choice Vouchers (5.2 percent). A small portion of tenants (1.3 percent) receive rental subsidies through some other program. The remaining tenants (129,312 or over 20 percent) receive no rental subsidy.

The Southeast region has the greatest share of tenants receiving no rental subsidy, over 45 percent. Nearly 48 percent of the tenants who pay more than 30 percent of their income towards rent live in the Southeast. The Mideast region has fewer tenants (6.4 percent) receiving no rent subsidy but a greater share of them (85.5 percent) are rent overburdened.<sup>1</sup>

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<sup>1</sup> The data provided to HAC for this research indicates that as of March 31, 2016 there were 45,923 tenants who pay more than 30 percent of income for rent, but USDA's annual "Occupancy Report" data from September 2016 shows 51,350 cost-burdened tenants in the Section 515 program. A number of other data points also differ between these two sources.

## USDA Section 515 Tenants, Rent Subsidy by Source, 2016



Source: HAC Tabulations of RD Data

### Section 521 Rental Assistance - The Catalyst for Affordability

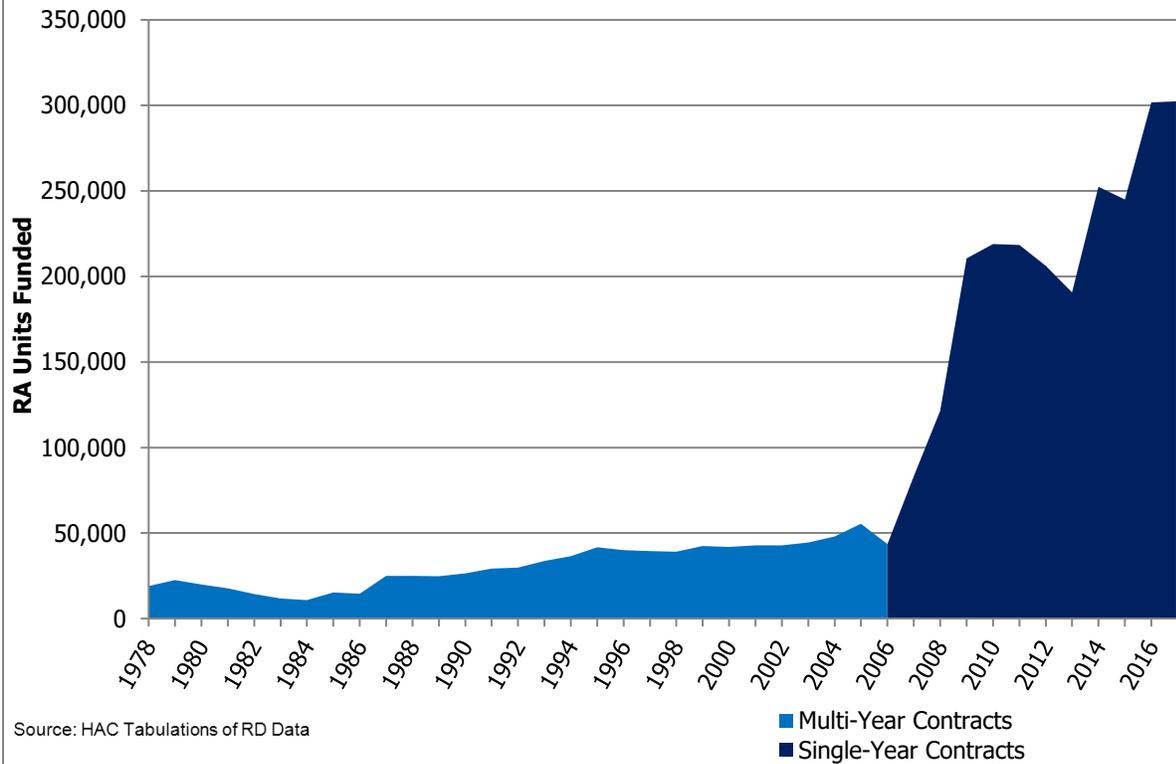
Rental subsidies are an important aspect of affordable rental housing. Current Section 515 tenants receive rental subsidies from several different sources. Over 505,000 tenants (nearly 80 percent) receive some form of rental subsidy. The most common source of rental subsidy is through USDA Section 521 Rental Assistance (RA), received by nearly two-thirds of all tenants. RA is project-based assistance, providing an additional subsidy for tenants in USDA Section 515 financed rental housing with incomes too low to pay the rent from their own resources. USDA pays the owner the difference between the tenant's contribution (30 percent of adjusted income) and the monthly rental rate, which is calculated based on the owner's project costs.

Some Section 515 properties have no Section 521 Rental Assistance, and some receive Rental Assistance for only a portion of their tenants. By law, this aid is available only in properties with USDA Section 514 (farmworker housing) or Section 515 mortgages. When a USDA mortgage is prepaid or matures, Rental Assistance is no longer available for that property or those tenants.

Since the subsidy is based on the property's operating budget, Rental Assistance is, by definition, the amount needed to make a property economically viable. Losing Rental

Assistance makes it difficult to maintain the same budget. Rents must be raised or another subsidy substituted in order to keep the property operating. Rental Assistance is, therefore, a key factor in preserving USDA-financed rentals.

### USDA Section 521 Rental Assistance Program, FY 1978 - FY 2017



### Quick Notes on Rental Assistance

Properties in the Rocky Mountain region are most likely to have USDA Rental Assistance, **84** percent, compared to 58 percent for the Mideast.

About **8** percent of all tenants receive HUD Section 8 project-based rental assistance. Five percent receive HUD Housing Choice Vouchers (HCV). Other forms of rental subsidy include private vouchers and “other” public subsidy.

Tenants in properties where **families** can live are slightly less likely to receive Section 521 Rental Assistance, while tenants of properties for elderly persons and those with disabilities are slightly more likely to receive this subsidy. The reverse is true for HUD project-based and HCV assistance.

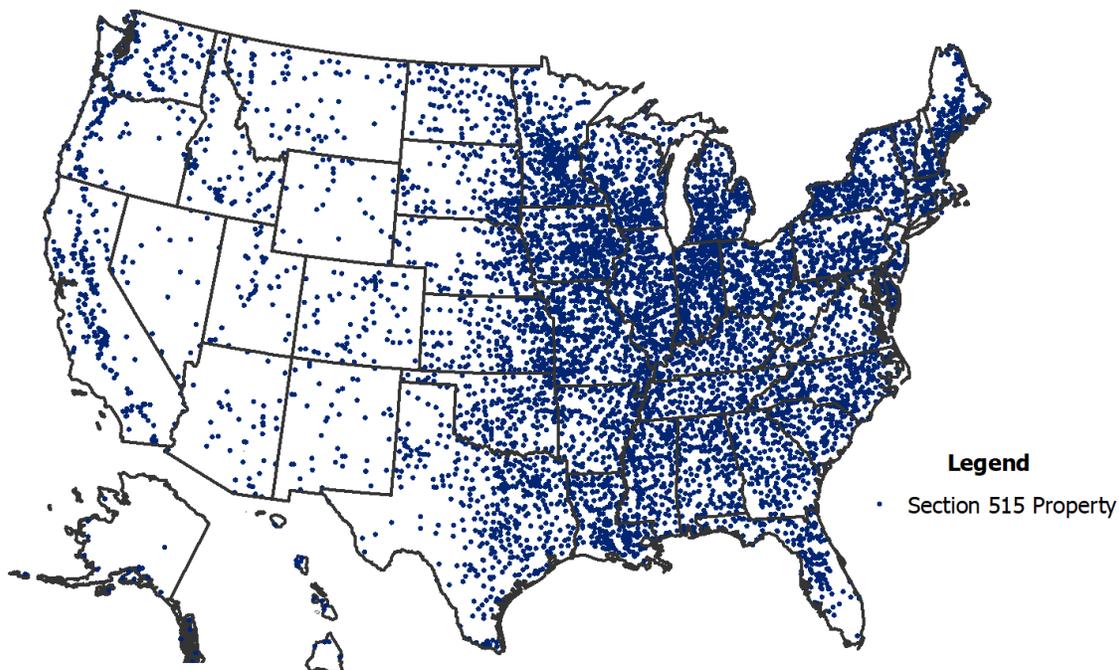
## USDA's Rental Housing Portfolio has a Broad Reach and Impact Across Rural America

As of April 2016, there were 13,829 Section 515 projects containing 416,396 rental units in the USDA portfolio.<sup>1</sup> The average size of a HUD multi-family property was 122 units.<sup>5</sup> USDA Section 515 properties were smaller at an average size of 33 units.

USDA's rental housing program has a broad reach across rural America that includes properties in every state and three territories. Another, possibly more telling indicator of the program's reach is the fact that there is at least one USDA rural rental property in 2,719, or 87 percent, of all U.S. counties. The level of activity by state ranges from Texas, with 670 properties and 22,713 units, to Rhode Island, with 12 properties and 421 units. Approximately 1,771 (65 percent) of the counties with a USDA Section 515 property are located outside metropolitan areas and 514 have county populations of less than 10,000.

### USDA Section 515 Rural Rental Housing Properties

Properties as of June 30, 2017



Source: Housing Assistance Council (HAC) Tabulations of USDA Data

<sup>1</sup> This figure includes seven properties with zero units. For this study the analysis removed 48 additional cases for having either no exit date or one listed as before 2016. The analysis successfully located 13,728 of these properties with ArcGIS.

Generally, the number of USDA properties is commensurate to the geographic size and population of the rural portion of each state. However, there are distinct differences in numbers of USDA properties by region.<sup>I</sup> The Southeast region contains the largest share of both Section 515 properties and units. One-third of all Section 515 properties, and nearly 40 percent of all the units, are located in the Southeast. The Plains region also has a relatively large share of the portfolio's properties (18.7 percent), especially in relation to the size of their market, but the properties are generally smaller and have fewer units (they account for 12.4 percent of all units in the portfolio). In contrast, the West and Southwest regions have relatively fewer USDA properties in relation to their total eligible population. But the 957 properties in the West tend to be larger in size, with an average of 39 units compared to a nationwide average of 21 units.

Over 44 percent of the properties that exited the Section 515 program since 2005 were located in the Plains region. Because Plains properties tend to be the smallest in size, averaging 14.4 units per property, those properties represented less than one-third of the departing units. Nearly 20 percent of the properties were located in the Great Lakes region and are also smaller in size at just under 19 units per property. A significant portion (15.3 percent) of the properties were in the Southeast region. These properties, larger than those in most of the other regions, represented 22.6 percent of the units lost.

USDA's rural rental efforts, by definition and statutory directive, are intended to serve "rural" communities and tenants. "Rural" means different things in different contexts and for different federal programs, and there are also variations in the level of rurality for housing markets. The complex definition of rural used for USDA's housing programs was enacted in the 1949 Housing Act (42 USC §1490). It incorporates a number of different concepts, and also requires updates to the delineation of eligible rural places based on the results of each decennial census. Therefore, a small portion of USDA properties are located in areas that were eligible at the time of construction but have subsequently become ineligible due to population growth or urbanization. Nearly 97 percent of all properties are in areas that are currently qualified as USDA eligible rural areas. However, 480 properties comprising 21,735 units are situated outside current USDA eligible areas. These properties located outside current USDA eligible areas tend to be larger than most Section 515s, with an average size of 45 units.

USDA's eligible area designation is one of the most expansive classifications of rural territory and arguably includes suburban, and even urban areas, as well as rural and small town territory. Using a more granular sub-county definition of rural communities, it is estimated that over one-half of all USDA properties are located in small towns.<sup>II</sup> About 22

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<sup>I</sup> Region is defined by Bureau of Economic Analysis (BEA) geographic regions. For the definition and more information on BEA regions, see Appendix A.

<sup>II</sup> The Housing Assistance Council developed a sub-county designation of rural and small town areas which incorporates measures of housing density and commuting at the Census tract level to establish a more precise measure of rural character. For more information on the rural and small town typology please see Appendix A.

percent are located in rural areas under this definition. Suburban properties represent one-quarter of the entire portfolio and encompass a majority of properties in seven states (Connecticut, Delaware, Florida, Maryland, Massachusetts, New Jersey, and Rhode Island). Properties located in rural and small town areas tend to be smaller (average property size of 21 units in rural areas and 31 units in small towns) than suburban (35 units) and urban (50 units) projects.<sup>1</sup>

Overall, the regional distribution of Section 515 properties generally follows the distribution of the rural population nationally. This is at least partially by design. Through the 1980s and 1990s, when most units were built, USDA funds were allocated based on a formula that accounted for each state's proportion of rural population and other factors. As a result, the property portfolio reflects, at least in part, the formula distribution.

### Quick Notes on Section 515 Property Location

There is at least one USDA rural rental property in 2,719, or **87** percent, of all U.S. counties.

Roughly **two-thirds** of all properties and units are located in the South and Midwestern regions of the country. One-third of all Section 515 projects, and nearly **40** percent of all the units, are located in the Southeast.

**Three-quarters** of all USDA properties are located in rural and small town areas, and 25 percent are in suburban and urban communities.

Since 2006, the number of Section 515 properties has declined by **2,278** (29,094 units) – comprising a 7 percent reduction in the portfolio over that time period.

### USDA Properties Are Varied in Structure, Composition, and Ownership

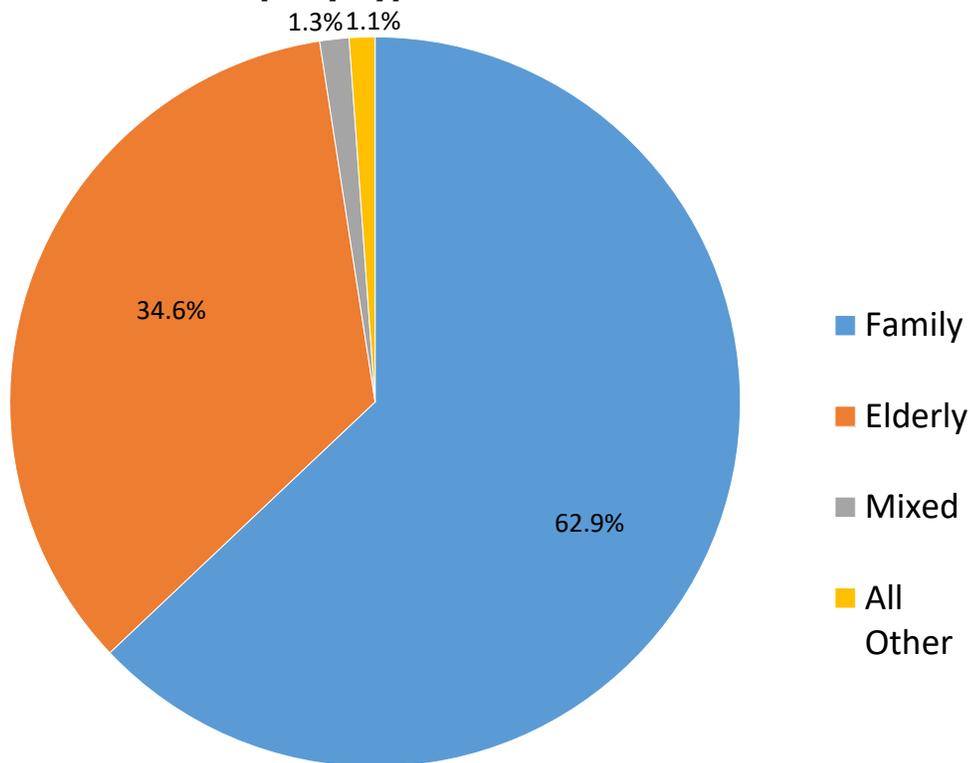
While under a large singular program umbrella, USDA's multi-family housing effort is not monolithic. The Section 515 portfolio contains five general types of rental housing property: Family, Elderly, Mixed, Congregate, and Group Homes. A unit in a Family housing property may be occupied by any income eligible household. An Elderly unit may be occupied by an income eligible household that includes a tenant or co-tenant who has a disability or is age 62 or older, or both (USDA's definition of elderly includes people with disabilities). A Mixed project has both Family and Elderly units which were designated at the time the property was developed. A Congregate project may be occupied by income

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<sup>1</sup>An average property in a rural area or small town has 28 units. Of these, 19 have rental assistance, two are vacant, and 2.6 are accessible for people with disabilities. Projects in urban areas tend to be larger (50 units, with 36 of the units carrying rental assistance, one of them vacant, and 1.5 accessible). Suburban projects average 35 units, of which 21 have rental assistance, two are vacant, and 1.4 are accessible.

eligible elderly households that need meals or other services.<sup>1</sup> Finally, a Group Home may be occupied by income eligible elderly persons or individuals with disabilities who share living space within a rental unit.

### USDA Section 515 Property Types



Source: HAC tabulation of USDA Section 515 multi-family property data.

Nearly 63 percent of the properties (over 64 percent of all portfolio units) are Family projects. Elderly-specific projects, where residents are age 62 and over or have disabilities, comprise nearly 35 percent of the properties and roughly one-third of units. The remaining types comprise less than 3 percent of the units. As 98 percent of the properties are designated either Family or Elderly projects, the study largely focuses on these property types.

Across all types of properties, nearly 94 percent of all units have one or two bedrooms. About 60 percent of units in Family properties have two bedrooms. Less than 9 percent of Family units have three or more bedrooms. Approximately 99 percent of Elderly properties have one-bedroom and two-bedroom units. Single-bedroom units are most common and less than half of the properties have units with multiple bedrooms. There are a handful of three-bedroom units in Elderly properties.

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<sup>1</sup> Congregate projects consist of private apartments and central dining facilities. These projects are not designed to be nursing homes and, therefore, are not allowed to pay for the cost of medical or health-related services.

Although USDA specifically sets aside some properties and units for the elderly, most Section 515 properties are for families in general. About three-quarters of all tenants live in Family properties. Slightly more than 22 percent of all tenants live in Elderly properties and the rest live in other project types. Elderly or disabled tenants make up just 12 percent of the residents in Family projects. Elderly projects are also more likely to include Rental Assistance units (73.3 percent) than are Family projects (61 percent).

Nationwide, about 6 percent of Section 515 units are vacant. This compares favorably to the overall vacancy rate for rental properties in the United States (7.0 percent) and the rate outside of Metropolitan Statistical Areas (9.0 percent). Vacancy rates tend to be lowest in the New England, Mideast, Rocky Mountain, and Far West regions (all below 4.6 percent) and higher in the Great Lakes, Plains, and Southwest regions. Although the U.S. Census regions do not match up directly with BEA regions used for this analysis, USDA property vacancy rates are generally lower than those in the four Census regions (Northeast 5.4 percent, Midwest 7.7 percent, South 8.8 percent, and West 5.1 percent).<sup>6</sup>

Most USDA Section 515 properties, reflecting the decreased funding and reduction in new construction over the last two decades, are more than 20 years old. Over 85 percent of properties, containing 367,081 units, were built more than 20 years ago with the heyday for construction occurring from 1976 to 1995 when 11,385 projects were built. The most recent ten-year period (2007-2016), in contrast, involved the construction of just 274 projects resulting in 8,711 units.<sup>1</sup>

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<sup>1</sup> Based on the date of operation as of March 31, 2016.

## Revitalization Efforts

USDA has instituted an initiative for preserving and revitalizing Section 515 properties. Approximately 5 percent of Section 515 properties comprising nearly 6 percent of units have participated in the Multi-Family Preservation and Revitalization (MPR) program. The average size of a revitalized project was 34.5 units, slightly larger than the non-revitalized projects at 29.9 units.

Whether a property is eligible for loan prepayment appears to be a significant factor in MPR participation. Over 7.5 percent of properties that are not eligible for prepayment have participated in the revitalization program while only 1.3 percent of prepayment eligible properties participated.

On August 3, 2016, USDA released a report entitled *The Comprehensive Property Assessment of the USDA Rural Development Multi-Family Housing Portfolio*. The report estimates that an additional \$5.6 billion is needed over the next 20 years to cover basic capital improvements such as roofs, insulation, accessibility improvements, plumbing, and electrical and structural repairs for all USDA-financed multi-family properties, the majority of which are Section 515 projects.<sup>7</sup>

## Most Section 515 Properties are Owned by Small Entities

Limited profit entities own over 82 percent of Section 515 properties and two-thirds of these are Family projects. Nonprofit entities own approximately 17.5 percent of the properties with the remaining few owners being for-profit entities. Generally, then, private full profit entities have limited involvement in the program.

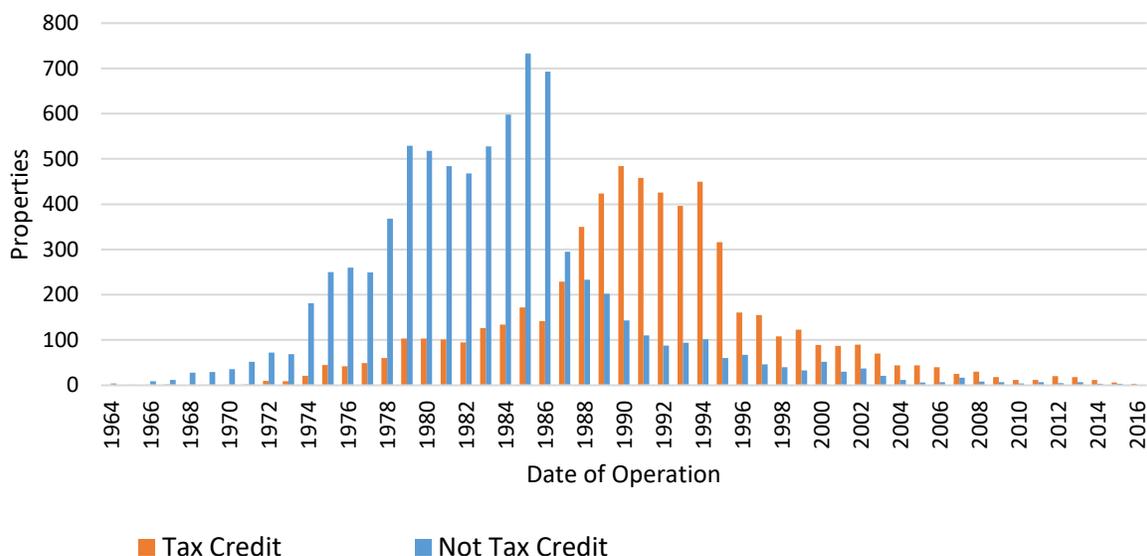
Differences exist across ownership types. Nonprofit-owned properties, for example, tend to be smaller than the overall portfolio properties, more likely to be Elderly projects, and less likely to have USDA Rental Assistance. Limited profit owners are more likely to have used Low Income Housing Tax Credits than nonprofit owners, 50 percent and 3 percent, respectively. It is also common, however, that some nonprofit organizations entered into limited partnerships or set up for-profit subsidiaries to take advantage of tax credits. Such differences in ownership structure can shape project operations and impact decisions on whether a property continues to provide affordable housing upon exit, although mission-driven for-profit owners may be as likely as nonprofits to operate mature properties as affordable housing.

## About Three-Quarters of Section 515 Properties Built After 1988 Have Tax Credits as Well

Created in 1986, the Low Income Housing Tax Credit (LIHTC) has become the most significant federal resource for the production and preservation of affordable rental housing in the nation. The tax credit, which provides an incentive for for-profit entities to invest in affordable rental housing, can be used in conjunction with other financing like Section 515. Properties that received LIHTC allocations before 1990 were subject to a 15-year period during which LIHTC units were required to remain affordable. For properties with allocations in 1990 or later, there is an additional 15-year restricted-use period, for a total of 30 years.<sup>8</sup>

As of March 31, 2016, approximately 43 percent of the properties in the USDA Section 515 portfolio were financed with the assistance of tax credits. Section 515 properties that began operating in 1988 or later are more likely to include tax credits than not. Roughly 73 percent of the properties built after the LIHTC's inception included tax credit financing. In addition, nearly 17 percent of the properties built before the LIHTC existed have tax credit financing, most likely acquired in connection with property rehabilitation or expansion. Most Section 515 tax credit properties are located in the Southeast region. This region also has the highest number of Section 515 properties. Over half the properties in the Southwest and Far West (and Islands) have tax credits. Among the states, Texas has the highest number of Section 515 tax credit properties (399). North Carolina and Michigan each have over 250 tax credit properties.

**Section 515 Properties by Tax Credit Status and Date of Operation, 1964-2016**



Tax credit properties are likely to be larger than 12 units. Most of the smaller properties (12 units or less) were built in the early years of the Section 515 program (before the advent of tax credits) and are generally located in the Plains region. Properties in persistent poverty counties are more likely to have tax credits than those that are not in persistent poverty counties. Nearly 57 percent of the properties in persistent poverty counties were financed with tax credits versus about 41 percent of the properties outside those counties. Most of the USDA Section 515 properties in persistent poverty counties were built after 1986.

Tax credit properties have slightly higher representations of minorities among their tenants, likely a reflection of a higher percentage of properties located in the Southeast region, which has a relatively high rural minority population. Tenants in tax credit properties are also more varied than those in the overall portfolio, comprising higher percentages of female-headed households, seniors, people with disabilities, and minors.

Tenants in tax credit properties are most likely to be covered by Section 521 Rental Assistance. Other forms of rent subsidy are more likely to be found in non-tax credit properties than in tax credit properties. Tenants in tax credit properties are slightly more likely to pay more than 30 percent of their income towards rent. Tenants in tax credit properties are also less likely to have zero income.

### **Quick Notes on Property and Ownership Structure**

**63** percent of Section 515 properties are Family type projects.

Properties limited to elderly and disabled residents comprise nearly **35** percent of Section 515 properties (and roughly one-third of units).

Over **85** percent of properties were built more than 20 years ago.

Limited profit entities own over **82** percent of Section 515 properties, and two-thirds of these are Family projects.

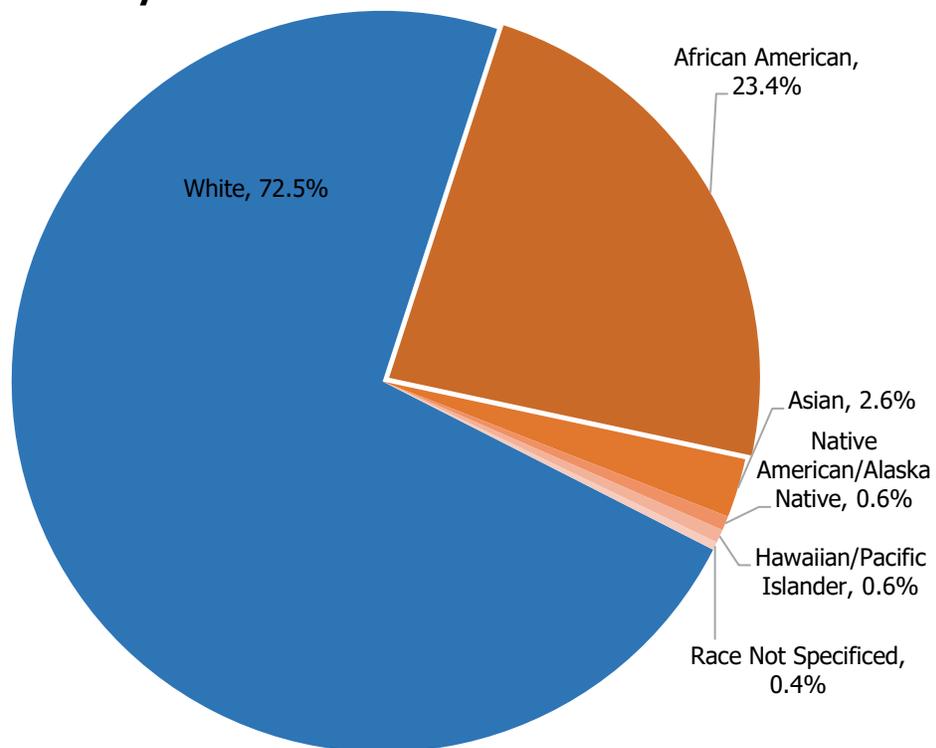
**43** percent of Section 515 properties also have tax credits.

### **USDA's Rural Rental Housing Effort Serves a Large and Diverse Set of Residents**

Roughly 635,500 persons live in USDA Section 515 properties nationwide. In many respects, the occupants of Section 515 properties are similar to rural renters in general, but there are some important distinctions, especially related to age and income.

Rural America historically has not been as racially or ethnically diverse as urban or suburban areas and, while slightly more diverse than the population as a whole, Section 515 residents are similarly homogenous. Nationally, as well as in rural areas, racial and ethnic minorities are more likely to be renters than White non-Hispanics are, and that is true in the Section 515 portfolio as well. Still, approximately 73 percent of Section 515 occupants are White, 23 percent are African American, Asians comprise 2.6 percent of the occupants, and Native American/Alaska Natives and Hawaiian/Pacific Islanders each represent about 0.6 percent of all tenants. Hispanics, who can be of any race, make up 13 percent of Section 515 tenants.<sup>1</sup> Although the tenant population is primarily White, there is considerable variation from state to state. For example, approximately 85 percent of the tenants in Mississippi are African Americans.

### Section 515 Tenants by Race



Source: HAC Tabulations of RD Data

The racial and ethnic composition of the portfolio has some important regional distinctions. Many rural minorities are clustered geographically in regions closely tied to historic social and economic dynamics. While White residents make up 73 percent of all Section 515 tenants, African Americans represent 49 percent of all tenants in the Southeast, and Hispanics represent 40 percent of the tenants in the Far West. Over 80 percent of

<sup>1</sup> Direct comparisons across race and ethnicity cannot be made as the USDA-supplied data identifies race and ethnicity separately.

African-American tenants live in the Southeast region. Asian tenants (2.6 percent) are concentrated in the Southwest and Plains regions. Native Americans (0.63 percent of all tenants) tend to be concentrated in the Plains and Far West regions.

One of the most significant differences from the larger population is the level of female-headed households. Female-headed households occupy over 70 percent of the Section 515 units, compared to about 20 percent of all rural rentals. Approximately 28 percent of all tenants in USDA properties are minors below the age of 18.

Seniors (age 62 or older) comprise 25 percent of all residents, which is double the proportion among rural renters as a whole. The relatively older composition of the Section 515 population is not solely a factor of demographics but is also impacted by preference and programmatic considerations as roughly one-third of 515 properties are dedicated for Elderly (including people with disabilities). Still, the rural senior population continues to grow and rental options are relatively scarce in many rural communities, also driving the number and potential growth of seniors renting Section 515 units. Fully 62 percent of all Section 515 units are occupied by households headed by seniors or people with disabilities.

Tenant characteristics largely reflect service area population. For example, areas with relatively younger populations, such as the Southwest, generally have more families with children present than do areas with an older population, such as New England. Family properties, many of which are in Southeastern and Southwestern states such as Alabama and New Mexico, have the highest percentages of minority tenants while Elderly properties, many of which are in Northeastern states such as Massachusetts and Maine, have the highest percentages of White tenants. Because of these variations in area populations, loss of stock could impact some populations differently.

On average, there are 1.6 tenants per unit. Family properties house an average of 1.9 tenants per unit and about 55 tenants per property while Elderly properties house an average of 1.1 tenants per unit and about 30 tenants per property. This variation in the number of people per unit, along with the fact that Elderly properties can also house tenants with disabilities, helps explain the difference between the percent of elderly-occupied units and elderly tenants. Elderly properties generally have fewer units per project than Family properties.

## Quick Notes on Section 515 Tenants

Over **630,000** people live in USDA Section 515 properties.

Approximately **73** percent of the portfolio's occupants are White and 13 percent are Hispanics.

Female-headed households occupy **70** percent of all units.

Roughly **one-quarter** of tenants are African Americans. Nearly half of all African-American residents live in the Southeast.

**One-quarter** of residents are seniors, and over 62 percent of occupied households are headed by a senior citizen or person with a disability.

## **Section 515 Residents Have Some of the Lowest Incomes in the Nation**

The economic stagnation of the past few decades has reduced incomes and increased income inequality nationally and in rural areas. According to the Census Bureau's Small Area Income and Poverty Estimates (SAIPE), rural incomes actually declined by 1.8 percent from 2003 to 2010.<sup>9</sup> These income trends are even more pronounced at the lower end of the income spectrum. Household incomes in rural areas and small towns continue to lag behind those in suburban and urban areas. Rural renters generally have much lower incomes than all households and this is particularly pronounced among Section 515 tenants. Incomes are extremely low for tenants overall, with a median tenant household income<sup>I</sup> of about \$13,600. Tenant incomes are highest in the Mideast region (\$15,542) and New England (\$15,139) and lowest in the Rocky Mountain (\$13,011) and Southeast (\$12,807) regions.

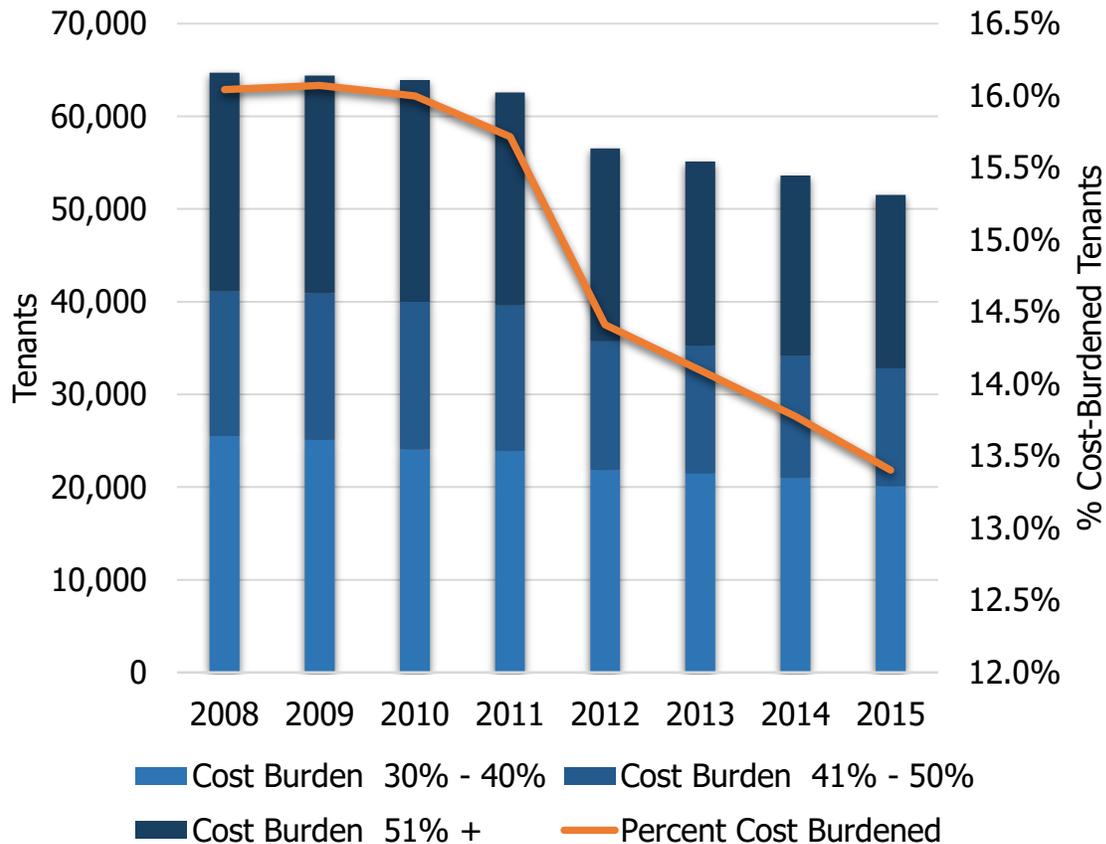
Housing affordability has become the most significant housing challenge and it is especially problematic for low-income households and renters in rural areas nationwide. Despite relatively low – and in many cases subsidized – rent, cost burden is a significant problem for many Section 515 tenants. Nearly 46,000 tenants, or over 7 percent of all tenants, are rent-burdened (cost-burdened), indicating that they pay more than 30 percent of their monthly income towards rent.<sup>II</sup> The number and level of rent-burdened Section 515 tenants has been decreasing. In 2006, USDA's Annual Occupancy report<sup>10</sup> indicated there were over 69,000 cost-burdened renters, comprising nearly 17 percent of all households in the portfolio. The number and proportion of affordability challenged renters have steadily decreased over the last decade.

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<sup>I</sup> Incomes calculated at median weighted average tenant income per property.

<sup>II</sup> Section 515 Group Homes have the highest percentages of rent overburdened tenants.

## USDA, Section 515 Cost-Burdened Tenants, 2008-2015



While affordability problems are not nearly as severe as in the unsubsidized rural rental market, where cost-burden rates are nearly 50 percent, the extremely low incomes of tenants strain affordability in many Section 515 properties. More than 2,300 tenants (about 0.4 percent) have no income. The highest incidence per project for zero-income tenants is in Group Homes, but 91 percent of zero-income tenants live in Family properties.

### Quick Notes on Section 515 Tenants' Economics

The average income of Section 515 tenants is **\$13,600** – 75 percent less than the average household income in the U.S.

Nearly **46,000**, or over 7 percent of all tenants, are rent-burdened (paying more than 30 percent of income for their housing).

The number of rent-burdened tenants has been **halved** since 2007.

A photograph of a modern two-story house with a brick ground floor and light-colored horizontal siding on the upper floor. The house has several windows with white frames and a small front porch with a black metal railing. A young green tree is planted in the front yard. The sky is a clear, bright blue.

# 2. PROJECTING LOSS OF USDA PROPERTIES AND ITS IMPACT

RENTAL HOUSING FOR A 21ST CENTURY RURAL AMERICA  
*A Platform for Preservation*

## SECTION 2. PROJECTING LOSS OF USDA PROPERTIES AND ITS IMPACT

Properties financed with Section 515 loans may leave USDA's portfolio for several reasons. Without a USDA loan in place, a property is no longer subject to USDA's rules, and it may or may not continue to offer affordable housing for low-income tenants. "Preservation" of these properties means keeping them in the nation's stock of affordable housing. Preservation first became a serious concern in the 1980s when owners of numerous Section 515 properties "prepaid" their loans before maturity, often in order to convert to market rate rentals. In the 1990s and 2000s, physical preservation also became a concern, as properties aged and needed to find funds for rehabilitation and renovation. More recently, the pace of mortgage maturities has accelerated. The first Section 515 loans, made in the early and mid-1960s with 50-year terms, have begun to expire. Like prepayments, mortgage maturities can lead to higher rents and displacement of low-income tenants.

USDA-financed affordable rentals are not being replaced as they are lost. Section 515 program funding has dropped significantly since 1994, resulting in a marked decrease in the production of new rental units over the last 20 years. Since 2011, no new Section 515 properties have been financed at all. Instead the limited Section 515 funding available has been used to repair and rehabilitate existing program properties. The study investigated the reasons, expectations, and potential ramifications of properties leaving USDA's portfolio.

### Should I Stay or Should I Go . . . ?

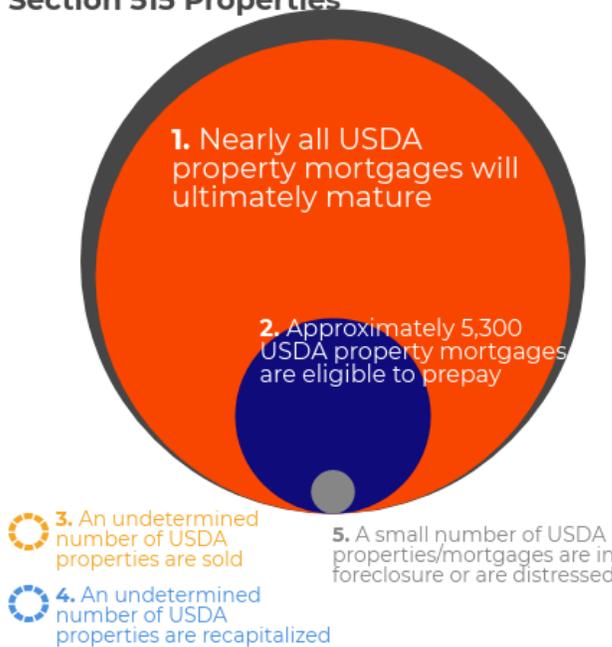
When a Section 515 loan nears maturity or is eligible to prepay, an owner can pursue one of five general options regarding the status of their property:

1. pay off the loan at maturity;
2. request prepayment and go through USDA's prepayment process, which has several possible outcomes;
3. transfer ownership to another entity, which then obtains additional or reamortized financing;
4. recapitalize with additional or reamortized financing from USDA or another source; or
5. lose ownership to foreclosure or deed in lieu of foreclosure.

# 5 Scenarios for Section 515 Owners & Properties

Properties financed with Section 515 loans may leave USDA's portfolio for several reasons. Without a USDA loan in place, a property is no longer subject to USDA's rules, and it may or may not continue to offer affordable housing for low-income tenants.

13,829 Total USDA Section 515 Properties



## 1. Mortgage Matures

- Loan pays off
- Owner requests USDA Servicing to extend mortgage or apply for additional financing for improvements to property

## 2. Mortgage Prepays

- USDA may impose restrictive use provisions
- USDA may offer incentives to remain

## 3. Sale of Property

- USDA approval required to transfer loan to new owner

## Implications for Rental Assistance (RA)

- Property **remains** eligible for **Rental Assistance**
- Property **no longer** eligible for **Rental Assistance**. Tenants may be eligible for **Vouchers**

## 4. Improvement or Recapitalization

- Owner applies to USDA for additional assistance

## 5. Foreclosure or Liquidation

- Owner defaults

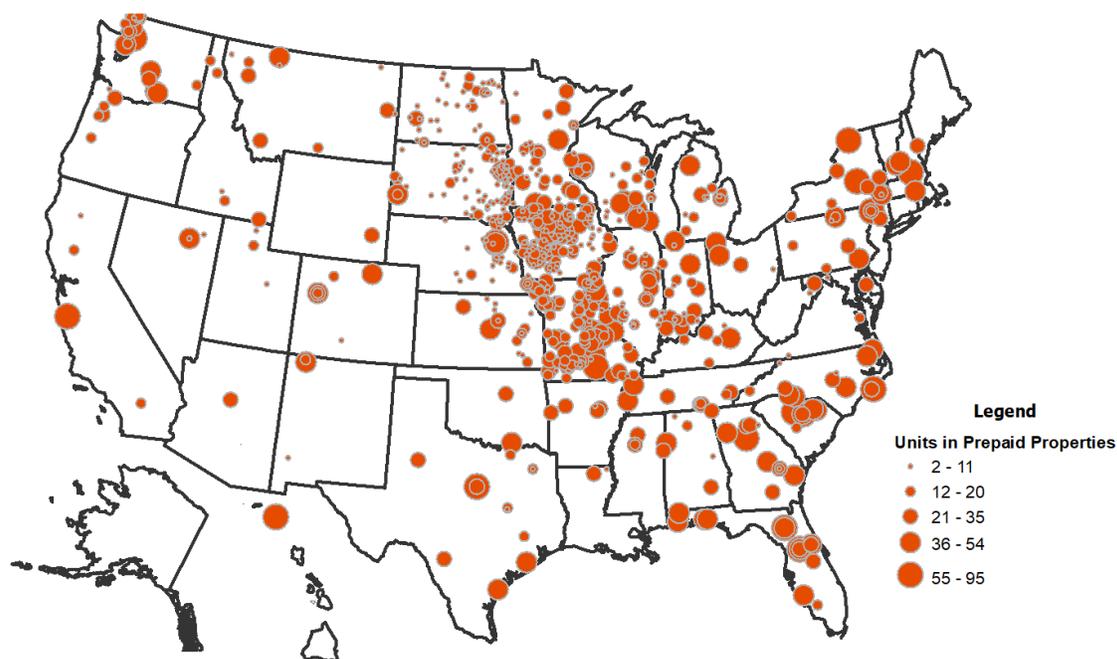
source: HAC tabulations of USDA Data.

## Prepayment of Section 515 Loans Remains an Important Consideration

Numerous Section 515 mortgages have already been prepaid and others are not eligible for prepayment, but more than a third of those in USDA's portfolio could prepay. While figures are difficult to establish definitively, USDA prepayment data indicates that between 2001 and 2016, Section 515 owners prepaid the loans on about 28,475 affordable homes and 1,564 properties, removing the mortgage provisions requiring them to house low-income residents – unless the property had use restrictions.<sup>1</sup> Over 50 percent of these properties are located in Iowa, South Dakota, Missouri, and North Dakota (Plains states). More loans may prepay over the next several years. As of 2016, approximately 5,300 Section 515 properties (38.2 percent of properties, encompassing over 150,000 units) are estimated to be eligible to prepay.

### USDA Section 515 Prepayments, 2006-2016

Properties Exited Due to Prepayment of Loans, 2006-2016



Source: Housing Assistance Council (HAC) Tabulations of USDA Data

About 820 properties eligible to prepay have restrictive use clauses that would remain in effect (expiration date after 2016) if the property prepays. While some developments will remain affordable for low-income tenants after prepayment, others will not. Neither USDA

<sup>1</sup> Properties financed with loans made after December 21, 1979, but prior to December 15, 1989 may prepay but are subject to any unexpired restrictive use provisions that require the property to remain available for low-income renters.

nor any other entity collects data on properties after they leave the Section 515 program or on their tenants.

The Emergency Low-Income Housing Preservation Act (ELIHPA) restricts the prepayment of Section 515 loans made before December 15, 1989. Loans made on or after this date may not be prepaid. Loans made before this date may be prepaid only after following the multi-step process created by ELIHPA and the regulations that implement it. Regardless of the origination date, if an owner has sued USDA for limiting its contractual right to prepay and then accepted a payment of damages, the Section 515 loan remains intact, the owner must keep the property affordable for the remaining loan term, and no additional debt can be imposed on the project.

The prepayment process is activated no matter how close a loan is to its final maturity date when the owner seeks to prepay. An owner who has paid their loan consistently on an accelerated schedule is subject to the prepayment requirements, as is one who seeks to pay their last few payments ahead of the final due date.

To begin the process, an owner must submit a prepayment request to USDA. USDA must provide written notice to the tenants within 30 days after receiving the request, and must keep them updated as key decisions are made throughout the process. At the same time as it sends notices to tenants, USDA must provide notices to public or nonprofit organizations that have asked in advance to receive this type of notification. Potentially interested purchasers can receive USDA notices by registering on its Preservation Information Exchange (PIX) website.<sup>1</sup> Some state governments have additional notice requirements for prepayment notification.

Within 60 days after the prepayment request is filed, USDA must determine whether the owner is eligible to prepay and has a source of financing to prepay. If the owner is not eligible – if, for example, the loan was made after 1989, or the owner has previously accepted use restrictions that have not yet expired – the process ends there. The property must remain in the program; the owner may take one of the steps described below to sell or recapitalize the property.

If USDA determines an owner is eligible to prepay, it must offer incentives to the owner to remain in the program. Incentives may include additional Rental Assistance units, an equity loan, permission to obtain a third-party equity loan, an increased return on investment, an interest rate reduction, or permission to take any project-based HUD Section 8 amounts that exceed the property's financial needs. If the owner accepts the incentive offer, it accepts restrictions that keep the property affordable to low-income tenants for at least 20 more years.

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<sup>1</sup> <https://pix.sc.egov.usda.gov>.

If the owner rejects the incentive offer, then USDA must make two determinations: whether “minorities in the project, on the waiting list or in the market area will be disproportionately adversely affected by the loss of the affordable rental housing units,”<sup>11</sup> and whether there is adequate comparable alternative housing for current residents. If USDA finds an adverse impact on minorities or a lack of alternative housing, the owner has four options. They can prepay the loan subject to use restrictions determined by USDA based on a number of factors; they can keep the property in the program; they can appeal through USDA’s appeals process; or they can offer the property for sale at market rate to a nonprofit or public agency.

If an owner chooses to offer a property for sale, it must be marketed for 180 days. (Under the governing statute, for-profit entities are not eligible purchasers even if they are willing to restrict project use to low-income tenants. To sell the property to a for-profit purchaser at this stage, the owner would have to withdraw the prepayment request and then pursue the sale under the transfer regulations described below.) The purchasing entity must commit to keep the development as affordable housing for low- and very low-income tenants for the property’s remaining useful life.

USDA has the authority to do a number of things to help the purchaser, though it is not required to do any of them. It can help finance the sale through a transfer and assumption of the existing Section 515 loan, make an equity loan, or subordinate its loan to a third-party equity loan. It can provide an interest rate reduction and/or additional Section 521 Rental Assistance. USDA also has the authority to make a grant of up to \$50,000 to a nonprofit buyer to cover the costs of due diligence and packaging the loan.

The owner must accept any good faith offer at or above the minimum acceptable bid price established based on the appraised market value. If they do not receive a bona fide purchase offer, or if a nonprofit or public agency makes a purchase offer but is unable to fulfill the offer’s terms within 24 months, the owner can prepay without use restrictions.

When a Section 515 mortgage is prepaid, even if use restrictions are imposed, any Section 521 Rental Assistance that may have been provided to that property is no longer available. By law, USDA Rental Assistance is linked to the existence of a USDA mortgage. When a property that had Rental Assistance loses it, the property’s financial viability may be threatened unless the owner either raises rents or obtains an alternative subsidy.

To address this concern, when a mortgage is prepaid without use restrictions or is foreclosed upon, the tenants – even tenants who did not have Section 521 Rental Assistance – become eligible for USDA Section 542 vouchers. A voucher covers the difference between market rent at that property and the amount of rent the tenant was paying on the date of prepayment or foreclosure. The voucher amount is not changed if the tenant moves to an area with a different market rent or if the tenant’s income changes. A voucher can be used in the prepaid property, although the owner is not required to accept it. It can also be used in any other property, USDA-financed or not, so long as the unit meets USDA standards, the owner is willing to accept the voucher, and the unit is not receiving

another type of rental assistance.<sup>12</sup> No data are available regarding the voucher program's performance.

## Quick Notes on Section 515 Prepayment

**Prepayment** is still an important consideration in the viability of the Section 515 portfolio.

Between 2001 and 2016, loans were prepaid on 1,564 Section 515 properties resulting in **28,475** rental units leaving USDA's portfolio.

Over the last five years an average of **86** properties and 1,643 units have prepaid annually.

As of 2016, approximately 5,300 Section 515 properties (38.2 percent of properties, encompassing over **150,000** units) are still eligible to prepay.

## Properties Also Leave the Portfolio Through Foreclosure

If the owner of a Section 515 property defaults on the mortgage, USDA and the owner have several options that may result in the end of the Section 515 loan and the loss of the property as affordable housing. USDA's regulations require staff to consider first whether the owner may be defaulting intentionally in order to leave the Section 515 program without going through the prepayment process. If it believes that is the underlying motivation, it can sue the borrower rather than accelerating the loan (acceleration is the first step in the foreclosure process).<sup>13</sup>

When the owner is not trying to circumvent prepayment, obtaining the highest possible net recovery is USDA's primary consideration as it determines what actions to take. "Sale of the security property is generally the most desirable option," USDA's employee handbook explains, because it means USDA does not incur the costs of foreclosure or of owning and disposing of the property.<sup>14</sup> Sale benefits the owner as well, since foreclosure would have a negative impact on the owner's credit history but a sale would not. The defaulting owner can sell the property, before or after USDA accelerates the loan, to an entity that takes over the USDA mortgage and its obligations.

The defaulting owner also has the option of selling to an entity that then pays off the Section 515 loan. The property loses any Section 521 Rental Assistance it had, and the new owner is not subject to any restrictions on its use of the property. Similarly, if someone other than USDA purchases the property at a foreclosure sale, USDA can no longer enforce any restrictions that may have been imposed in the past.

If the defaulting owner conveys the property to USDA by a deed in lieu of foreclosure, or if USDA does foreclose, USDA takes ownership of the property. USDA must conduct a "suitability analysis" to determine whether the property is needed and whether it is no

longer economically viable or is otherwise obsolete. If the property is deemed obsolete, it can be sold for non-program use, or removed from the low-income housing stock in some other way, only after USDA finds affordable housing for all the tenants.<sup>15</sup>

To preserve a property in default, a mission-driven purchaser would need to know that the default has occurred and would need to be able to purchase the property under USDA's transfer of ownership process, which would keep the Section 515 loan in place.

### **Property Owners May Recapitalize or Reamortize to Obtain Resources**

An owner wishing to obtain new resources while keeping a property in the affordable housing stock can recapitalize the property or request USDA reamortization of the existing Section 515 loan, regardless of eligibility to prepay, mortgage maturity date, or other circumstances.

Preservation through recapitalization is likely to involve multiple sources of financing to cover the costs of acquisition and rehabilitation. Simple preservation deals may involve only two or three sources, but most require more. Owners have successfully used USDA Section 538 guaranteed loans, Low Income Housing Tax Credits, additional Section 515 loans, and other sources such as the HOME program from the U.S. Department of Housing and Urban Development (HUD) and state-funded loans and grants.

- *Section 538 guaranteed rental housing loans* can be used by purchasers or stay-in owners of Section 515 properties, alone or in conjunction with tax credits or other financing. USDA provides a 90 percent guarantee and interest credit (when authorized by Congress) on \$1.5 million of the loan amount down to the long-term monthly applicable federal rate at the date of loan closing. Program terms include a minimum 1.15 debt service coverage ratio and 40-year amortization. Eligible lenders are those approved by and active with Fannie Mae, Freddie Mac, or the Federal Housing Administration, or those approved by USDA.
- *USDA's Multi-Family Preservation and Revitalization (MPR) demonstration program* can also provide some types of financing. USDA selects a limited number of properties for help restructuring their Section 515 loans in order to revitalize them while keeping them affordable, with or without a change in ownership. USDA's preferred form of assistance is deferral of existing Section 515 debt, enabling the cash flow to be used instead for physical revitalization. Other possibilities include new financing from third party sources, rehabilitation loans, soft mortgage loans, debt forgiveness, and (for nonprofit owners or purchasers only) revitalization grants.
- *USDA's Preservation Revolving Loan Fund (PRLF) program* makes loans of up to 30 years to nonprofit intermediary organizations that, in turn, lend the funds to owners or purchasers of Section 515 developments. One of the intermediaries funded by the USDA

PRLF program is the Housing Assistance Council. HAC's PRLF provides low-interest loans for refinancing and costs incorporated into long-term financing such as options, downpayments, purchase, site development, architectural and engineering fees, construction financing, rehabilitation, and more. The interest rate is 8 percent for for-profit entities and 5 percent for others, with the amount and term of each loan varying according to the project's needs.

- *Rental Assistance* may be available to increase the viability of some preservation deals. Some current Section 515 tenants receive Section 8 vouchers from HUD or Section 521 Rental Assistance from USDA. New Section 521 RA is not available for MPR participants although, as noted above, USDA sometimes provides new RA units as incentives to owners to stay in the program rather than prepaying their mortgages.

Reamortization of a Section 515 loan before maturity provides a significant advantage over replacing USDA financing: because the USDA loan remains in place, the property remains eligible for Section 521 Rental Assistance. A loan can be reamortized even if only a small amount remains to be repaid.

### **Section 515 Properties Can be Transferred to New Owners**

Transfer to a new owner involves the sale of a Section 515 property and assumption of the loan by the new owner. The purchaser must meet the statutory eligibility requirements, and USDA must approve the transfer. USDA has the authority to write down its loan so the purchaser assumes a smaller amount of debt. It can provide the seller with an equity payment, in the form of either a loan or cash. It may extend the term of the existing loan to 30 years or the remaining economic life of the housing, whichever is less. It may amortize a new loan over 50 years or the remaining economic life of the housing, whichever is less. A new loan can be in the form of a senior or junior loan, a parity lien, or a soft second.

USDA can subordinate its debt to debt from another source. Such sources may include state programs and private loans. The most likely possibilities are Low Income Housing Tax Credits, tax exempt bonds, and HUD's HOME program. The property's value must be high enough to provide security for the USDA loan being assumed and any new loans being made as part of the transfer. If the value of the loans totals over \$100,000, a USDA appraisal is required.

The transfer agreement must include provisions for addressing the property's capital needs, as identified in a capital needs assessment. An environmental review, a civil rights compliance review, and a review of compliance with federal accessibility requirements are required.

A purchaser must accept a restrictive use agreement requiring the property to be used for program purposes for a specified period of time. When an equity loan is made at transfer, the use restriction must be for 30 years.

As USDA's Section 515 loan portfolio ages, each property gets closer to its loan maturation date. When the loan is paid off, the property exits the USDA program and also becomes no longer eligible for Section 521 Rental Assistance. Unless the property is covered by other sources of affordable housing financing, the owner owns real estate that may be valuable and that no longer has use restrictions, and the federal government no longer has to cover the cost of subsidies through USDA programs. On the other hand, in many rural communities mortgage maturity means the loss of high quality, affordable housing for the elderly, people with disabilities, and low- and very low-income families. The following section reviews some of the complexities involved with the loans, describes when the properties are projected to exit the program, and explores what this might mean.

Several issues complicate efforts to determine when and whether a property stays in the portfolio. The date a Section 515 loan was originated has a significant impact on when the property is permitted to leave the portfolio. Approximately one-third of the properties in USDA's portfolio have more than one Section 515 loan. Additional loans made after the initial loan for certain purposes, such as adding new units to an existing project or paying seller equity when the property is transferred to a new owner, can impact the date of permitted project exit.

The existence of prepayment options can also complicate the analysis to determine when properties reach final loan maturity. Loans paid ahead of schedule are another complicating factor. A loan could be paid ahead of schedule for a variety of reasons including the return of unused loan funds after project construction, application of proceeds from the sale of part of the loan security, and other reasons. This requires extra diligence for USDA to assure program requirements for early payoff or restricted use are met.

In an effort to keep more properties in the portfolio, USDA has instructed its field offices to review accounts that are within 36 months of loan maturity.<sup>16</sup> USDA will notify these borrowers of their options. One of the options is to reamortize the loan for up to an additional 20 years beyond the current maturity date, thus allowing Section 521 Rental Assistance to continue. This provision addresses only properties expected to mature through the calendar year 2019.

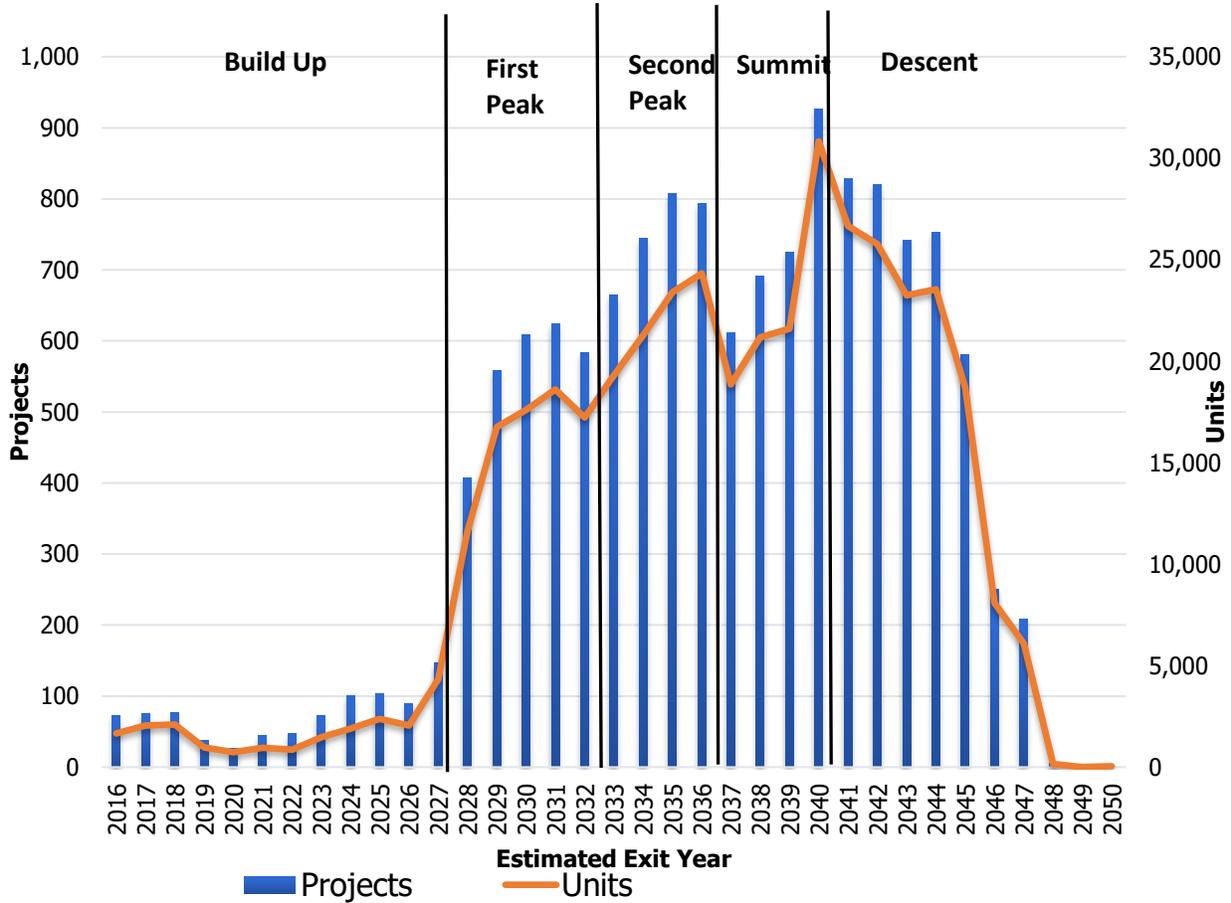
## **Loans Will Mature on a “Curve” Timeline**

As noted previously, most Section 515 loans were made with between 30- and 50-year terms. All (or most) of these loans will ultimately pay off, whether through prepayment or through maturity over either the original loan term or a USDA-approved revised loan term. USDA estimated “project exit” (loan payoff) dates based on loan maturity. The distribution of loans by projected exit date has several trends or periods. The research identified five

distinct exit periods using the USDA dataset from March 31, 2016. Projections indicate that an average of 74 properties (1,788 units) per year will leave the program from 2016 to 2027 (Build Up phase). The next three phases are shorter in duration (four to five years) but each will involve about 2,800 to 3,000 properties containing about 82,000 to 92,500 units. These periods each represent over 20 percent of the properties expected to exit the program. The last phase, called the Descent phase, will last about ten years. About 30 percent of the properties will exit during this phase.

Some factors can influence the owners of prepayment eligible properties to leave the program before loan maturity, and thus move the anticipated payoff dates for those properties forward into the nearer term. These factors include the expiration of tax credit affordability requirements, the desire of some small project owners to retire, market conditions such as strong markets that support higher rental rates or weak markets experiencing high vacancy rates, or increased servicing requirements. It is important to keep this in mind because the estimated project exit dates cannot account for these factors. On the other hand, USDA loan servicing efforts, previously discussed, are designed to keep the properties in the portfolio and could push back property exits to later dates.

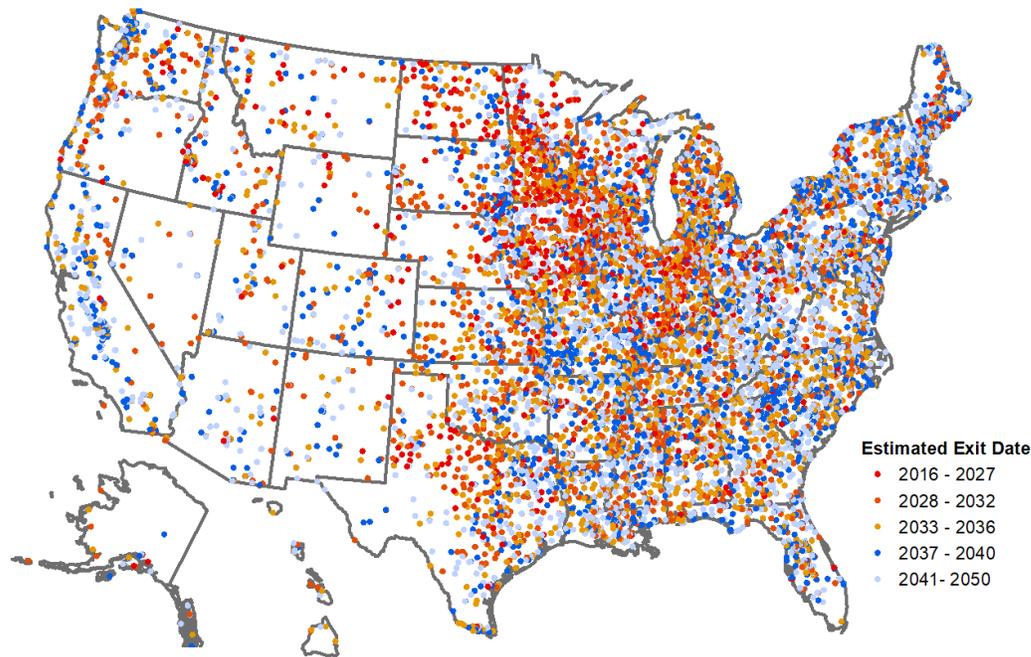
## Maturing USDA Section 515 Rural Multifamily Loans Estimated Loss of Properties, 2016 - 2050



**Table 1. Section 515 Properties by Estimated Period of Loan Maturation**

Exit Phase	Exit Phase Begins	Exit Phase Ends	Length of Exit Phase (years)	Properties	Units	Average Units Per Project	Projects Per Year	Units Per Year
Build Up	2016	2027	12	892	21,452	24	74	1,788
First Peak	2028	2032	5	2,782	81,819	29	556	16,364
Second Peak	2033	2036	4	3,010	88,336	29	753	22,084
Summit	2037	2040	4	2,954	92,468	31	739	23,117
Descent	2041	2050	10	4,191	132,321	32	419	13,232
<b>Total (Entire Portfolio)</b>			<b>35</b>	<b>13,829</b>	<b>416,396</b>	<b>30</b>	<b>395</b>	<b>11,897</b>

## Section 515 Properties by Estimated Loan Maturity Date



Source: Housing Assistance Council (HAC) Tabulations of USDA Data

During the first phase, labeled the Build Up phase, about 6.5 percent of the properties (892 properties representing 21,452 units) are expected to exit the program. The Build Up period is the longest phase and will last about 12 years. The next three phases will be shorter in duration (four to five years each) but will each involve about 2,800 to 3,000 properties containing about 82,000 to 92,500 units. These phases each represent over 20 percent of the properties expected to exit the program. The final Descent phase will last about ten years. About 30 percent of the properties will exit during this phase.

Nearly 63 percent of all properties and 64 percent of the units in the USDA portfolio are Family projects, while 35 percent of the projects and 33 percent of the units are Elderly projects. Three of the five phases contain similar distributions. The Second Peak phase and the Descent phase are a bit different. In the Second Peak, over three-quarters of the properties and units are Family properties, while just over 20 percent are Elderly. The Descent phase split is just over 50 percent Family properties and nearly 45 percent Elderly.

All phases include prepayment eligible properties. Prepayment eligibility makes it more difficult to predict the exit date for any individual property because the owner's decision to request permission to prepay is not dependent on the loan maturity date. Nearly 77 percent of the properties in the first (Build Up) phase are prepayment eligible. The next

three phases range from about 40 to 60 percent prepayment eligible. Less than 2 percent of the Descent phase represents prepayment eligible properties.

## Quick Notes on the Maturing Mortgage Curve

The study identified five distinct **exit periods**:

**Build Up (2017-2027):** Projections indicate that an average of 74 properties and 1,788 units per year will leave the program.

**First Peak (2028 - 2032):** This phase is projected to see a substantial increase in property exits, averaging 556 properties and 16,364 units per year.

**Second Peak (2033-2036):** Projected property exits continue to increase at an average rate of 753 properties and 22,084 units per year.

**Summit (2037-2040):** Projected property exits peak in 2040, with an average of 739 properties and 23,117 units per year over this period.

**Descent (2041-2050):** The remaining mortgages are projected to mature during this period, averaging 419 properties and 13,232 units per year.

## Earlier Exit Phases Have a Larger Number of Older Properties

Properties over 30 years old make up nearly 46 percent of all properties in the portfolio and over 12 percent of the properties are 20 years old or less.<sup>1</sup> As one might expect, early exit phases include a higher percentage of older properties (over 30 years old as of 2016) and the proportion of older properties decreases with each phase. Most of the properties in the first three phases (85, 70, and 59 percent respectively) were already over 30 years old in 2016. Properties over 30 years old in 2016 make up about 25 to 27 percent of the last two phases, even though these phases are more than 20 years away.

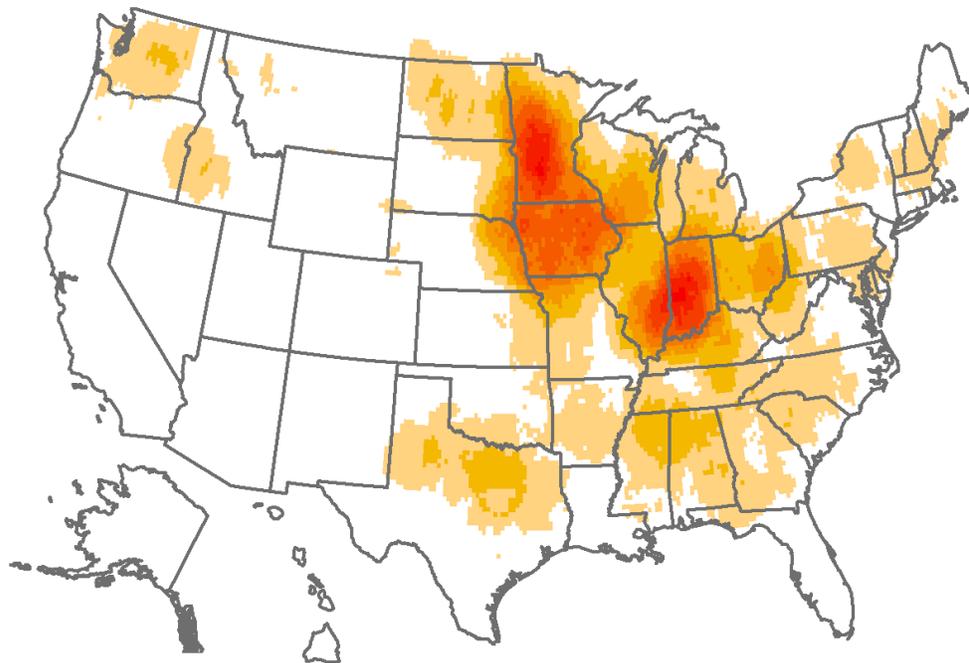
The average number of units per property increases across the phases. There are about 30 units per property in the total portfolio. The average project size is 24 units in the Build Up phase and about 29 units in the First Peak and Second Peak. The properties in the last two phases (Summit and Descent) average slightly more than 31 units.

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<sup>1</sup> Based on age as of March 31, 2016.

## Maturing USDA Rural Rental Housing Loans

Build-Up Stage Exit Date of USDA Section 515 Rural Rental Housing Properties



Source: Housing Assistance Council (HAC) Tabulations of USDA Data



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About 65 percent of the units in the portfolio receive USDA Section 521 Rental Assistance (RA) subsidy. There are fewer RA units in the early phases: 46 percent of the units in the Build Up phase and nearly 61 percent of the First Peak units have RA subsidy. There are slightly fewer RA units in the Second Peak phase (54 percent) but the percentages increase in the Summit (67 percent) and Descent phases (78 percent). The higher percentage of USDA subsidized units in the later phases is likely due to the growth of the RA program during the height of Section 515 new construction. The Build Up phase likely includes more properties that were constructed before the availability of RA than other phases. When the Rental Assistance program came into being in 1977, existing properties received some RA units, but not as many as new construction properties. A number of properties have other types of rental subsidies; these will be discussed in below.

Properties in early exit phases are less likely to include units accessible to people with disabilities than is the portfolio as a whole (2.6 percent in the Build Up phase and 3.6 percent in the First Peak, compared to 4.1 percent in the portfolio). This is because they were built before major legislation mandated accessibility and livability features. As many rural populations get older, accessibility may need to be addressed in the future to ensure that units remain viable, high-quality housing options. Later phases have greater percentages of accessible units (3.8, 4.2, and 4.7 percent respectively.)

Vacancy rates tend to be higher in the earlier phase properties with an average rate of nearly 8 percent in the Build Up phase and 6.3 percent in the First Peak phase compared to 4.1 percent in the whole portfolio. Higher vacancy rates might provide an owner an incentive to exit the affordable housing market at the earliest opportunity. Vacancy rates may be related, at least in part, to project age, and to the availability of Rental Assistance and units accessible to people with disabilities. Vacancy rates are lower in the later phases (6.7, 5.3, and 5.4 percent respectively.) As discussed previously, USDA property vacancy rates are generally in line with or lower than the overall rental markets.

Over 82 percent of Section 515 properties are owned by limited profit entities. Nonprofits own nearly 18 percent of the properties. As previously noted, some nonprofit organizations set up limited profit partnerships or for-profit subsidiaries to take advantage of tax credits, but these relationships are not captured in the USDA data. Full profit entities own the remaining 0.2 percent. Limited profit entities own proportionally fewer units in the early exit phases compared to later phases. Nonprofits own about 43 percent of the properties in the Build Up phase and nearly 24 percent of the properties in the First Peak phase. Nonprofit ownership is about 13-14 percent in the later phases. The higher percentages of nonprofit ownership may represent past acquisition of properties that were at higher risk of exiting.

### **The Greatest Potential Impact of Property Exits Will Be Felt in the Great Lakes, Plains, and Southeast Regions Where Over Two-Thirds of Properties are Located**

In the Build Up phase, there are more properties in the Plains and Great Lake regions. Properties in the Southeast comprise between 31 and 36 percent of all properties in each phase beginning with the First Peak.<sup>1</sup> After the First Peak phase, properties in the Great Lakes and Plains areas each comprise a smaller share of all properties. The New England and Rocky Mountain regions tend to have the fewest number of properties in each phase.

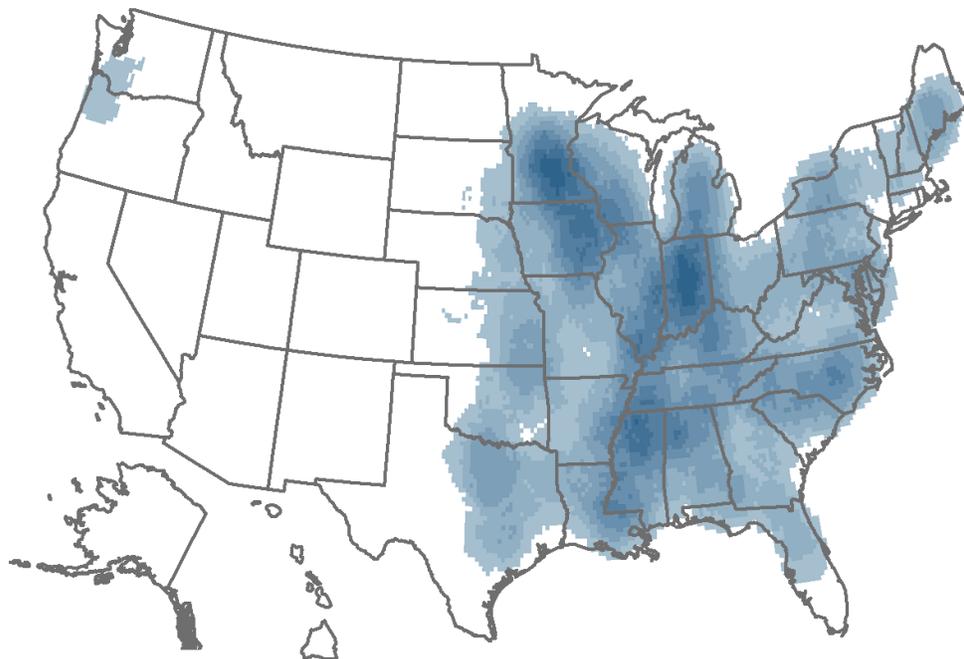
No state has more than 5 percent of the properties in the portfolio. Texas and Missouri each have over 600 properties, representing 4.8 and 4.5 percent, respectively, of all properties in the nation. Four other states have 500 or more properties: North Carolina, Illinois, Minnesota, and Michigan. Minnesota and Iowa have the most properties impacted in the Build Up phase, while Texas and North Carolina have the most properties impacted in the First Peak phase. Missouri, North Carolina, and Texas have the most properties in subsequent phases. Five states or territories have 50 or fewer properties: Alaska, Hawaii, Rhode Island, Virgin Islands, and the West Pacific.

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<sup>1</sup> The Southeast region includes the largest number of states.

## Maturing USDA Rural Rental Housing Loans

First-Peak Exit Date of USDA Section 515 Rural Rental Housing Properties



Source: Housing Assistance Council (HAC) Tabulations of USDA Data



Housing Assistance Council

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### Each Successive Exit Phase Impacts a Greater Share of Tenants

The Build Up phase affects just under 5 percent of all tenants. The share of tenants impacted in each of the next three phases increases to about 20 to 22 percent. The Descent phase impacts over 30 percent of all tenants.

The Build Up tenants are disproportionately White (over 80 percent). Nearly 19 percent of the tenants in the Build Up phase are Hispanic, most of them living in Family properties in the “Other” region (Puerto Rico, the Virgin Islands, and the Western Pacific). The First Peak phase marks a significant increase in the impact on African-American tenants, who make up over 25 percent of the affected tenants in this phase. These households are mostly located in Family properties in the Southeast region. Generally, racial and ethnic minority tenants are most likely to live in Family projects. The Southeast (over 50 percent), Southwest (nearly 24 percent), and Midwest (nearly 22 percent) regions have the highest percentages of minority tenants. Hispanic tenants are most likely to live in one of the western regions (Far West (40 percent), Southwest (over 28 percent), and Rocky Mountain (over 19 percent)). Over 94 percent of “Other” region tenants are Hispanic. While the percentages vary slightly between the subsequent phases, this pattern remains consistent.

Female-headed households comprise nearly 71 percent of tenant households nationwide. In the Build Up phase, they make up a slightly lower proportion, just over 68 percent. Female-headed households are more likely to be found in Family projects (73 percent) than Elderly projects (just over 67 percent). Over 80 percent of the households in the Other region and nearly 74 percent in the Southeast region are female-headed households. The Plains (about 66 percent) and Rocky Mountain (about 69 percent) regions have the lowest percentages of female-headed households.

### **Tenants in the Early Exit Phases are Less Likely to Have USDA Section 521 RA Subsidy Than Those in Later Phases**

About 43 percent of the tenants in the Build Up phase and nearly 61 percent of tenants in the First Peak phase receive Rental Assistance. Approximately 65 percent of all tenants in the portfolio benefit from USDA Rental Assistance. Two possible explanations for this discrepancy RA usage rates are that 1) USDA Rental Assistance was not available until about 1978 and 2) the later phases likely include properties that received loan servicing assistance such as additional Rental Assistance units. On the other hand, tenants in earlier phases are more likely to have HUD Section 8 project-based assistance (nearly 27 percent in the Build Up phase and 17 percent in the First Peak) compared to about 8 percent of tenants receiving such assistance across the portfolio. This is likely due to HUD discontinuing issuance of new project-based rental assistance contracts for new construction in 1983. Overall, 70 percent of USDA early stage units have some source of rental assistance from USDA or other federal resources.

### **Assessing Risk Typologies and Market Indicators**

The broad reach of USDA's multi-family housing, combined with the important role it plays in many small towns and rural communities where rental housing options are often limited, make the potential loss of these affordable rental units an important policy issue. A better understanding of both where the loss of properties is most likely to occur and where the loss would be most impactful is helpful to forming an effective policy response that preserves as much affordable rental housing stock as possible and limits the damage to communities, while recognizing owners' rights and limiting cost to the government.

Exploring exiting Section 515 loans from the perspective of property and market conditions, the analysis evaluates market conditions and the degree to which they provide an incentive for an owner to continue using their property as affordable rental housing. The analysis also explores the role USDA properties play in county rental markets with regards to their entire rental stock and project-based subsidized units, to identify areas where the potential loss of affordable housing stock would have the most significant impact.

## Owners of Section 515 Properties Play a Key Role in the Equation

An owner, after paying off a loan and barring the presence of restrictive use provisions, has the option of either continuing to use the property for affordable housing or choosing some alternative use.<sup>1</sup> In making this decision, the following questions likely arise: Does the owner view providing affordable rental housing as a financially viable undertaking once the Section 515 loan matures or is prepaid, and, if so, is it the most profitable use of the property?

If a property is not subject to restrictive use provisions and the answer to the first question is no, then there may be a higher risk that the owner will not continue using the property for rental housing once the USDA loan matures or prepays. Similarly, if the property costs more to operate than the revenue it receives from rents, then the owner may decide to discontinue its operation as an affordable rental housing property. This is most likely to occur in areas experiencing demographic, economic, and rental market decline. As an area declines, business activity and profitability shrink, increasing the risk that a property would no longer be viable as affordable rental housing.

If a property is not subject to restrictive use provisions and the answer to the second question is no, then the risk of an owner taking it out of the affordable rental housing market is also high. A property that could generate more revenue if used in another manner will most likely be used as such. A for-profit or limited-profit Section 515 property owner, like any other business owner, is a profit maximizer. The type of area where this is likely to occur is one experiencing rapid demographic, economic, and rental market growth. A property located in such an area would have an increased risk of conversion from affordable rental housing upon loan maturity.

To further explore this issue, the analysis developed and incorporated a loss-risk typology to better assess these factors' impact on the potential future of the USDA rural stock.

### Constructing the Loss-Risk Index

To assess risk of properties discontinuing service as affordable rental housing, the study created an index rating county rental markets based on three major indicators of risk. The three categories (with six total attributes) capture important aspects of local rental market conditions.

### Demographic Indicators of Risk

While the phrase “demographics is destiny” may be used too often, it is still important when assessing housing markets. A population and its characteristics shape housing markets in the present moment and in the immediate future. Rural areas with growing populations often serve as economic draws and have an increased demand for services and products, part of which would involve rental housing units. The opposite condition is often the case for areas experiencing shrinking populations.

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<sup>1</sup> There are additional considerations not discussed here such as real and perceived property values, and tax implications of selling, among others.

The analysis ranked counties based on percentage change in population for each of three periods: 1990-2000, 2000-2010, and 2010-2015. The study also ranked counties based on proportion of population that moved in the previous year from another county, state, or abroad, looking at only the final years of the more recent periods: 2010 and 2015. Segmenting the periods of analysis provides consideration to both longer-term trends and more recent developments, both of which are likely to shape future patterns.

### **Economic Indicators of Risk**

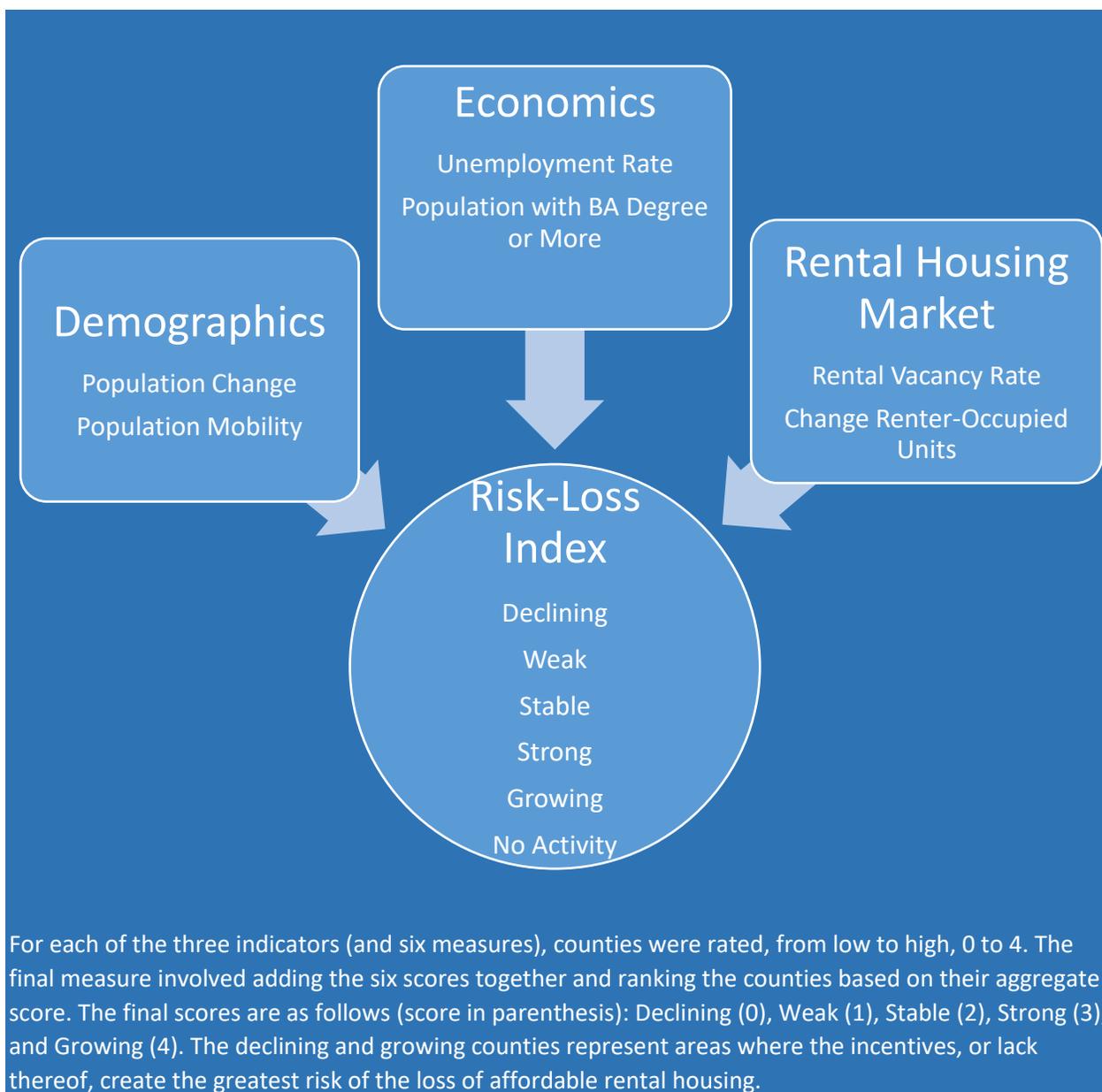
The condition of the local economy is one of the most important determinants of an area's future dynamics and its rental housing market. The local economy, the job opportunities, and commerce, at least in part, shape rental markets. An area with a strong economy that consistently produces low unemployment rates and serves as a draw for more highly skilled workers will have an increased demand for services and products, including rental housing. The opposite would be the case for an area experiencing a poor performing local economy with high unemployment rates and few high skilled workers.

This study ranked counties based on their annual unemployment rates for each of four years: 1990, 2000, 2010, and 2015. The study also ranked counties based on proportion of population that has a four-year college degree or more education. Again, the second ranking looked at only the final years of the more recent periods: 2010 and 2015. Segmenting the periods of analysis gives consideration to both longer-term trends and more recent developments, both of which are likely to shape future patterns.

### **Rental Market Indicators of Risk**

These measures reflect both supply and demand aspects of local rental markets. For example, vacancy rates are related both to the supply of units and to the demand for them, with a high or low rate indicating the dominance of one of these two aspects. An area with a consistently low rental vacancy rate and a growing number of renter-occupied units has, at the least, a stable rental market. The opposite would be the case for a county experiencing a high vacancy rate and no new rental units added.

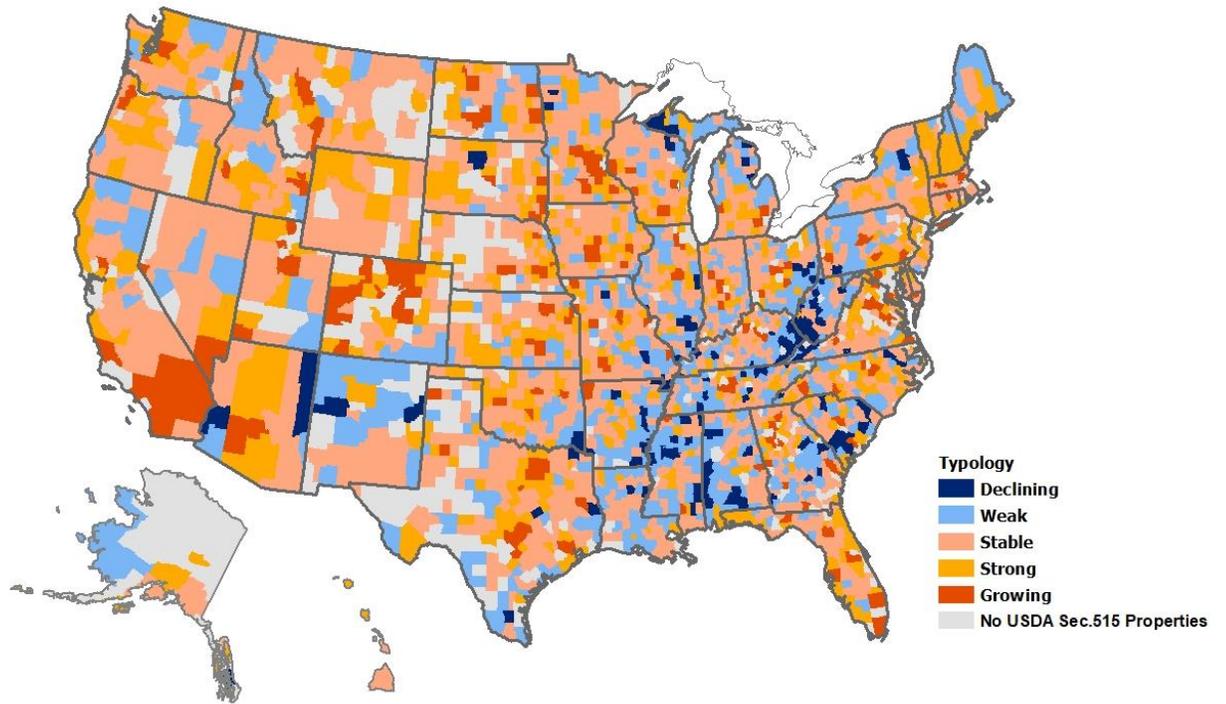
This component of the typology ranked counties based on their annual rental vacancy rates in each of four years: 1990, 2000, 2010, and 2015. The rental market measure also rated counties based on whether a positive or negative change in the proportion of renter-occupied units occurred in the 2010-2015 period, to identify markets where renter occupancy has been growing recently. Using both measurements gives consideration to longer-term trends and also to more recent developments, both of which are likely to shape future patterns.



**Over 1,600 Properties (48,000 Units) are Located in Declining or Growing “High Risk” Markets**

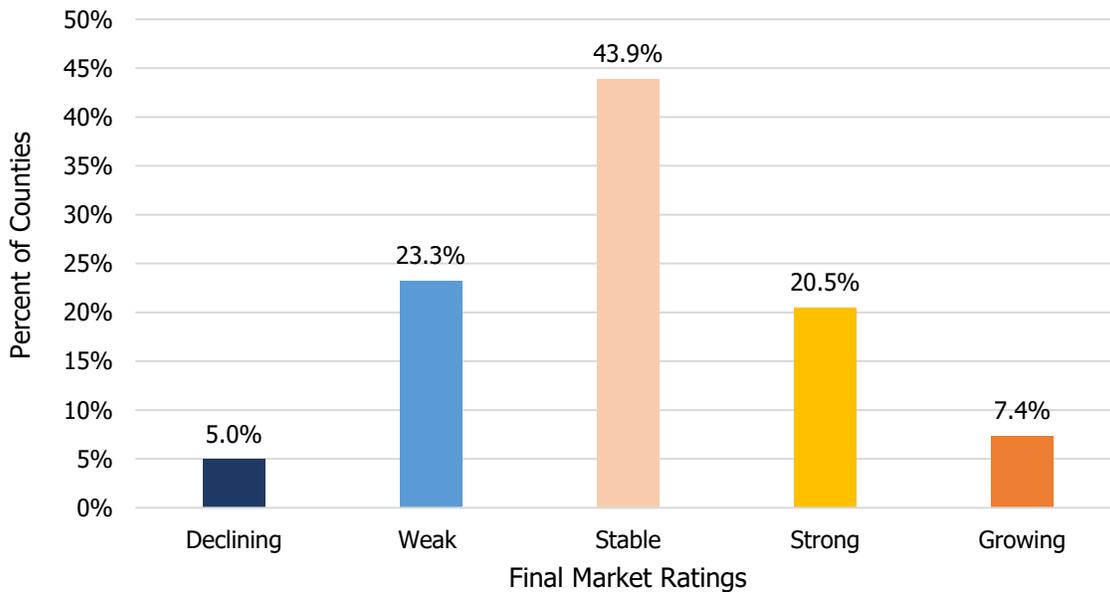
The housing market index classified 5 percent or 135 counties containing Section 515 properties as having the weakest markets and 7.4 percent or 200 as having the strongest rental market conditions. The weakest markets are concentrated in Appalachia and the Southeast, while the hottest markets are generally concentrated around populated areas from Seattle to Minneapolis to Washington, DC.

## Rental Market Typology



Source: Housing Assistance Council Tabulations of USDA and Census Bureau Data

## Counties with USDA Section 515 Property by Market Rating



Approximately 12 percent of Section 515 properties are located in the identified high-risk markets. Sixty-one percent of the high-risk properties and 64 percent of high-risk occupied



## Tenants in At-Risk Properties are Much More Likely to be Minorities Than in the Portfolio in General

Tenant populations in these at-risk markets differ, largely because of regional differences in service area populations. Two-thirds of the weakest market properties are located in the Southeast region while more than half of the strongest market properties are located in the Plains, Rocky Mountain, and Far West regions. This explains why only 51 percent of the tenants in weaker market properties are White compared to 76 percent of those in the strongest markets. Weaker market tenants are more diverse, approximately 45 percent African American, essentially reflecting the distribution of the Southeast region population. A higher percentage of tenants in these weaker market properties have disabilities, possibly reflecting an increased prevalence of disabilities in certain Southeast region areas.

A much higher percentage of tenants in the weakest market properties than in strong market properties use Rental Assistance from USDA or other providers. Sixty-seven percent of tenants in the weakest market properties use USDA Rental Assistance, exceeding the 56 percent for strongest market tenants and 62 percent for the entire portfolio. Similarly, 16 percent of tenants in weakest market properties use other forms of rental assistance compared to 9 and 12 percent for the strong market and entire portfolio tenants. The weaker markets are often in areas with poor economic conditions, so a greater reliance on assistance to cover housing costs is not unexpected.

In the strongest market properties, a lower proportion of tenants use Rental Assistance and, at the same time, vacancy rates in those markets are lower. Approximately 6.6 percent of units in the weaker market properties are vacant compared to 6 percent for the entire portfolio and 4.9 percent for the strongest markets. The underlying conditions that generate the strong market classification likely support a vibrant rental market where demand is high.

## Specific Risk Considerations Exist for Certain Communities

Exploring the perspective of individual properties and which owners might be most likely to cease providing affordable housing once their Section 515 loans mature is likely the most intuitive way to evaluate the risk. Another perspective to consider is the impact on specific communities and tenants. Are there certain communities where the loss of Section 515 properties would significantly impact the local rental housing stock? In other words, are certain areas at greater risk of being affected than others? The impact, much like the distribution of properties, may not be evenly distributed. The analysis looked at five specific risk considerations related to loss of Section 515 properties in rural markets.

### ***Specific Risk Factor 1: USDA Section 515 as a Portion of the Subsidized Rental Stock***

One indicator to evaluate the role, importance, and potential impact of loss of USDA Section 515 projects in local housing markets is the proportion of Section 515 units in the overall stock of federally subsidized rental housing in a market. In general, the larger the portion of the subsidized market the Section 515 constitutes, the more important it is as a resource

for lower-income renters. This mechanism also indirectly highlights the degree to which there are substitutes for the Section 515 housing. If the Section 515 units are the primary provider of subsidized rental housing, then those units may be very difficult to substitute upon loss.

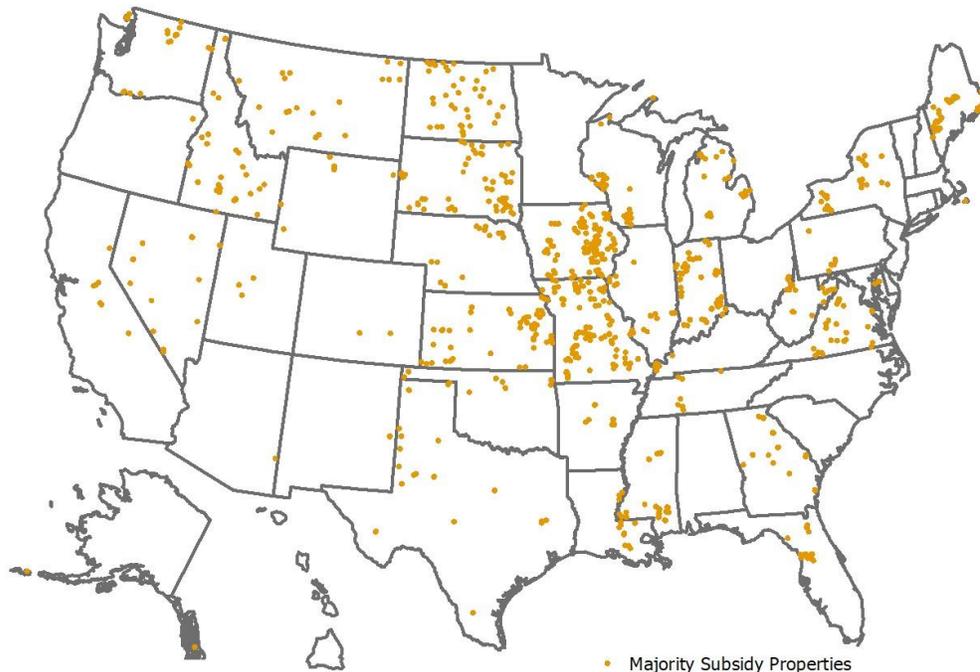
The analysis defines Section 515 housing as the primary provider of subsidized rental housing if it makes up 50 percent or more of a market's subsidized project-based units. The threshold was set purposely high to ensure only counties where the Section 515 program is the primary form of subsidized units are identified. The analysis of project-based publicly assisted units covers the following programs: HUD public housing, HUD project-based Section 8, HUD Section 202, HUD Section 811, and USDA Section 515. HUD Housing Choice Vouchers are conspicuous in their absence, but their inclusion in the analysis would create problems such as double counting, as some tenants in project-based subsidized housing also use HUD vouchers.

#### [In Over 300 Markets, Section 515 Properties Make Up the Majority of Project-Based Federally Subsidized Units](#)

Section 515 properties comprise a majority of project-based, subsidized rental units in 330 counties in 39 states. This figure represents 12 percent of the 2,719 counties that have at least one Section 515 property. Section 515 is responsible for the majority of project-based, subsidized units in a quarter or more of all the counties in seven states (Idaho, Iowa, Maine, Missouri, Montana, North Dakota, and South Dakota). With 33 counties, Missouri has the largest number of Section 515 majority markets.

## Section 515 Properties Comprising a Majority of Subsidized Units

Properties in markets where Section 515 units comprise a majority of federally subsidized project-based rental homes



Source: Housing Assistance Council (HAC) Tabulations of USDA and National Preservation Database

### Many Rural Renters Have Few Alternatives

The analysis highlights the large and important role played by Section 515 properties in the affordable housing dynamic, particularly for certain rural communities. To illustrate this point, in 83 of the 330 counties where Section 515 units represented a majority of assisted units, a single Section 515 property contained a majority of assisted units. In these 83 counties, there were 2,538 Section 515 units, 337 Low Income Housing Tax Credit units, 121 public housing units, 191 project-based Section 8 units, and 24 Section 202 units, and eight Section 811 units. In total, only an estimated 672 project-based assisted units (1 percent) were not Section 515 out of an aggregate 55,931 renter-occupied units. This example reinforces recent analyses that found rural areas were underserved by housing assistance efforts – a common occurrence for many sparsely populated communities.

### Majority Section 515 Markets are Concentrated in the Plains Region

The majority Section 515 markets are concentrated in the Plains region (128 in total), where one of every five counties fit the majority USDA classification. In contrast, New England has the fewest majority Section 515 markets (five in total). Only 6 percent of all counties in the Southeast and Southwest had Section 515 majorities among their project-based subsidized units, slightly lower than the 7 percent for New England.

Section 515 majority markets have relatively small populations, with a nationwide median of 9,987. Approximately half of these counties lost population from 2000 to 2015 and an even larger two-thirds are estimated to be on the decline since 2005 or 2010. Still, these counties are home to 4.7 million people.

In total there are 1,484 Section 515 properties with 33,376 occupied units in these majority Section 515 markets, representing 9 percent of all Section 515 occupied units.

Approximately 41 percent of the units in Section 515 majority counties are located in five states (Indiana, Iowa, Maine, Missouri, and Virginia) with Missouri having the most, 11 percent of the total. The Plains region is home to the most properties, 38 percent, and occupied units, 31 percent. These properties and their units are distributed across the loan maturation phases in much the same proportions as the entire Section 515 portfolio. Approximately a third of all occupied units in Section 515 majority counties (10,449) are in properties with loans maturing during the final Descent period.

As many of the Section 515 majority counties are concentrated in the Plains region, where a large majority of residents are White, 81 percent of total tenants in 515 majority counties nationwide are White, compared to 73 percent for all USDA properties. Forty-one percent of these properties are designated Elderly, higher than the 24 percent for all USDA Section 515 properties. These tenants reside in somewhat older (averaging 33 years, versus 31 for the entire USDA portfolio) and smaller sized properties with a median of 20 occupied units compared to an average of 24 for all Section 515 properties.

A higher percent of tenants in these USDA majority market properties receive USDA Rental Assistance, 68 percent, compared to 62 percent for the portfolio as a whole. In contrast, a lower percentage of tenants reported receiving other types of housing assistance, 10 percent compared to 13 percent. This stands to reason, given the limited number of other project-based units in these counties, and suggests that the data accurately identify counties where fewer forms of rental assistance are available.

### **Quick Notes on Markets where Section 515 Comprises a Majority of Federally Assisted Units**

Section 515 properties comprise a majority of project-based, subsidized rental units in **330** counties in 39 states.

There are 1,484 Section 515 properties with **33,376** occupied units in these majority Section 515 markets.

**81** percent of these tenants are white, compared to 73 percent for all USDA properties.

**41** percent of properties are designated Elderly.

In majority Section 515 counties, the properties are smaller, with a median of **20** occupied units compared to an average of 24 for all Section 515 properties.

## ***Specific Risk Factor 2: Substantial Presence Properties – Role in Overall Rental Housing Market***

An additional aspect to consider is the role a property or properties play in the overall rental market (including both subsidized and unsubsidized homes). Even for a rural market experiencing relatively stable or slow growth, the potential loss of Section 515 properties poses a sizable risk for tenants, particularly if the properties make up a significant portion of their affordable rental housing stock. The loss of a significant portion of a community's affordable rental housing stock could have an effect similar to that of losing access to other important services such as a local school or health clinic.<sup>17</sup>

To operationalize the role USDA plays in the local rental housing market, the analysis classifies markets by the percentage of total renter-occupied units that are in Section 515 properties.<sup>I</sup> In markets where Section 515 occupied rental units from all properties make up at least 10 percent of the total rental stock, the properties are considered to play a large role.<sup>II, III</sup> Those markets and the Section 515 properties in them are classified as “substantial presence.” In these cases, the loss of USDA properties could substantially reduce a county's overall affordable rental housing stock.

The analysis highlights substantial presence counties where the risk is greatest that a significant portion of the rental housing stock could be lost – markets where a small number of maturing properties are involved in meeting the 10 percent threshold.

### ***Over 1,600 Section 515 Properties Comprise a Substantial Share of All Rental Homes in Their Markets***

Section 515 occupied units represent 10 percent or more of all renter-occupied units in 250 of the 2,719 markets with a USDA property. These “substantial share” or “substantial presence” markets include 1,677 Section 515 properties containing 44,139 occupied units.<sup>IV</sup> Substantial share properties comprise 12 percent of the USDA Section 515 rental stock.<sup>V</sup> Thirty-six states have at least one substantial presence market/property.

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<sup>I</sup>This analysis investigates conditions at one point in time. It is important to consider conditions may change. The renter-occupied units are an average of the three most recent five-year estimates. The average should smooth out some fluctuations.

<sup>II</sup> When considering the comparison involves all occupied rental units, many of which are not affordable (over half of all households living in rental units in the U.S. are cost-burdened), the 10 percent threshold is closer to 20 percent, or one in five affordable units.

<sup>III</sup> In the most recent American Community Survey (ACS) data (2011-15), 52 percent of renter households were cost-burdened (20,210,842 cost-burdened out of 39,015,936 total renter-occupied units).

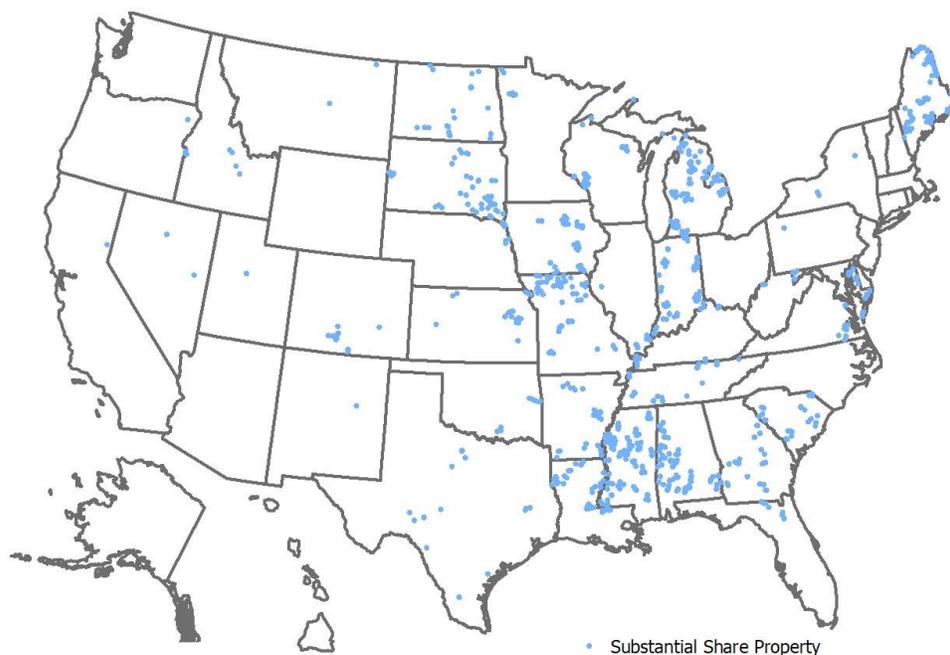
<sup>IV</sup> For reference, every state has at least one Section 515 property. Rhode Island has the fewest at 12 and Texas has the most at 670. Also, note that an earlier Housing Assistance Council white paper on the maturing Section 515 loans, which looked at the first two phases (Build Up and First Peak), reported there were 460 properties containing 12,019 units at risk. With a change this time from using the single ACS 2010-14 estimated renter-occupied units to an estimate using the last three ACS datasets (ACS 2009-13, ACS 2010-14, and ACS 2011-15), the study identified a similar number of properties (445) and occupied units (11,607). The change was made to address possible variation associated with any one point-estimate. The small difference suggests the original results were robust.

<sup>V</sup> The percentage of occupied units in an at-risk county by maturation phase is as follows: 10 percent during Build Up; 13 percent in the First Peak; 10 percent for the Second Peak; 12 percent in the Summit phase; and 12 percent during Descent.

Substantial presence markets are common in several states, constituting one out of every four counties in Alabama, Maine, Mississippi, and South Dakota. Not surprisingly, three of these four states have a majority rural and small town population.<sup>1</sup> Although at least one state in every region has a substantial presence property, approximately 84 percent of the properties were located in just three of the eight regions (Great Lakes, Plains, and Southeast), with 42 percent in the Southeast alone.

## Section 515 Properties Comprising A Substantial Share of All Rental Units

Properties where Section 515 units comprise 10% or more of all rental homes in their market



Source: Housing Assistance Council (HAC) Tabulations of USDA and American Community Survey Data

### Substantial Presence Properties are Not Evenly Distributed

The properties where Section 515 units play a substantial role are not evenly distributed. For example, in the six Maine counties where Section 515 has a substantial presence, the median numbers of Section 515 properties and total occupied units are 22 and 484, respectively, while in the nine similarly classified Texas counties there is a median of two properties and 58 occupied units. This difference in the number of maturing properties

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<sup>1</sup> The four states all have rural and small town populations that exceed the nation's rural and small town population and in three of the four cases (Alabama is the exception) the rural population constitutes a majority. Information from: Housing Assistance Council, *Taking Stock: Rural People, Poverty and Housing in the 21<sup>st</sup> Century* (Washington, DC, 2012). Accessed 2/15/17 at [www.ruralhome.org/storage/documents/ts2010/ts\\_full\\_report.pdf](http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf).

likely relates to a difference in risk. All things being equal, the fewer properties involved, the greater the likelihood that a significant loss of units might occur.

The overall tenant population in substantial presence properties reflects the geographic areas where they are concentrated. For example, African Americans make up 39 percent of the substantial share tenant population, approximately 14 percentage points higher than for the entire portfolio. Many of these properties are located in the Southeast, where 49 percent of all tenants are African American. Conversely, Hispanics make up just 4 percent of the substantial presence tenants due to the lack of properties in the Southwest and Rocky Mountain regions where Hispanics are a larger part of the tenant population.

#### Substantial Presence Markets are Sparsely Populated, Declining, and Aging

Substantial presence markets are sparsely populated, and more often than not have declining populations. The median population for substantial presence counties is 6,318 compared to the 26,253 median population for all counties with at least one Section 515 property. The median population for the 21 counties with substantial presence markets where a single USDA property meets the threshold is just 3,577 and the highest population among these counties is 7,432. Eighty-three of the 250 substantial presence counties, or 67 percent, lost population during the 2000 to 2015 period. In comparison, 38 percent of all counties with at least one Section 515 property lost population during the same period.

These already small and often declining populations tend to be older as well. Ninety percent of the 250 counties have a median age higher than the national median of 37.6 and 30 percent have a median age of 45 or higher. In the most extreme cases, 20 counties have a median age of greater than 50.

Marion County, Georgia, a small rural jurisdiction with just 8,742 residents, household incomes averaging only two-thirds of the state median, and a large senior and near-senior population, serves as a good example of a significant risk county. The four Section 515 properties located in the county seat contain 107 occupied units and represent 12 percent of Marion County's rental units. Losing these units would have a relatively substantial impact for this small, sparsely populated county.

### Quick Notes on Section 515 Substantial Presence Rental Markets

Section 515 properties comprise **10** percent or more of all occupied rental units – substantial presence – in 250 counties in 36 states.

There are 1,677 Section 515 properties with **44,139** occupied units in these majority Section 515 markets.

A higher percentage of substantial share tenants are African Americans, **39** percent compared to 25 percent for all USDA properties.

The median population for substantial presence market counties is **6,318** compared to 26,253 for all counties with at least one USDA Section 515 property.

66 percent of substantial presence market counties lost population from 2000 to 2015 compared to 38 percent for all counties with at least one USDA Section 515 property.

### ***Specific Risk Factor 3. USDA Section 515 Properties in Persistent Poverty Counties***

The housing market risk measure attempts to identify hot or cold markets where incentives create a greater likelihood that an owner will discontinue the use of their property as affordable rental housing. Another element of assessing the portfolio risk is extreme economic distress and, in particular, areas of persistent poverty. In persistent poverty communities, investment and development are uncommon, and chronic and severe economic struggles are the norm. In such cases, losing even a few rental housing units can be important. While encouraging new development in chronically poor and economically struggling communities is a primary goal of state and local officials, maintaining the current housing stock is also an important consideration. High quality affordable rental housing options would be difficult to replace. These economically depressed counties and communities are most prevalent in rural areas, and maturing or prepaying Section 515 loans and the potential loss of rental units is a considerable threat that might further exacerbate problems in areas that face substantial obstacles to dealing with them.

#### **Persistent Poverty Counties**

A large number of rural communities continue to experience persistently high poverty rates. These areas are often isolated geographically, lack resources and economic opportunities, and suffer from decades of disinvestment. Often forgotten or hidden from mainstream America, these areas and populations have had double-digit poverty rates for decades.

Persistently poor counties are those with poverty rates of 20 percent or more in 1990, 2000, and 2010. There were 395 of these persistently poor counties in 2010.

Overall, more than 21 million people live in persistent poverty counties. Nearly 60 percent of them are racial and ethnic minorities, and the median household income is \$31,581, more than 40 percent below the national median. More than 5 million people live below the poverty line in these counties, with an overall poverty rate of 25 percent – nearly twice the national rate. The poverty rate for minorities in these communities is even higher, at 32 percent.

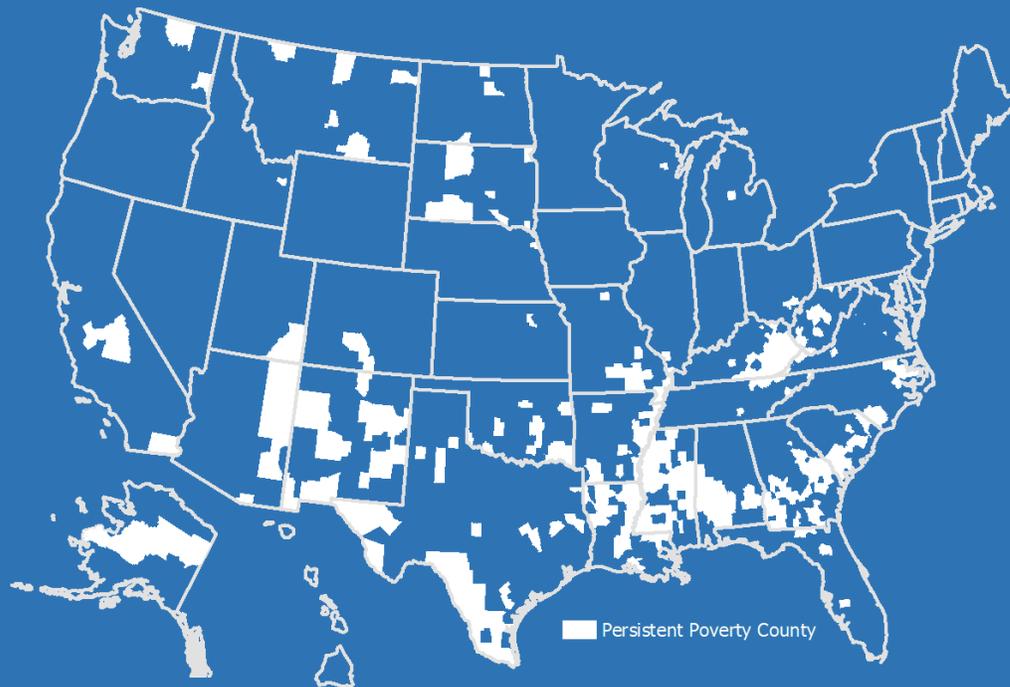
One highly visible outcome of this economic distress can be seen in these areas' poor housing conditions. The incidence of housing units lacking adequate plumbing is more than twice the national rate, and nearly 400,000 households in these regions live in crowded conditions. Additionally, while housing costs are relatively low in many of these communities, more than half of renters in persistent poverty counties encounter affordability problems and pay more than the federal standard of 30 percent of income for their housing.

The persistence of poverty is most evident within several predominately rural regions and populations such as Central Appalachia, the Lower Mississippi Delta, the southern Black Belt,

the Colonias region along the U.S.-Mexico border, Native American lands, and migrant and seasonal farmworkers.

## Persistent Poverty Markets

Counties with 20% or higher poverty rate in 1990, 2000, and 2010



Source: Housing Assistance Council (HAC) Tabulations of Census Bureau and American Community Survey Data

Rural persistent poverty counties rely more on rental housing than other rural markets do. Thirty-two percent of all occupied units in persistent poverty counties outside metropolitan areas are rented, higher than the 28.7 percent rental rate for non-persistently poor nonmetro counties. Quality housing options are of particular interest since substandard units tend to be more prevalent in economically depressed areas. An estimated 25,801, or 1.2 percent, of occupied units in nonmetro persistent poverty counties lack complete plumbing, a higher proportion than in all other nonmetro counties (0.6 percent) and in the nation as whole (0.4 percent).

A Section 515 property located in a persistent poverty county may have an increased risk of no longer being used for affordable housing once its owner's loan matures. When the property leaves USDA's program, it loses its Section 521 Rental Assistance. Without the USDA rent subsidy, tenants may not be able to pay a high enough rent to reimburse an owner's investment of time and resources. Market rate rents may be too low to cover operating costs.

## 90 Percent of Persistent Poverty Counties Have at Least One Section 515 Property

A total of 1,906 properties containing 56,377 occupied Section units are located in 360 persistent poverty counties.<sup>1</sup> This represents 14 percent of properties and 15 percent of occupied units in the Section 515 portfolio. These units make up 20 percent of all project-based subsidized units and 4 percent of all occupied rental units in persistent poverty counties, twice the proportion in all other counties where Section 515 units are located.<sup>11</sup>

While in a majority of persistent poverty counties Section 515 occupied units represent less than 10 percent of all renter-occupied units, in 77 persistent poverty counties they do reach the 10 percent market threshold. In five counties, Section 515 units constitute 20 percent or more of the occupied rental housing stock. At the upper end of the spectrum is Ziebach County, SD, home to the Cheyenne River Reservation, part of the Standing Rock Reservation, and one of the highest poverty rates in the U.S. There, fully 31 percent of the estimated 379 rental units are in Section 515 properties.

### Section 515 Properties in Persistent Poverty Markets

Properties in counties with 20% or higher poverty rate in 1990, 2000, and 2010



Source: Housing Assistance Council (HAC) Tabulations of USDA and American Community Survey Data

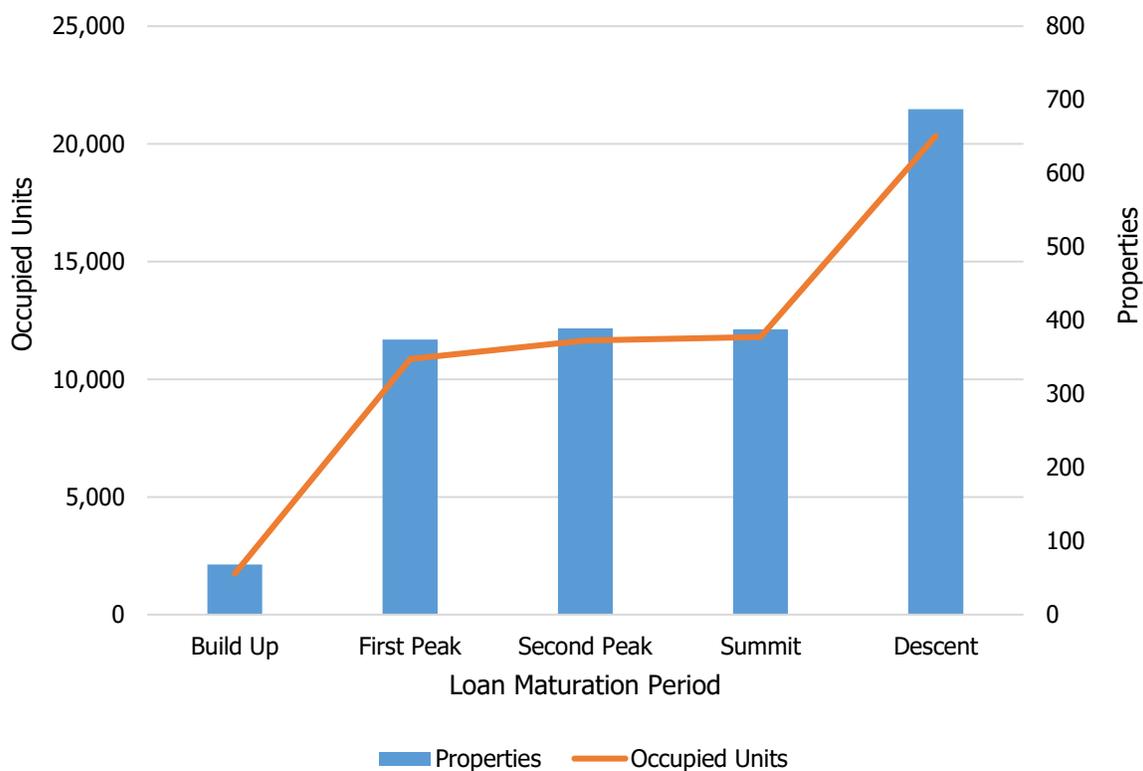
<sup>1</sup> Of the 329 persistent poverty counties outside metropolitan areas, 312 have a USDA Section 515 property. Of the 66 counties that are in metropolitan areas, 48 have at least one USDA Section 515 property.

<sup>11</sup> For non-persistent poverty counties, USDA Section 515 units make up 10 percent of place-based subsidized units and 1 percent of all renter-occupied dwellings.

## One Half of Persistent Poverty Section 515 Units are in Alabama, Georgia, Kentucky, Louisiana, or Mississippi

Due to the concentration of poverty in high needs areas, persistent poverty counties are also geographically concentrated. Two-thirds of all persistent poverty counties are located in the Southeast region, principally in Central Appalachia and the Lower Mississippi River Delta. Correspondingly, 72 percent of occupied Section 515 units in persistent poverty counties are in the Southeast. In several states, a large portion of Section 515 properties are found in persistent poverty counties. For example, 60 percent of Mississippi's and 54 percent of Louisiana's Section 515 units are located in persistent poverty counties. These large proportions are to be expected given the high proportion of counties in these states with persistent poverty. Outside the Southeast, New Mexico has 58 percent of its Section 515 units located in persistent poverty counties. A majority of New Mexico's 33 counties are either in the border Colonias region or contain Native American lands.<sup>1</sup>

### Section 515 Loans in Persistent Poverty Counties



<sup>1</sup> Twenty of New Mexico's 33 counties have border Colonias land (within 150 miles of the U.S.-Mexico Border) or Native American lands in a reservation or related trust land. Similarly, 45 of Mississippi's 82 counties are in the Lower Mississippi River Delta area. For a full list of high needs regions and their counties see Housing Assistance Council, *Taking Stock: Rural People, Poverty and Housing in the 21<sup>st</sup> Century* (Washington, DC, 2012). Accessed 2/18/17 at [www.ruralhome.org/storage/documents/ts2010/ts\\_full\\_report.pdf](http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf).

### Minorities Make Up Half of All Tenants in Persistent Poverty Areas

While African Americans make up about a quarter of all Section 515 tenants, they represent half of the tenants living in properties located in persistent poverty counties. This proportion is shaped by the demographics of the Southeast region, since the majority of properties and units in persistent poverty counties are found in this region and African Americans are a majority of all tenants in the Southeast. The early stages of Section 515 mortgage maturation will impact relatively few Hispanic tenants in persistent poverty counties but, beginning with the Second Peak and continuing through the Descent, Hispanics represent approximately 19 to 20 percent of tenants in properties located in persistent poverty counties. Hispanics make up a majority of all Section 515 tenants in the Far West, which includes California and Washington state.

Properties in persistently poor counties have a greater proportion of residents using USDA Rental Assistance than other Section 515 properties.<sup>1</sup> Approximately 67 percent of tenants in properties located in persistent poverty counties received Section 521 Rental Assistance compared to 61 percent for tenants in all other counties.

Persistent poverty counties have already lost proportionately more rental units of all types than others have - 34 percent compared to 25 percent. Loss of Section 515 properties would increase that trend.

### ***Specific Risk Factor 4. Housing Affordability Within Section 515 Properties and Markets***

Housing affordability has become one of the nation's most significant housing challenges and it is especially problematic for low-income households and renters in rural areas nationwide. Housing costs tend to be lower in rural areas than in suburbs and cities, but despite these lower costs, an increasing number of rural households find it challenging to pay their monthly housing expenses. Over 7 million rural households – three in ten – pay more than 30 percent of their monthly incomes toward housing costs and are considered cost-burdened.

Housing affordability problems are especially acute for rural renters. A full 47 percent of rural renters are cost-burdened, and nearly half of them are paying more than 50 percent of their monthly incomes for housing. Almost 40 percent of all cost-burdened rural households are renters – a much higher proportion than the 28 percent of all rural households who rent their homes.

Certain areas and communities suffer particularly high housing cost burdens. Rural housing costs tend to be lowest in the South and Midwest regions. In contrast, rural housing affordability problems are more prevalent in the Northeast and on the West Coast, especially in California. High-cost rural areas, especially those with natural amenities, also tend to experience a high level of affordability problems.

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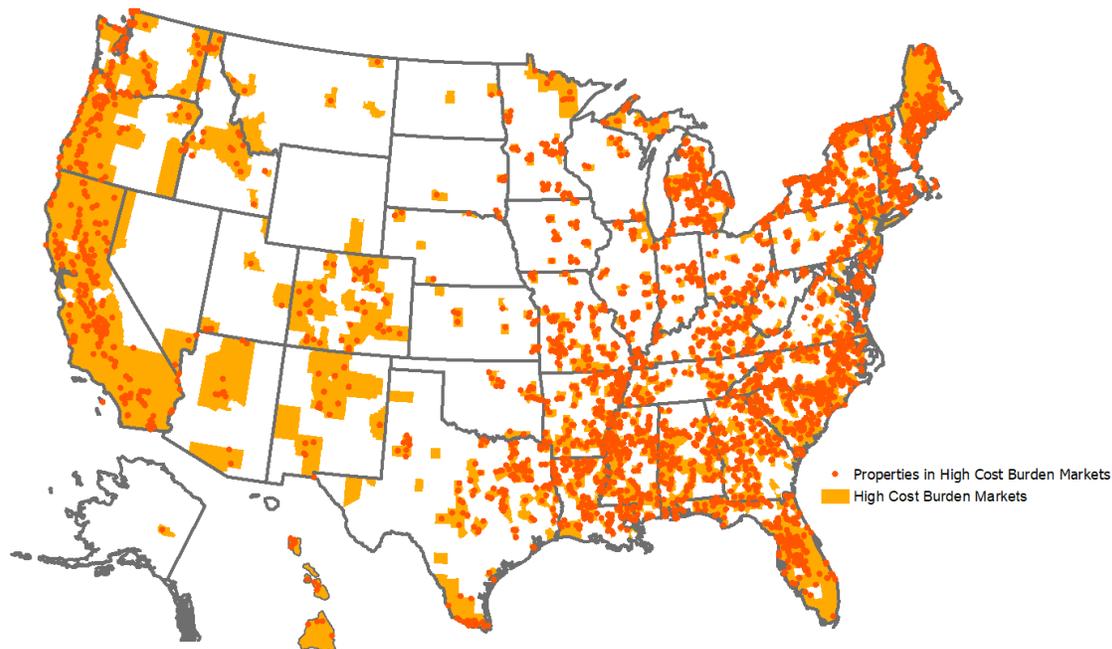
<sup>1</sup> This relationship exists even when looking only at properties in the Southeast region. A higher proportion of properties have 90 percent or more of their tenants receiving USDA Rental Assistance in persistent poverty counties in the Southeast than in all other counties in the region.

Over 5,400 Section 515 properties are in counties where more than half of all rental households are cost-burdened. These properties are home to 304,337 tenants living in 184,026 units. It is reasonable to expect many of these tenants might become cost-burdened if their units lost Section 515 and Rental Assistance subsidies.

One in five Section 515 properties located in majority cost-burden counties are in California, Florida, and North Carolina. The Southeast and Far West are home to 60 percent of these properties compared with 40 percent of the entire portfolio. The greater diversity in Section 515 tenants found in these two regions means a relatively large percentage of tenants in majority cost-burden counties are minorities – approximately 30 percent are African American and 14 percent are Hispanic. The loss of properties in these markets could affect a relatively high proportion of minority tenants.

### Section 515 Properties in High Cost Burden Rental Markets

Properties in counties where more than 50% of all renters are cost burdened

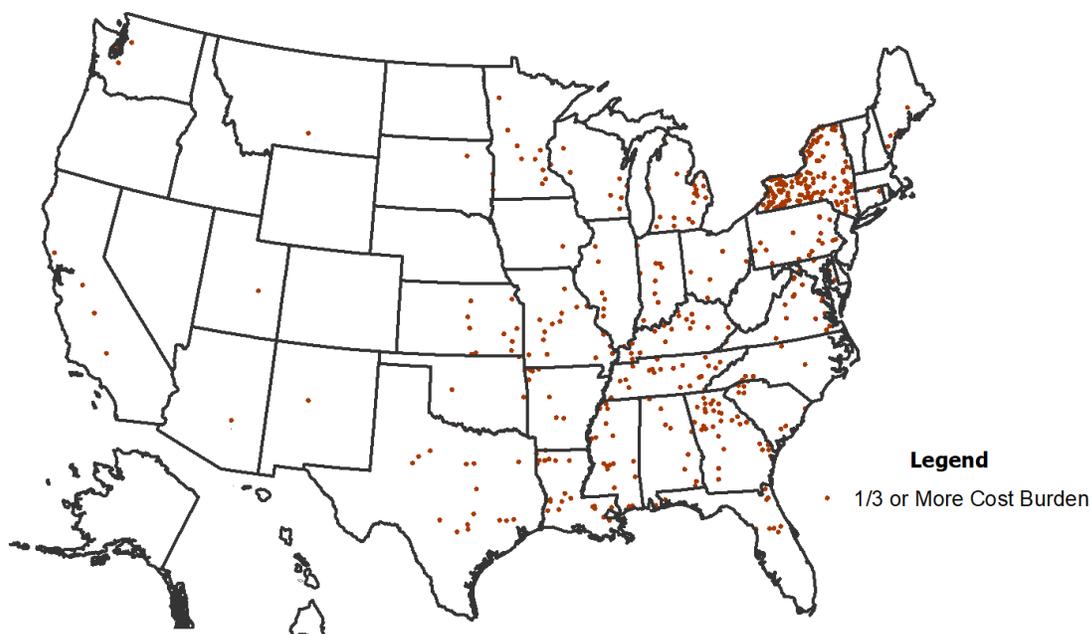


Source: Housing Assistance Council (HAC) Tabulations of USDA and American Community Survey Data

In addition to affordability pressures for renters in many rural markets, a small, but not unsubstantial, number of Section 515 tenants are also currently cost-burdened. Despite relatively low, and in many cases subsidized rent, nearly 46,000, or over 7 percent of Section 515 tenants, are rent-burdened (cost-burdened). These cost-burdened units may serve as a harbinger of things to come if properties become unaffordable due to the loss of important rental subsidies.

## USDA Section 515 Properties with Cost Burdened Units

One Third or More of Property Units Cost Burdened



Source: Housing Assistance Council (HAC) Tabulations of USDA Data

### **Specific Risk Factor 5. Majority Minority Properties**

The location and concentration of minorities in rural areas and small towns often differ from those in the nation as a whole. Many rural minorities are clustered geographically in regions closely tied to historic social and economic dynamics. For example, nearly nine out of ten rural and small town African Americans live in the Southern United States. Rural African Americans comprise an even larger portion of the population in the southern “Black Belt” communities of Alabama, Georgia, Mississippi, North Carolina, South Carolina, and Virginia, as well as the Lower Mississippi Delta states of Arkansas, Mississippi, and Louisiana. Large numbers of rural Native Americans reside on or near Native American reservations and trust lands in the Midwest Plains, the Southwest, and Alaska. More than half of all rural and small town Hispanics are concentrated in the four states of Texas, California, New Mexico, and Arizona. In fact, nearly one-quarter of all rural and small town Hispanics live in Texas alone.

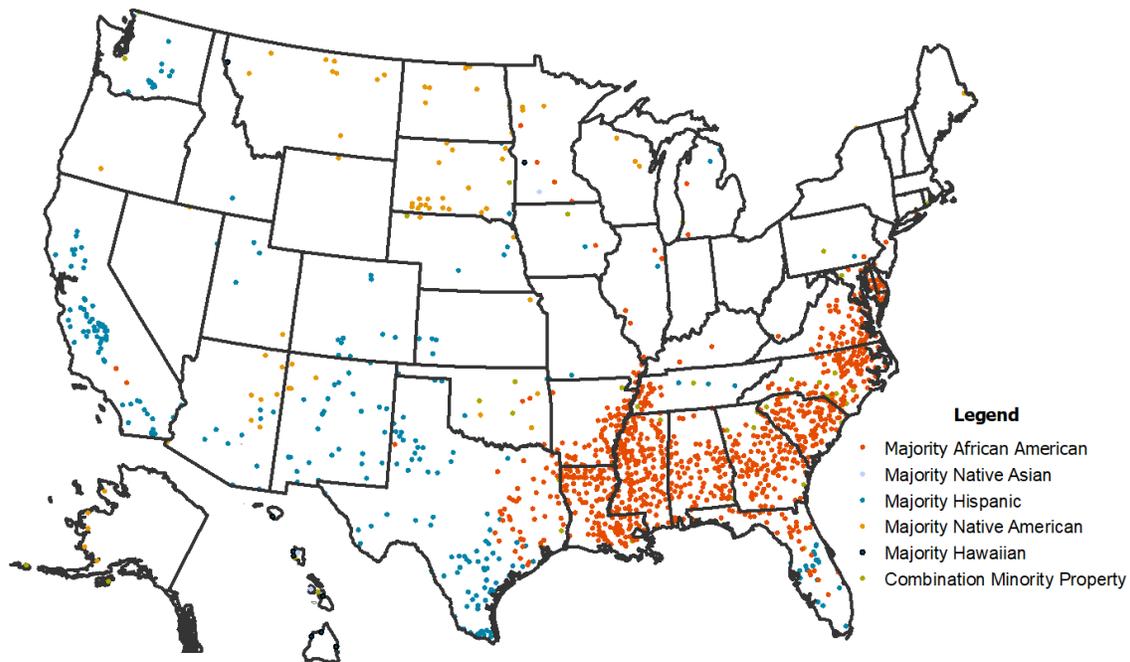
Minority residents receive special attention in one part of the prepayment process. When a property owner requests prepayment and rejects incentives offered by USDA, then USDA must make two determinations: whether “minorities in the project, on the waiting list or in the market area will be disproportionately adversely affected by the loss of the affordable rental housing units,” and whether there is adequate comparable alternative housing for current residents. If minorities will not be adversely affected and there is alternative

housing for residents, the owner receives permission to prepay without use restrictions. In places with high minority populations, the possibility of prepayment affecting minorities is likely to be higher, although not all impacts will be “adverse.”

Within USDA’s portfolio there are 2,447 properties (79,406 occupied units) where minorities comprise the majority of tenants in their Section 515 property.

## USDA Section 515 Minority Majority Properties

Properties as of June 30, 2017



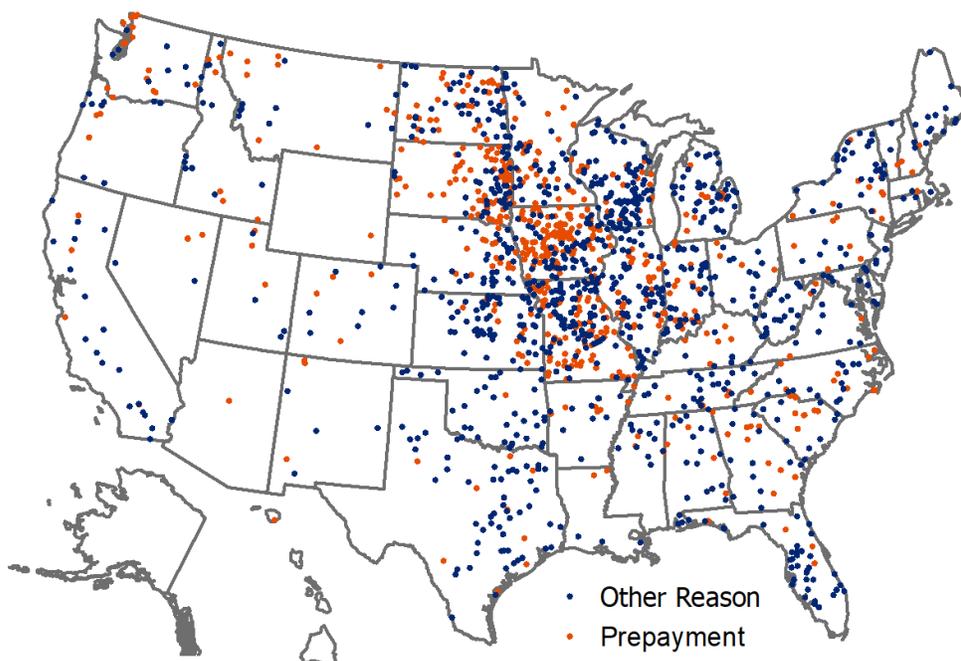
Source: Housing Assistance Council (HAC) Tabulations of USDA Data

### **Looking Back to Solve Forward – Past Exit Activity Helps Predict the Loss of Section 515 Properties**

Some of the most valuable insight into what will happen to the maturing Section 515 loan properties can be derived from what has already occurred. Properties that have already left the program serve as real world examples. Exploring these cases more closely can help identify the common attributes associated with owners leaving or staying. This type of data also makes it possible to evaluate assumed theoretical decision-making considerations to assess their importance.

The analysis identified 2,034 properties that exited the Section 515 program, under various circumstances, during the time period from 2005 to 2016.<sup>I</sup> These “exited” properties represent an approximately 12 percent reduction of the Section 515 portfolio over this time period and included more than 40,000 units of rural rental housing.<sup>II</sup> Of the 2,034 exited properties, an estimated 40 percent, or 808 properties, were due to loan prepayments. The remainder exited the program due to maturing loans, foreclosures, or other reasons.<sup>III</sup>

### Section 515 Properties Exited, 2006 - 2016



Source: Housing Assistance Council (HAC) Tabulations of USDA Data

<sup>I</sup> Initially, the study identified exited properties by comparing a list of active properties in 2005 to a list of active properties for 2015. Prepayment data was included over the years as it became available. The analysis identified 1,910 inactive properties. This does not include properties in U.S. Territories which were removed. Additionally, two properties were removed because they had zero listed units. This resulted in an initial count of 1,908 inactive properties. Subsequently, data for 194 properties leaving the program in 2016 was added. Twenty-three properties represented new cases that were not in the initial dataset and 151 were properties already in the database of which 48 had been identified as leaving the program in the 2005 to 2015 data review. After removing additional cases with no units, the final dataset of 2,034 leaving and 13,587 active properties for a total of 15,621 was established.

<sup>II</sup> There are 447,668 total units in all 15,621 properties with 40,036 in exited properties, representing 8.9 percent of all units.

<sup>III</sup> The analysis was unable to definitively determine the exact reason for leaving for non-prepayment properties.

Forty-eight states and approximately one-third of all counties had at least one exited property.<sup>I</sup> While most states were affected to some degree, the Plains states were home to a disproportionate share of exiting properties, representing 45 percent of leavers compared to 18 percent for all active properties. The Plains region contains a majority, 60 percent, of prepayment properties. This concentration of exiting properties largely reflects the fact that early Section 515 activity, loans originated in the 1960s and 1970s, involved many properties in Plains states.

Approximately 81 percent of exited properties began operations in the 1960s, 70s, or 80s. Because Section 515 loans typically had 30- and 50-year terms, only loans originated during these earlier periods could have reached maturity by 2016.<sup>II</sup> Restrictions meant to limit prepayment and early program exit were considerably weaker in the program's early years – none existed before 1979, which explains why an even higher 90 percent of all prepayment loans were originated before 1990.<sup>III</sup>

Properties that exited during the 2005 to 2016 period tended to be small, with an average number of units (both occupied and vacant) at 20, compared to 30 for active properties. Nonprofits owned approximately 30 percent of the leaving properties, compared to just 17 percent for all active properties. These differences are at least in part related to the geographic distribution of the properties. For example, 40 percent of all properties in the Plains region, where a high proportion of leaving properties are located, are owned by nonprofits, compared to just 17 percent for the entire portfolio. The degree to which differences are related primarily to geography or other factors cannot be determined from reviewing descriptive data alone.

#### [The Analysis Compared Properties That Exited the Section 515 Portfolio During the 2005 to 2015 Period to Those That Did Not](#)

Through logistic regression methods, the analysis more closely explored the relationship between exiting the Section 515 program (maturing, prepayment, and foreclosure, etc.) and select owner/property and location characteristics. Properties that exited the Section 515 portfolio during the 2005 to 2016 period are compared to those properties that were eligible to prepay but did not and remained active in the program in 2016.

The analysis categorizes properties into a dichotomous yes or no outcome (dependent variable), based on whether a property left the program. The potential predictors or independent variables explored include basic owner/property characteristics, such as property size and ownership structure, and location/service area characteristics, such as

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<sup>I</sup> The 2,034 exited properties were located across 1,038 counties. This represents 33 percent of all 3,144 counties in the U.S.

<sup>II</sup> Most exited properties were of an age that is near to or exceeding what would have been their original loan term, and this suggests their mortgages simply matured.

<sup>III</sup> It seems unlikely, however, that 10 percent of prepaid properties received loans after 1990, since legislation in 1989 eliminated prepayment rights for future borrowers. This aspect of the data raises concerns about the date of origin information. To control for this issue in running the regression analysis, the models include only properties with pre-1990 origination dates. The analysis also includes only properties with more than 0 total units and fully locatable street addresses. Addresses are needed to classify property locations as rural and small town (or not) using HAC's geographic approach.

geographic region and rurality. Building off the earlier market area index work in this report, the service area characteristics include demographic, economic, and rental market measures.

The analysis explores whether a property leaves the Section 515 program as a function of owner/property, location, and service area attributes. The relationship is modeled as follows:

$$\text{logit}(p) = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + b_7X_7 + b_8X_8 + b_9X_9 + b_{10}X_{10} + b_{11}X_{11} + b_{12}X_{12} + b_{13}X_{13}$$

logit (p) = exited 2005-2016

X<sub>1</sub> = Nonprofit owner

X<sub>2</sub> = Number of units in property (occupied and vacant) logged base 2

X<sub>3</sub> = Age of property (current age of property)

X<sub>4</sub> = Rural or small-town census tract

X<sub>5</sub> = New England or Mideast region

X<sub>6</sub> = Great Lakes region

X<sub>7</sub> = Plains region

X<sub>8</sub> = Southwest region

X<sub>9</sub> = Rocky Mountain region

X<sub>10</sub> = Far West region

X<sub>11</sub> = Percent Population Change 2000-2015

X<sub>12</sub> = Average Unemployment Rate 2005, 2010, and 2015

X<sub>13</sub> = Average Renter Vacancy Rate 2000, 2010, and 2015

The first three independent variables represent owner/property attributes, the next six represent geographic location attributes, and the remaining three are service area attributes. Because the BEA service area measure has six categories, the model includes five variables for the single measure. The model excludes the Southeast region category/variable, which represents the reference group when interpreting the results for the other five variables.<sup>1</sup>

The dearth of owner and property data for projects that left the program was a substantial limitation to analysis. The model, as a result, does not include potentially important owner/property characteristics such as vacancy rates, tenant composition, and use of professional management. This problem may be ameliorated over time as the USDA begins making more Section 515 program data publicly available.

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<sup>1</sup> For example, an odds ratio of 1.25 for the Far West region variable would indicate the odds of leaving are 25 percent greater for a property located in the Far West region in comparison to one in the Southeast region. All model results for BEA region variables are in reference to the Southeast region.

## Results

The analyses were performed in a step-wise fashion. Each step adds in another element: first – owner/property attributes (A); second – location measures (B); and third – service area characteristics (C).

The final results are presented in the form of odds ratios for ease of interpretation. See Table 2. An odds ratio of less than one refers to a decrease in the likelihood of leaving the program and an odds ratio above one refers to an increase in the likelihood of exiting. Statistical significance is shown at the .05 (\*\*) and .001 (\*\*\*) levels. The model, given its limited number of measures and cases, is primarily focused on identifying statistically significant characteristics that can then be explored more closely, particularly those related to owner and service area attributes, as more data become widely available.

This initial model includes only the three owner/property attributes. The chi-square test finds that the model is statistically significant, meaning the relationships identified between the dependent and independent variables are unlikely to have occurred by chance. The analysis explores 10,531 properties. All three measures have a statistically significant relationship with exiting the program. Nonprofit ownerships have a negative association with leaving the program in comparison to for-profit owners as did total number of units (occupied and vacant). Specifically, the odds of leaving the Section 515 program for a nonprofit-owned property were 24 percent less than the odds associated with a for-profit owned property. Age of property, on the other hand, has a positive association with prepayment. A one-year increase in the age of a property is associated with a 12 percent increase in the odds of prepayment. It logically follows that older properties are more likely to leave the program, because a property's loans are more likely to mature with age and properties built during earlier periods are subject to less restrictive prepayment rules.

**Table 2. Section 515 Logistic Regression Model Odds-Ratio**

Variables	Dependent Variable 1 = All leaving properties and 0 = Active Properties - Stepwise		
	1A	1B	1C
Non-Profit	0.86**	0.72***	0.72***
Total Number of Units Logged(Base2)	0.49***	0.55***	0.55***
Age of Property	1.08***	1.07***	1.07***
Rural and Small Town		0.89	0.94
BEA Region: New England & Mid East		1.01	1.04
BEA Region: Great Lakes		1.46***	1.61***
BEA Region: Plains		2.39***	2.34***
BEA Region: South West		1.35**	1.22
BEA Region: Rocky Mountain		0.93	0.87
BEA Region: Far West		1.03	1.15
Percent Population Change 2000 to 2015			1.01**
Average Unemployment Rate (2005, 2010 & 2015)			0.95**
Average Rental Vacancy Rate (2000, 2010, 2015)			1.04***
Constant	0.277	0.189	0.175
Number of Observations	10,531	10,531	10,531
Pseudo R <sup>2</sup>	10.2%	11.6%	12.0%
Prog>ch <sup>2</sup>	0.000	0.000	0.000

Another way to present logistic regression results is in terms of probability. The approach estimates, for an “average case,” the probability of the dependent measure occurring – in this instance, leaving the Section 515 program – for different values of a variable of interest. In more general terms, the idea is to see how the probability varies for different values of an important characteristic. An “average case” refers to all other variables being set to either their mean/average values or their most common occurrence. For this analysis, average refers to mean values for continuous variables such as age, and the most common occurrence for categorical variables such as geographic region.

For the average Section 515 property, the model estimates that nonprofit ownership is associated with a 2 percentage-point reduction in the probability of leaving the program – 8.07 percent for for-profit and 5.92 percent for nonprofit. The difference, while statistically significant, is relatively small. A similarly small impact can be observed when looking at the association between leaving and service area population change. Going from the 25<sup>th</sup> to the 75<sup>th</sup> percentile values of percent population change, for the average case, results in an increase in the probability of leaving the program of just 0.6 percentage points (7.6 to 8.3 percent). Even for properties located in counties with the most population change, such as the 90<sup>th</sup> percentile and 27 percent increase, the probability is only 8.9 percent.

#### Nonprofit Owners are Less Likely to Leave

The analysis suggest that the type of owner has some importance for decisions about leaving the program. Properties owned by nonprofits are associated with decreased odds of leaving the program, presumably because owners driven more by mission than by maximizing economic value would be more likely to continue providing housing to low-income tenants. While the actual difference in probabilities based on nonprofit ownership status is not large, the differences could be of great importance in the future, given that the percentage of Section 515 properties owned by nonprofits is higher for properties built during the program’s early years.<sup>1</sup> This could be because nonprofits have been purchasing these properties from the original owners or it could be for other reasons.

The analysis would be greatly bolstered by more owner information, particularly whether the property owner had more than one property or used a professional management service for operation. The analysis suggests that ownership type is associated with leaving the program, but it is no doubt nuanced; for example, a for-profit mom-and-pop-owned single property is likely operated differently than a multi-property portfolio. In addition, properties could have changed hands over the years but there was no data available on changes in owner characteristics. More data would help to better understand the nuances of these relationships.

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<sup>1</sup> For the 530 properties built from 1964 to 1974, nonprofits own 73 percent compared to just 12 percent of the 2,139 properties built during the 1994 to 2004 period. There were 385 nonprofit-owned properties from the 1964 to 1974 period and 246 during the 1994 to 2004 period.

### Small Size Properties are More Likely to Leave

Property size's negative association with the odds of leaving the Section 515 program is potentially consequential, particularly for certain communities. While there are only 133 active properties with four or fewer units (both occupied and vacant), in 47 counties a quarter or more of the USDA properties have four or fewer units. These are sparsely populated rural areas with a median county population of 8,458 compared to 26,942 for all other counties with at least one active property.

It could be argued that these findings point towards focusing on preserving these small properties in sparsely populated counties, since they represent both an elevated risk of leaving the program and a large portion of the USDA Section 515 properties serving those rural communities. On the other hand, preserving these properties can be expensive, and it might be more cost-effective to save the same number of units by preserving fewer but larger properties, albeit not in the same locations. As more data becomes available it will be helpful to see if the total number of occupied units is a better predictor of likelihood of leaving the program. That type of information would be helpful in designing the most efficient way to address leaving properties.

### "Where and When" Matters for Exit Decision-making

Properties located in the Plains region were associated with a large increase in the odds of exiting. Given that most of the early Section 515 activity occurred in the Plains region, it is to be expected that many of the properties now leaving the program are from that region. While these occurrences may reflect some special characteristics associated with developers in the region, or the region itself, that are excluded from this analysis, the geographic distribution of exiting properties most likely reflects owners accessing the program and how that varied over time. The Section 515 program was initially heavily subscribed in the Great Lakes and Plains regions and has over time expanded more into the Southeast, Southwest, and Far West regions. Each area differs from the others and any policy meant to maintain properties/units will need to adapt over time to meet these varying conditions. For example, initial efforts might be preserving smaller properties primarily owned by nonprofits in the Plains region but over time might move on to larger size properties primarily in the Southeast, Southwest, and Far West regions which are primarily owned by for-profit entities and serve families.

### Market Characteristics Have an Impact

The service area characteristics were important in some cases but not others, and the actual associations, as measured by changes in probability, were not large. Growing market populations were associated with increased odds of a property leaving the program, while increases in unemployment rates were associated with a decrease in odds of leaving. The relationships were not positive at the extremes as one might expect if, for example, both a large decline and large increase in population were enticements to leave. In general terms, poor economic and demographic conditions serve as an incentive to stay in the program rather than to leave. These findings suggest that property owners in areas experiencing the

most need for assistance might be more willing to continue providing affordable housing given continued program support.

#### Better Data Are Needed

The data available, and therefore the analyses, on the Section 515 properties that exited the program are incomplete. Many structural factors and ownership characteristics remain unaccounted for but would be needed to draw conclusions with a high degree of confidence. While a factor may appear important in this analysis, it could be that an intervening characteristic is really at work. As more detailed data are made available on the program, it should be possible to better model the relationship. Better data along with regular analysis should only improve the understanding of maturing and exiting Section 515 loans and what that portends for the portfolio in the future.



# 3. EXPERT AND STAKEHOLDER INPUT

**RENTAL HOUSING FOR A 21ST CENTURY RURAL AMERICA**  
*A Platform for Preservation*

## SECTION 3. EXPERT AND STAKEHOLDER INPUT ON RURAL MULTI-FAMILY PRESERVATION

Nationally, there is a vibrant and robust community of practitioners, experts, and other stakeholders with unparalleled expertise on USDA's rental housing stock and broader issues related to rural rental housing. To provide context for the quantitative data analyses and additional information about the on-the-ground opportunities and challenges facing USDA's Section 515 portfolio, the research convened or participated in four roundtable discussions with over 66 stakeholder organizations, and also reviewed comments and recommendations offered at a variety of forums over several years involving preservation efforts. Invitees at these sessions represented a spectrum of local and regional nonprofits and for-profit owners, national organizations, and state government agencies, as well as USDA.

The roundtables were:

- March 14, 2016, Washington, DC, Discussing Maturing Mortgages (15 attendees);
- October 4, 2016 in Washington, DC, day-long symposium on Section 515 Preservation convened by the National Rural Housing Coalition for its board members (62 attendees);
- November 29, 2016, Washington, DC, at the HAC 2016 National Rural Housing Conference (67 attendees); and
- January 25, 2017, Sarasota, FL, at the Council for Rural and Affordable Housing midyear meeting.

A summary of the stakeholders' comments is presented here. These remarks apply specifically to rural rental housing preservation. They do not include broader subjects involving overarching changes to the U.S. housing finance system, such as restructuring Fannie Mae and Freddie Mac, although such changes could well impact rural rental preservation. Not all comments were endorsed by all stakeholders.

It is important to note that, while the costs of implementing specific suggestions would vary widely, there is no doubt that preserving USDA's rental housing stock will be expensive. Section 515 tenants have very few resources, and Section 515 buildings are, on the whole, aged and in need of updates.

### Table 3. Entities Represented in Stakeholder Conversations

AFGE Local 3354, Missouri	National Housing Trust, Washington, DC
Austin Stone, LLC, Texas	National Low Income Housing Coalition, Washington, DC
Brazos Valley Affordable Housing Corporation, Texas	National Rural Housing Coalition, Washington, DC
Casa of Oregon	Native Partnership for Housing, New Mexico
Catholic Charities Housing Services, Washington	NCALL Research, Inc., Delaware
Coachella Valley Housing Development Corporation, California	NeighborWorks America, Washington, DC
Coalition on Homelessness and Housing in Ohio	NeighborWorks Sacramento, California
Council on Rural and Affordable Housing, Virginia	NeighborWorks Umpqua, Oregon
Coastal Enterprises, Inc., Maine	Network for Oregon Affordable Housing
Community Housing Improvement Program, California	Nixon Peabody, Washington, DC
Community Housing Partners, Virginia	Northwest Kansas Planning and Development Commission
Community Resources and Housing Development Corporation, Colorado	Northwest Regional Housing Authority, Arkansas
Douglas-Cherokee Economic Authority, Tennessee	Office of Rural and Farmworker Housing, Washington
Effingham Regional Growth Alliance, Illinois	Pathfinder Services, Indiana
Enterprise Community Partners, Maryland	PathStone, New York
Fahe, Kentucky	Peoples' Self-Help Housing, California
Fannie Mae, Washington, DC	Rental Housing Information Network in Ohio
Federal Reserve Board, Washington, DC	Rural Housing Preservation Associates, Virginia
Florida Non-Profit Housing	Rural Community Assistance Corporation, California
Freddie Mac, Virginia	Rural LISC, Washington, DC
Greystone Affordable Housing Initiatives, North Carolina	Self-Help Enterprises, California
Homes in Partnership, Inc., Florida	Self-Help Homes, Utah
Housing Assistance Council, Washington, DC	Self-Help Housing Corporation of Hawaii
Housing Justice Center, Minnesota	South County Housing, California
Kentucky Housing Corporation	Southeast Rural Community Assistance Project, Virginia
Milford Housing Development Corporation, Delaware	Southwest Minnesota Housing Partnership
Minnesota Housing Finance Agency	Stewards of Affordable Housing for the Future, Washington, DC
Motivation Education & Training, Inc., Texas	TM Associates, Maryland
National Affordable Housing Management Association, Washington, DC	USDA Rural Development/Rural Housing Service, Washington, DC
National Council of State Housing Agencies, Washington, DC	USDA Rural Development, Virginia
National Development Council, New York	USDA Rural Development, Washington
National Housing Conference, Washington, DC	Washington State Housing Finance Commission
National Housing Law Project, San Francisco, California	Wishrock, Washington, DC
	Wyoming Community Development Authority

## Stakeholders Offered Many Preservation Suggestions

### Financing Availability is Essential for Preservation

Not surprisingly, the availability of cost-effective financing – or its absence – was the topic most often raised by stakeholders. They discussed numerous sources for both equity and debt. Some, like Low Income Housing Tax Credits and USDA’s Section 515 and MPR programs, are considered separately in this report.

Stakeholders described their use of a wide variety of other federal programs for rural rental housing preservation. These included HUD’s HOME and Community Development Block Grants and the Federal Home Loan Banks’ Affordable Housing Program. Several hoped to use the National Housing Trust Fund in the future, and at least one Community Development Financial Institution planned to try using the Capital Magnet Fund for preservation. A representative from a statewide nonprofit organization believed HUD’s small building risk sharing initiative showed promise as a preservation resource. (HUD has now tabled that initiative indefinitely.)

USDA resources often used, in addition to the preservation-specific programs, included the Section 538 loan guarantee program. Stakeholders did note that because Section 538 loans are at market rates, properties using those resources generally serve tenants with somewhat higher incomes than properties with subsidized financing. Those who had used Preservation Revolving Loan Fund (PRLF) loans found them helpful. In Minnesota, for example, PRLF loans have helped preserve 23 properties within a period of a few years. Congress has never authorized PRLF, however, and has not appropriated new funds for several years.

One stakeholder with extensive rural preservation experience was unaware that USDA’s Community Facilities programs and the Business and Industry guarantee program could be used for preservation, and expressed interest in learning more about those resources.

For all financing sources, stakeholders encouraged providers to be flexible in order to make deals work. They appreciated USDA’s willingness to subordinate Section 515 and 538 loans, and hoped private lenders would also subordinate their debt when needed. They hoped private involvement would be further enhanced by the Duty to Serve regulations applicable to Fannie Mae and Freddie Mac.

Numerous state and local programs were also described as valuable. State housing trust funds were specifically mentioned, as were multi-family bond programs in Tennessee and other states. At least one stakeholder had found bond transactions to be expensive, difficult, and time consuming, and workable only if five or six properties could be combined into a portfolio.

Stakeholders supported efforts in Oregon and Minnesota, where state and local housing agencies worked with for-profit and nonprofit developers to create helpful statewide collaborative preservation initiatives for both USDA and HUD properties.

## Preservation Relies Heavily on Low Income Housing Tax Credits

Stakeholders of all types – for-profit property owners, nonprofits, tenant advocates, and others – emphasized that, in the current federal spending climate, the Low Income Housing Tax Credit (LIHTC) program is essential for large-scale preservation of rural rental housing. As appropriations become increasingly limited, LIHTC can only become even more important.

Stakeholders were not devoted to the tax credit program per se. They are well aware of the additional costs of using tax credits and ensuring that properties meet tax credit regulations along with the rules of other funding sources. They know, too, that economic forces can reduce the availability and value of tax credits, as the Great Recession did, and that federal tax reform efforts could have a similar and more lasting impact on the program. They focus on LIHTC simply because it has become the major source of financing for affordable rental housing. If they could obtain, for example, Section 515 loans at 1 percent interest, tax credit equity would become far less attractive.

Stakeholders appreciated that California and other states have set aside LIHTCs for preservation. They stated that, while 4 percent tax credits are helpful, 9 percent credits are extremely useful. Nine percent credits are more difficult to obtain, however – they are limited and competition is fierce.

A staff person from a regional nonprofit organization with considerable rural preservation experience explained a link between the availability of Rental Assistance and the use of tax credits. In many rural places, rents affordable to low-income tenants are not high enough to support the debt needed to purchase and renovate a property. To make a deal feasible, a preservation owner needs either higher rents or more equity and less debt (or both). When Rental Assistance is available, it can supplement the rents the tenants can afford. When it is not, tax credits can provide equity. In this stakeholder's experience, however, USDA projects need a basis boost so owners can qualify for more tax credits and thus more equity.

Other improvements were suggested as well. State agencies could dedicate credits, particularly 9 percent credits, to preservation. Stakeholders supported bills that were introduced in the 114<sup>th</sup> Congress (2015-2016) to increase tax credits' availability and to improve the program.

## Rental Assistance is a Useful Incentive

Section 521 USDA Rental Assistance is another critical tool in rental preservation efforts because Rental Assistance contracts provide relatively reliable income that enables property owners to cover operating costs. Stakeholders reported that when a property does not have any Rental Assistance it is difficult to attract funding from other sources but, when 80-100 percent of a property's units have Rental Assistance, finding funds is rarely difficult. Stakeholders recognized that Rental Assistance's increasing costs concern some in

the Administration and Congress, but all agreed that USDA should use all available Rental Assistance funds to help preserve multi-family properties.

Because data on Rental Assistance use is not publicly available, stakeholders have not been sure where Section 521 units have been relocated or which remain available. USDA has challenged stakeholders' estimates regarding recent use of Rental Assistance units and the number of units that may be available for preservation purposes. USDA is adamant that it has not retired Rental Assistance units, but stakeholders would like to be able to do their own calculations. Their concerns may be based on experience with an Unnumbered Letter dated May 18, 2011, titled "Dynamic Servicing Strategies for the Multi-Family Housing Direct Loan Portfolio," which asserted that Rental Assistance from properties leaving the portfolio would be recaptured and retired in order to save money. Before 2011, USDA Rural Development State Offices had reallocated Rental Assistance units from properties that prepaid or otherwise left the portfolio. Stakeholders hoped to see that policy explicitly reinstated and to be able to measure its results themselves.

Stakeholders wanted to see Rental Assistance used as an incentive to keep properties in the program, as well as to draw new owners to preserve at-risk properties. At one time, annual appropriations laws set aside specific amounts of Rental Assistance to be offered as incentives to owners seeking to leave the portfolio. While these setasides have not been enacted in the last several years, USDA does have the authority to provide Rental Assistance as an incentive for a remaining owner or for a new purchaser.

Some stakeholders supported legislation introduced in Congress in 2016 that would have decoupled Rental Assistance from Section 515 mortgages. Under this proposal, when a mortgage matured the property would not lose its Rental Assistance. Other stakeholders preferred to identify ways to keep properties in USDA's portfolio, so they would retain Rental Assistance and the structure of USDA's multi-family programs would not be affected.

### **USDA Vouchers Protect Tenants and Could Be Improved**

Stakeholders appreciated the role the Rural Development Voucher Program plays in protecting tenants when a property leaves the portfolio. They offered a number of suggestions for improving the program. Some of these changes would require legislation, while others could be handled within USDA's existing authority.

First, stakeholders hoped the voucher utilization rate could be increased. USDA staff have reported that about 65 percent of tenants who are eligible for vouchers receive them, but that the agency does not know why the utilization rate is relatively low. To encourage tenants to take advantage of this opportunity, stakeholders suggested sending notices to tenants early, but not so early that tenants panic. They believed it would be helpful if owners were required to send notices in addition to those from the agency. Notices should also be written in plain English, they said, and translated into other languages where needed.

Second, stakeholders believed the agency could follow HUD's Housing Choice Voucher regulations more closely. In appropriations legislation, Congress has consistently required that USDA "shall, to the maximum extent practicable, administer such vouchers with current regulations and administrative guidance applicable to Section 8 housing vouchers administered by" HUD.

Following HUD regulations would, for example, alleviate a concern about adjustments of voucher payment amounts. Annual appropriations laws have stated consistently that "the amount of [any] such voucher shall be the difference between comparable market rent for the Section 515 unit and the tenant paid rent for such unit." USDA has not established a way to recalculate this amount periodically, so the voucher amount is never changed. Annual adjustments for inflation would be useful, and recalculations are especially needed when a tenant household's income changes. As one stakeholder explained, if an elderly couple dependent on Social Security income receives a voucher, the amount is not adjusted if one person dies and the other then receives half the previous income. In essence, then, that tenant's rent doubles after the spouse dies.

Stakeholders also supported extending eligibility for vouchers to tenants in properties where mortgages mature or are foreclosed. This would require Congress to change the statutory language.

Congress could enact additional tenant protection, some stakeholders noted, by requiring property owners to allow tenants with vouchers to remain in their homes. Under current law, even when a tenant is entitled to a voucher they are not entitled to continue living in their unit, or even in the same property.

Stakeholders strongly supported congressional action to provide permanent statutory authorization for the voucher program as well as increased appropriations. In some recent years USDA has had to use MPR funding to fill shortfalls in voucher resources. That reduces MPR's ability to preserve properties.

Because of the program's limited resources, stakeholders believed it was not appropriate to issue vouchers for tenants in properties where USDA allows owners to prepay with use restrictions. Providing vouchers in this situation gives owners an incentive to prepay their mortgages. If there were ample voucher funds, this might not be a problem, but there are not.

Another problem caused by insufficient funding could arise under USDA's prepayment regulations, which allow use restrictions to be removed if tenant assistance is unavailable.<sup>18</sup> Stakeholders stated that it is not fair to make the tenants suffer the consequences of underfunding the voucher program. At least one stakeholder believes a legal argument can be made that this regulatory provision contradicts the Emergency Low-Income Housing and Preservation Act (ELIHPA).

Finally, stakeholders expressed concerns about vouchers' inability to preserve affordable units within specific communities in the long term. While the vouchers do protect the

tenants who receive them, when those tenants move – whether they use their vouchers elsewhere or not – their units are no longer affordable to others at the same income levels.

### **Information, Data, and Communication Should be Shared**

Stakeholders repeatedly noted the need for easily available data and information, as well as communication among all potential preservation partners. Information, data, and communication help interested buyers to connect with interested sellers; current owners and potential buyers to understand their options; outside funders and others to see successes and best practices; advocates to monitor achievements; and policymakers to allocate resources.

Stakeholders appreciated the information that is already available, and USDA's efforts in the last few years to provide more. They agreed that additional funds are needed to help USDA obtain technology and staffing related to the collection and dissemination of information and data. Those funds could be appropriated by Congress, they suggested, or – perhaps more realistically – obtained by assessing fees on preservation purchases.

There was some disagreement or confusion about what types of information are already available about USDA's multi-family portfolio. Participants in at least one discussion said that, using the databases already available online, they were not able to find sufficient information about properties currently in USDA's portfolio. In order to identify properties to preserve, they wanted to have access to detailed information on individual properties in a single place online. They hoped to identify what owners want to leave the program and the characteristics of their properties in order to pinpoint at-risk properties by identifying projects with enough units to use Low Income Housing Tax Credits, projects with Section 8 vouchers (which are easier to prepay because they are more attractive to purchasers), and owners that have the capacity to refinance their own projects. They requested owner identity and contact information, rent information, the amount of each mortgage payment, the number of payments remaining, whether the owner had requested prepayment approval, when mortgage(s) would mature, and more. They expected that proprietary information, such as owners' Social Security numbers, would be omitted. It would also be necessary, they said, for information to be carefully checked so that, for example, USDA Rural Development State Offices and the National Office would agree on a single set of data about each property.

Stakeholders liked the idea behind USDA's PIX system, which offers a database with information about properties whose owners have applied to prepay their USDA mortgages. They said it was not regularly updated, however, and therefore was not reliable. Also, because some USDA RD State Offices continue to send information by mail, they were not sure whether all prepayment requests were entered in PIX.

USDA could also facilitate stakeholders sharing information with each other. Buyer-seller conferences, which USDA has arranged in the past, were useful, stakeholders said. They would also appreciate meetings to swap best practices. They encouraged the agency to

provide information, in meetings or online, about what has worked to preserve properties of various types and sizes in various situations.

Finally, to understand the situation of USDA's portfolio in order to analyze it and advocate for tenants or owners, stakeholders requested more detailed data than is currently available about not only the number of tenants USDA's programs serve, but also the funding amount needed to fully renew existing Rental Assistance, the number of Rental Assistance units retired, and the number of properties at risk of being removed from the portfolio for various reasons. Information on what properties have left the program, and why, would be useful. It would be helpful to know what happened to tenants who moved out of properties when (or just before) they left the portfolio. If stakeholders could obtain a list of properties whose mortgages matured recently, perhaps in the past two years, they could conduct additional research on those.

### **Incentives Help Keep Owners in the Program**

Many stakeholder comments focused on making preservation transfers feasible, particularly for nonprofit purchasers, but all stakeholders also recognized the importance of keeping current owners in the affordable housing business when possible. To this end, they emphasized the importance of offering incentives to owners. For example, USDA has the authority to add RA to a project in exchange for 20-year use restrictions. It can also increase return to owner on an annual basis or fund an equity loan from USDA itself or from a third-party source.

### **Nonprofit Organizations Suggest Changes**

Nonprofit entities are well positioned to preserve affordable rentals. Stakeholders expressed concern, however, about ways in which USDA's preservation process treats nonprofits differently from for-profits. They were pleased to see return on investment (ROI) for nonprofits included in the pilot program announced in the Unnumbered Letter of September 16, 2016<sup>19</sup> and would like to see limited partnerships with nonprofit general partners, as well as housing authorities, be eligible for the pilot.

Stakeholders, particularly nonprofit organizations and those who work with them, expressed disappointment at the change in USDA's interpretation of the asset management fees it pays to nonprofits. They stated that a cap of \$7,500 per nonprofit owner is far too low for organizations that own more than one property, and hoped USDA would return to its previous practice of setting a per-project rate.

### **Technical Assistance Would be Valuable**

Noting the complexity of preservation transactions and the fact that many owners who would like to preserve or transfer their properties are not skilled developers or managers, some stakeholders stated their belief that knowledgeable help could enable preservation of many units that would otherwise be lost. They suggested creation of a preservation technical assistance (TA) program, perhaps modeled on the Section 523 self-help technical

assistance program. The final omnibus appropriations bill for fiscal year 2017 did include \$1 million for preservation TA.

### **The Multi-Family Preservation and Revitalization Program Could be Simplified**

All stakeholders agreed that USDA's Multi-Family Preservation and Revitalization Program (MPR) has been valuable in preservation efforts. They suggested that USDA could make it even more helpful by simplifying the MPR application process and making full use of all MPR tools. While stakeholders understand the emphasis on debt deferral because it is a low-cost MPR tool, preservation of some properties requires use of the more costly tools such as soft loans, loan forgiveness, and grants. They also hoped the program would receive more funding in the future, and would be permanently authorized legislatively.

### **Section 515 Can Preserve Properties as Well as Finance New Buildings**

Stakeholders were also unanimous in their support for the Section 515 program. The generous terms of Section 515 loans, particularly their low interest rates, made possible the production of hundreds of thousands of affordable rental units over several decades. These loans can be valuable for preserving existing units as well as producing new ones.

Stakeholders support continued use of Section 515 to make subsequent loans to current borrowers or to purchasers who are assuming existing loans. In addition, they encouraged continuing to subordinate Section 515 loans in order to attract other lenders to preservation deals.

### **Reamortization Keeps Properties Eligible for Rental Assistance**

Reamortization of existing Section 515 mortgages is a low-cost tactic to keep properties in USDA's portfolio and thus keep them eligible for Rental Assistance. Stakeholders strongly supported continued reamortizations – and extensions of mortgage maturity dates – for owners.

### **USDA's Prepayment Process Has Improved**

Stakeholders were grateful for the significant improvements USDA has implemented in its prepayment process over the past several years. Some noted that while USDA RD State Office actions regarding prepayment are far more consistent than they once were, some differences remain and should be eliminated. For example, it would be useful to standardize determinations of impact on minority housing opportunities.

### **Small and Remote Properties May Need Special Treatment**

There are no economies of scale in purchasing, rehabilitating, or operating small developments and those located in remote rural areas, so potential purchasers do not find it cost-effective to preserve them. Yet often the residents of these small, remote communities very much need these homes. Some of these properties, stakeholders suggested, might be candidates for conversion to resident cooperatives, where tenants are

willing to take on the responsibilities of ownership and have incomes high enough to cover the costs of ownership. Others might benefit from legislative and regulatory changes that would permit them to be used for mixed purposes – for example, for family or elderly occupancy, temporary shelter, or assisted living, or combinations of these uses, as needed, subject to fair housing laws.

### **Cost Saving Measures Can be Adopted**

Reducing operating expenses will not, alone, make preservation feasible. Stakeholders believed it was appropriate to consider cost saving changes as preservation tools, however, because anything that makes a property's operations more cost-effective can help its owner to build reserves or help a purchaser to find financing.

There are numerous ways to cut costs without sacrificing program integrity, stakeholders said. For example, it is estimated that 20-30 percent of project operations spending goes to utility costs, so reducing energy costs could have a noticeable impact. It would also be possible to reduce audit requirements, so that small properties with no past audit findings would not have to hire Certified Public Accountants to conduct audits every year.

### **A Comprehensive Preservation Strategy Could Set Goals for Preservation**

While USDA has undertaken many steps in recent years to help preserve its rental portfolio, stakeholders were not aware of any comprehensive strategy guiding its efforts. They believed it would be useful to have such a strategy, with goals for preservation. It should, they suggested, include available tools and resources, and identify alternatives that can be used if the preferred tools are not available. USDA could track metrics to determine whether the strategy's goals are met.

### **Stakeholders Supported Production of New Rural Rental Housing**

Stakeholders stated clearly and repeatedly that a shortage of low-cost financing is the primary barrier to producing new rural affordable housing. They did not expect such financing to become available from the private sector – except through the Low Income Housing Tax Credit – and emphasized that increased federal resources are essential to make new production possible.

Stakeholders also suggested changes to some existing programs. They supported a variety of improvements to the LIHTC program, including fixing 4 percent tax credits at 4 percent. They proposed authorizing Section 538 properties to use Section 521 Rental Assistance. They hoped that more states would provide set-asides in their LIHTC programs for rural housing development, and that the states that already have such set-asides would continue them.

Some stakeholders were surprised to hear that USDA Community Facilities funds could be used for housing-related purposes. They expressed interest in learning more about the

possibilities of financing new housing production and the inclusion of services like health care with Community Facilities funding.

Because the presence of Rental Assistance can determine whether a project succeeds, stakeholders involved in new construction urged USDA to make Rental Assistance available to new construction properties when possible.

Stakeholders appreciated efforts made to date that would help combine funding sources for new construction. They appreciated the federal rental housing alignment effort that started several years ago and hoped it would continue. They also hoped USDA would continue working with them to identify changes needed to help USDA programs work together with modern financing.



# 4. PRESERVATION STRATEGIES AND POLICY RECOMMENDATIONS

RENTAL HOUSING FOR A 21ST CENTURY RURAL AMERICA  
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## SECTION 4. PRESERVATION STRATEGIES AND POLICY RECOMMENDATIONS

USDA's Section 515 mortgages provide a crucial source of good quality, affordable rental homes for lower-income rural residents. The number of available units has dropped in recent years as some owners have chosen to prepay their mortgages and other mortgages have reached the end of their terms. Prepayments and maturing mortgages, as well as the need for owners to obtain new financing for repairs and renovations to their aging buildings, threaten to remove many more units from the supply of affordable rural rentals.

USDA and Congress have taken a number of steps towards preservation, from creation of the Multi-Family Preservation and Revitalization (MPR) program to use of USDA vouchers to improvements in processing time and adoption of a new technical assistance program. HAC's analysis identified potential strategies for additional actions.

Properties are already leaving the portfolio because of maturing mortgages. The study's analyses found that loans are maturing at a slower rate than previously estimated. This finding allows more time to address the issue, but any delays will lead to property losses. Many of the maturing Section 515 loans are eligible for prepayment or early payoff. It is critical to use the time wisely to protect the government's investment in these properties and the rural tenants who live in them.

Strategies to preserve rural rental properties balance on a fine line between aspirations, pragmatic realities, legal and contractual rights, and the possibility for meaningful action. Interested parties may be able to agree on a few principles. For example, the interests of several different parties must be protected, and no one can have everything they want. Similarly, some expense will be incurred, but resources are limited, so priorities must be established. The report and its analyses recognize that USDA Section 515 Multifamily Housing is a public-private partnership, and that there are four key stakeholders and entities within this partnership, including 1) the U.S. Department of Agriculture; 2) owners of Section 515 properties; 3) tenants residing in Section 515 properties; and 4) the public interest created by Section 515 investments and related outlays. The following preservation strategies are presented with these principles and stakeholders in mind.

### Strategies for USDA

USDA Rural Development and the Rural Housing Service are, of course, deeply involved in every aspect of rural rental housing preservation. USDA is the lender and the regulator for the rural rental housing programs, the distributor of Rental Assistance and Section 538 guarantees, and the approver of transferees, appraisals, foreclosures, and numerous other decisions involved in preservation. The research and the input of varied stakeholders surfaced several suggestions for USDA actions.

**Easy-to-use public data would increase transparency.** Improving the ease of use of USDA's public data files could increase program transparency and, through more

thoughtful evaluations by the public and other interested parties, improve the overall understanding of how the program will evolve over time as loans mature. For example, user access would be greatly enhanced by establishing a single, unique identifier for each property that links all information, regardless of the year or underlying circumstances, such as a change in owner or loan terms.

**Improved accuracy of the public data is critical to make informed decisions.** The usefulness of USDA's data could be expanded by increasing data scrutiny. In several cases the data include multiple measures to capture similar information, so a comparison of the measures could be used to troubleshoot problems before they arise and limit confusion.

**USDA could help stakeholders learn more about the possible preservation uses of USDA's Community Facilities programs and the Business and Industry guarantee program.** Numerous stakeholders were unaware that non-housing Rural Development programs could be used for housing preservation. USDA could help by making field office and state office staff aware of all possibilities and including this information in notifications to owners and on its website.

**USDA could provide or support for an exchange where stakeholders can share information with each other.** These could include buyer-seller conferences, which USDA has arranged in the past, as well as meetings to swap best practices, and others. The regular calls USDA has held with multi-family stakeholders have been appreciated.

**Additional information and data would be useful.** Stakeholders generated a list of information that could help owners, purchasers, and others seeking to preserve rural rental properties:

- what has worked to preserve properties of various types and sizes in various situations;
- what properties leave the program, and why;
- where tenants have moved when leaving properties when (or just before) they left the portfolio, and what impact the change has had on them;
- details on the number of tenants USDA's programs serve, the amount needed to fully renew existing Rental Assistance, the number of Rental Assistance units retired, and the number of properties at risk of being removed from the portfolio;
- regular updates to the PIX system;
- details on individual properties compiled in a single place online (following HUD's example); information could include owner contact information, rent information, the amount of each payment, how many payments remain, whether the owner has requested prepayment approval, when the mortgage(s) will mature, and more, but proprietary and personally identifiable information, such as owners' Social Security numbers, should be omitted; and
- a list of properties whose mortgages have matured in the past few years.

## Strategies for Owners and Purchasers

Preservation is possible only with the help of Section 515 property owners and/or entities that may wish to purchase these properties. All owners and purchasers could benefit from process improvement strategies, while other strategies must take account of their differing circumstances. Some owners with loans made before late 1989 have successfully sued for damages caused by retroactive prepayment limitations, while others have worked within the constraints of the prepayment statute. For instance, this study found that nonprofit owners were less likely to prepay than others. Nonprofits, along with mission-driven for-profits, have also been important preservation purchasers.

**Incentives help to keep owners in the Section 515 program.** When a property owner applies for prepayment, USDA offers incentives to keep the property in USDA's portfolio. For example, USDA has the authority to add Rental Assistance to a project in exchange for 20-year use restrictions. It can also increase return to owner on an annual basis or fund an equity loan from USDA or a third-party source. This use of incentives will continue to be important for preservation efforts.

**The new preservation technical assistance program seems promising.** USDA's fiscal year 2017 appropriation included \$1 million for grants to intermediary organizations that will provide technical assistance to facilitate acquisition of USDA rental properties.<sup>20</sup> This aid should be useful to property owners and purchasers attempting to navigate complex transactions needed for rural rental preservation. In fact, stakeholders contended the need for technical assistance is so great that, if funding from this program is not sufficient, it would be appropriate to use funding from Section 515 or MPR for this purpose.

**Simpler processes would make preservation easier.** Stakeholders suggested that USDA could simplify the MPR application process, and that state and local governments could make bond transactions easier. Statewide collaborative preservation initiatives have helped make preservation feasible as well. Stakeholders familiar with preservation work in Minnesota and Oregon described collaborations created by state and local housing agencies in those states. By combining resources, coordinating application deadlines, reducing duplication in applications, and working closely with property owners and purchasers, the government agencies substantially improved their residents' abilities to preserve rural rental housing.

**Reductions in operating costs would also help make preservation more feasible.** While savings in operating costs might not be substantial, they could be large enough to be helpful. Stakeholders suggested, for example, that reducing energy costs could have a noticeable impact. Audit requirements could also be reduced so that small properties with no past audit findings would not have to hire Certified Public Accountants to conduct audits every year.

**Tax code changes may impact the Low Income Housing Tax Credit.** Changes in the tax code can impact the operation or value of the housing tax credit. To support preservation

and production in both urban and rural places, tax reform should maintain the credit and its value to investors. Bills have also been introduced in Congress that would make changes intended to improve the program.

**Revisions in state LIHTC programs could better assist rental preservation with 9 percent credits.** Some state administering agencies have set aside portions of their housing tax credits for rural preservation efforts, with excellent results. Other states could adopt similar policies, as well as other changes that would assist rural rental owners and purchasers.

**USDA helps borrowers by continuing to provide information ahead of mortgage maturity.** In an effort to keep more properties in the portfolio, USDA has instructed its field offices to review accounts that are within 36 months of loan maturity. USDA will notify these borrowers of their options. One of the options is to continue the loan for up to an additional 20 years beyond the current maturity date which would allow Rental Assistance to continue. Currently this effort addresses only properties expected to mature through the calendar year 2019.

## **Strategies for Tenants**

Data analyzed in this report make clear the significant need for decent, affordable rental housing in rural America. Preservation of existing units is particularly important because production of new units is not keeping pace with the demand. The vast majority of tenants in the existing Section 515 units are highly vulnerable: seniors, persons with disabilities living on fixed incomes, and single-parent families with children. Furthermore, rural areas and small towns usually have few affordable rental units available, and there is no guarantee that the owners of the available units will accept vouchers.

This does not mean that every Section 515 building is essential. In some small towns and rural areas, population decline has left structures unoccupied. In others, affordable housing is needed but booming economies make preservation extremely expensive. HAC's research findings point to some strategies for prioritizing places and properties for preservation.

**Factors used to establish high priorities could include the following.**

- Market characteristics – 12 percent of Section 515 maturing mortgage properties, containing over 48,000 occupied units, are in high-risk markets;
- Significance to community – in 250 counties across 36 states, Section 515 properties represent one out of every five rental units, and in 330 counties, Section 515 properties contain over half of all project-based, subsidized units available;
- Level of need – over 5,400 Section 515 properties are in counties where more than half of all rental units are cost-burdened, and 1,906 Section 515 properties containing 56,377 occupied units are in 360 of the nation's persistent poverty counties.

- Impact on primarily minority communities – 40 percent of Section 515 properties are in the Southeast region where nine out of ten rural and small town African Americans live, and they represent nearly half of all Section 515 tenants.

**USDA rural vouchers could help more tenants.** USDA vouchers are available only to tenants in properties whose loans have been prepaid after September 30, 2005. Appropriations bills have proposed language to expand the program to include tenants affected by mortgage maturities and foreclosures, but the provisions have not been adopted by Congress.

**It should also be noted that voucher funding needs will continue to increase.** The number of vouchers grows every year, as the majority of voucher holders renew them and additional vouchers are issued.

**Improved communication could increase the voucher utilization rate.** Despite the growing use of voucher funding, many eligible tenants are not receiving them. There is no data on what has happened to tenants who have moved out of prepaid properties without vouchers, but given the nationwide shortage of affordable homes and rental aid – nationwide only one in four very low-income renters receives some kind of rental assistance<sup>21</sup> – one might assume that not all of them have found good housing. Stakeholders suggested that USDA and owners could send notices to tenants earlier than currently required; add notices from owners to those from the agency; and ensure that notices are written in plain English, and are translated into other languages where needed.

**Voucher payment amounts may need adjustments.** USDA has no process to adjust a voucher's amount after issuance, and statutory language has not directly required creation of such a process. In contrast, if a tenant with a HUD Housing Choice Voucher moves to a more expensive area, or if the tenant's income changes, the voucher amount is adjusted at an annual review. HUD vouchers are also adjusted for inflation.

**A standardized methodology could align determinations of impact on minority housing opportunities.** USDA Rural Development State Offices do not use a single common process and clear standards to determine whether a prepayment will have a material impact on minority housing opportunities.

**Preserving small and remotely located properties may be difficult but desirable when those rental units are needed in their communities.** Stakeholders suggested that USDA explore ways to preserve small and remote properties. For example, in cases where tenants are willing to take on the responsibilities of ownership and have incomes high enough to cover ownership's costs, conversion to resident cooperatives might be possible. Other such properties might be preserved if mixed uses were permitted.

## Strategies for the Public Interest

Beyond the parties involved in the Section 515 program, broader public interests are implicated in preservation decisions. Rural residents benefit when their neighbors, relatives, and coworkers have decent, affordable homes. Taxpayers are best served when public funds are used in the most efficient way possible. Private lenders benefit when they can participate in housing efforts, and other parties are aided by their involvement.

**Housing tax credits and USDA’s Section 538 loan guarantee program are useful preservation tools.** By bringing private financing to rural preservation efforts, these programs provide desperately needed resources for owners and purchasers. As previously noted, additional subsidies are usually needed to keep rents as low as the Section 515 and Rental Assistance programs can when combined. In 2016, the average income of Section 515 tenants receiving Section 521 Rental Assistance was only \$10,504 (significantly lower than the \$12,588 for all Section 515 tenants).<sup>22</sup>

**Increased private lender involvement would help meet the great need for preservation resources, and the new Duty to Serve obligations may yield new avenues for private lenders.** The Housing and Economic Recovery Act of 2008 imposed on Fannie Mae and Freddie Mac a “duty to serve” three underserved markets, one of which is affordable housing preservation.<sup>23</sup> Both enterprises included rural rental preservation in their draft plans for meeting their Duty to Serve obligations.<sup>24</sup> Both hope to develop new tools to attract additional lender interest in the future.

**USDA’s subordination of Section 515 and 538 loans is a useful preservation tool.** For property owners or purchasers seeking Section 538 mortgages or loans from other sources, USDA’s willingness to subordinate its debt has been invaluable. Stakeholders understand the risks that subordinating their loans would pose for private lenders, but noted that subordinations can be very helpful for preservation deals.

**Legislation authorizing the Multi-Family Preservation and Revitalization (MPR) program and the Preservation Revolving Loan Fund (PRLF) could add certainty to rural preservation efforts.** Both programs were created as demonstrations in appropriations legislation. They have shown themselves to be useful; stakeholders from several different constituencies noted the efficacy of both programs in preservation efforts.

**USDA’s vouchers cannot replace other preservation efforts.** As important as vouchers are for the tenants who receive them, they do not preserve communities’ affordable rental units. When the tenants with vouchers move – whether they use their vouchers elsewhere or not – the units they leave are no longer affordable to other low-income tenants. Therefore, while vouchers are important, they cannot take the place of other preservation efforts.

**State and local governments can help by funding state and local housing resources, including state housing trust funds and multi-family bond programs.** Even if federal programs are fully funded, any affordable housing activity requires funds from multiple sources. Rural housing developers and owners working in states that finance preservation-related transactions have found those resources invaluable.

## **Cross-Cutting Strategies**

Perhaps every preservation strategy cuts across stakeholder groups, simply because preservation has many impacts. Addressing Section 521 Rental Assistance is certainly cross-cutting, if only because Rental Assistance has proved integral to so many preservation deals.

**Reamortizing aging Section 515 loans is a significant preservation strategy.** Owners are not required to accept reamortization when USDA offers it, but extending payments on an existing loan into the future keeps the Section 515 loan in place, thus continuing the property's eligibility for Rental Assistance. For projects where all or most of the units have Rental Assistance contracts, maintaining that aid may be sufficient to preserve the property. Others may need subsequent Section 515 loans or additional debt or equity financing from other sources.

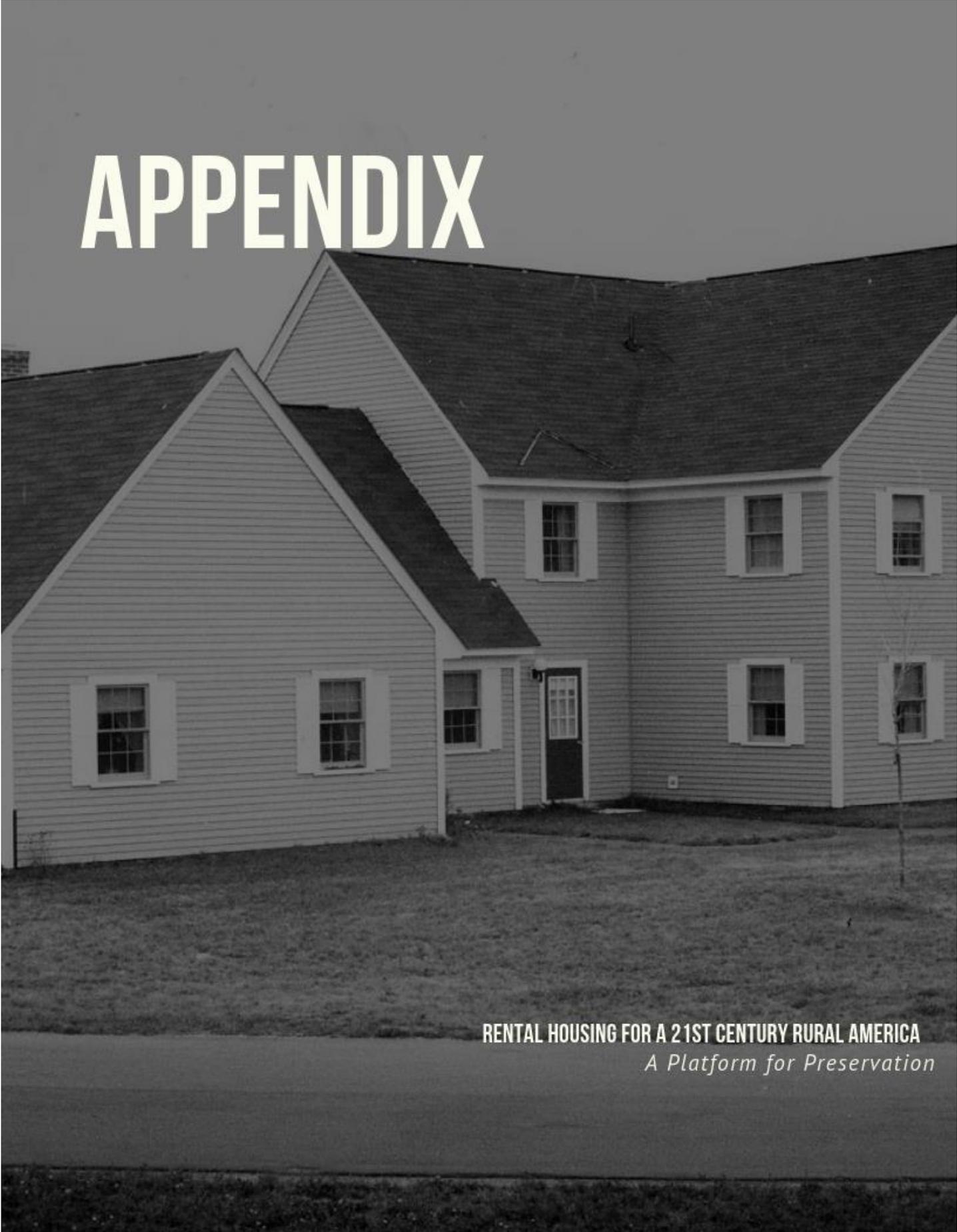
**Adding new Rental Assistance units to a property can provide important aid to keep properties in the program.** USDA has used Rental Assistance contracts as incentives for owners who have applied to prepay and as part of financing packages for purchasers, when Congress has specifically instructed it to do so and has designated a portion of Rental Assistance appropriations for preservation purposes. Stakeholders believe USDA has the authority to move unused Section 521 Rental Assistance contracts to units that have not had them in the past, even without specific instructions in appropriations laws, but has chosen not to use that authority. Clarification from Congress on this point might be useful.

**The concept of “decoupling” has both proponents and detractors.** Some stakeholders recommended that Congress and the Administration should decouple Rental Assistance from Section 515 mortgages, so that when a mortgage matures the property will not lose its RA. “Decoupling” Rental Assistance from USDA mortgages means removing the statutory connection between Section 521 and Section 515 (and Section 514 farmworker housing loans), so that Rental Assistance could continue after a USDA mortgage is prepaid or paid off. Stakeholders do not all agree on this suggestion, however. Those who supported the idea argued that RA would be invaluable to help owners continue offering affordable housing, in a way that rural vouchers cannot because they are tenant-based rather than project-based; that a decoupled RA program would be similar to the existing RA program and therefore not difficult for USDA to administer; that the costs would not be significantly higher than RA because there would be no Interest Credit costs; and the costs would not be comparable to Section 8 because that is a primarily urban program and rents are much lower in rural areas than in cities and suburbs. On the other hand, Interest Credits are built

into the cost of the Section 515 loan rather than RA. Decoupled RA would subsidize market rate financing.

Stakeholders who opposed the idea argued that USDA would not be able to administer a new program; that the program would resemble Section 8 and therefore could be expected to have higher costs than RA, as Section 8 does; that considering changing to Section-8-like assistance would provide support to those who think USDA's housing programs should be transferred to HUD; that the program would not help finance physical improvements to aging properties; and that decoupling is not necessary because RA stays in place if maturing Section 515 loans are reamortized, extended, or replaced with new Section 515 loans.

# APPENDIX



RENTAL HOUSING FOR A 21ST CENTURY RURAL AMERICA  
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## APPENDIX A. ABOUT THE STUDY

The Housing Assistance Council (HAC) conducted a comprehensive assessment of USDA's multi-family housing investments. This multi-faceted review of USDA's multi-family housing portfolio examines not only the property characteristics, but also the tenant and market dynamics in which these properties exist. The ultimate goal of this project is to inform strategies that help preserve this integral housing resource for rural communities and residents.

The study incorporated a multi-faceted review of USDA's multi-family housing portfolio including:

- 1) general portfolio review,
- 2) projections of loss and risk of loss in USDA properties leaving the portfolio – maturing mortgages, prepayment, other reasons for leaving,
- 3) expert and stakeholder input, and
- 4) strategies for preservation.

The analysis reviewed not only the property characteristics, but also the tenant and market dynamics in which these properties exist.

To help contextualize and augment the quantitative analyses, the study also incorporated qualitative data collection and information gathering. Descriptions and opinions about opportunities and challenges facing USDA's Section 515 portfolio were conducted through four informal roundtables with a range of stakeholders. This information helps inform preservation strategies and policymaking.

### ANALYSES

#### Rental Housing Market Typology

The following discussion describes the creation of the rental housing market typology. The rental market typology consists of six measures: population change, mobility (population moving from another county, state, or abroad in previous year), unemployment rate, population with a Bachelor of Arts degree or more, rental vacancy rate, and change in renter-occupied units. Three of the measures are explored over the 1990 to 2015 period and three of the measures explored over just the most recent period (2006-2015). The analysis varied the time periods to ensure the typology considered both long-term and current trends. A description of how these variables and the overall typology were calculated is provided below.

#### Population Change

This measure explores change in county populations for 1990 to 2000, 2000 to 2010, and 2010 to 2015.<sup>1</sup> The authors calculated percent change in population for each period and ranked that change from largest to smallest. The distribution of counties for each of the three study periods were ranked and put into quintiles – smallest change to most change: 0-20 percent (score 0); 21-40 percent (score 1); 41-60 percent (score 2); 61-80 percent (score 3); 81-100 percent (score 4). The authors summed the scores for the three study periods. (See Table A1.)

**Table A1. Summed Population Change Rankings**

Summed Rankings	Number of Counties	Percent
0	200	7.41
1	177	6.56
2	178	6.6

<sup>1</sup> The 1990 to 2015 period evaluations review decennial census 1990 and 2000 data along with American Community Survey (ACS) 2006-10 (2010) and 2011-15 (2015) data.

3	237	8.78
4	247	9.15
5	223	8.27
6	222	8.23
7	220	8.15
8	227	8.41
9	192	7.12
10	150	5.56
11	182	6.75
12	243	9.01
Total	2,698	100

The population change ranking summed scores were converted into a single four-point score. The top two and bottom two scores received the weakest and strongest scores with the next two scores coded as declining and growing. The authors classified the remaining scores as stable. The final ranking is provided in Table A2.

**Table A2. Final Population Change Rating**

Final Ranking	Ranking Description	Number of Counties	Percent
0	Weakest	377	13.97
1	Weak	415	15.38
2	Stable	1,139	42.22
3	Growing	342	12.68
4	Strongest	425	15.75
Total		2,698	100

### Population Mobility

This measure explores the percentage of county populations who moved within the previous 12 months from another county, state, or abroad. The analysis looks at the 2010 (2006-10) to 2015 (2011-15) datasets and time periods. The authors calculated the percentage of a county's population which moved into the county from the previous year for both periods. The counties were ranked and scored as follows: 0-20 percent (score 0); 21-40 percent (score 1); 41-60 percent (score 2); 61-80 percent (score 3); 81-100 percent (score 4). The authors summed the scores for the three study periods. (See Table A3.)

**Table A3. Summed Population Mobility Rankings**

Summed Rankings	Number of Counties	Percent
0	285	10.56
1	279	10.34
2	304	11.26
3	338	12.52
4	333	12.34
5	305	11.3
6	305	11.3
7	196	7.26
8	354	13.12
Total	2,699	100

The summed scores for percent of population moving into a county from outside were converted into a single four-point score. The top and bottom score received the weakest and strongest scores. The next two scores from the bottom and two scores from the top were coded as declining and growing. The authors classified the remaining scores as stable. The final ranking is provided in Table A4.

**Table A4. Final Population Mobility Rating**

Final Ranking	Ranking Description	Number of Counties	Percent
0	Weakest	285	10.56
1	Weak	583	21.6
2	Stable	976	36.16
3	Growing	501	18.56
4	Strongest	354	13.12
Total		2,699	100

### Rental Vacancy Rates

This measure assesses vacancy rates during 1990, 2000, 2010, and 2015.<sup>1</sup> The authors calculated the vacancy rate which is the percent of all rental units that were vacant for rent. The vacancy rates for all counties were ranked for each of the three study periods, put into quintiles – highest to lowest, and given a score: 0-20 percent (score 0); 21-40 percent (score 1); 41-60 percent (score 2); 61-80 percent (score 3); 81-100 percent (score 4). The authors summed the scores for the four study periods. (See Table A5.)

**Table A5. Summed Rental Vacancy Rate Rankings**

Summed Rankings	Number of Counties	Percent
0	61	2.26
1	63	2.34
2	101	3.74
3	131	4.86
4	182	6.75
5	207	7.67

<sup>1</sup> The 1990 to 2015 period evaluations review decennial census 1990 and 2000 data along with American Community Survey (ACS) 2006-10 (2010) and 2011-15 (2015) data.

6	245	9.08
7	224	8.3
8	240	8.9
9	236	8.75
10	234	8.67
11	228	8.45
12	169	6.26
13	166	6.15
14	117	4.34
15	60	2.22
16	34	1.26
Total	2,698	100

The vacancy rates summed scores were converted into a single four-point score. The top and bottom three scores received the weakest and strongest scores with the next three scores coded as declining and growing.<sup>1</sup> The authors classified the remaining scores as stable. The final ranking is provided in Table A6.

**Table A6. Final Rental Vacancy Rate Ranking**

Final Ranking	Ranking Description	Number of Counties	Percent
0	Weakest	225	8.34
1	Weak	520	19.27
2	Stable	1,179	43.7
3	Growing	563	20.87
4	Strongest	211	7.82
Total		2,698	100

### Change in Renter-occupied Units

This measure explores the degree to which a county’s renter-occupied units have been increasing. The analysis looks at the 2010 (2006-10) to 2015 (2011-15) data sets and time periods. The authors calculated the percentage of a county’s renter-occupied housing units for both study periods and the percentage point difference between the two. An increase in the percentage of renter-occupied units reflects a growing role in the local housing market.

The variable creation process has two parts. First, the authors identified counties where the renter-occupied units declined during the study period. This represented 710, or 26 percent, of counties. The analysis considered these counties to have the weakest markets, coded as zero. The remaining counties were ranked from lowest to highest, based on the change in the percentage of occupied units that are renter-occupied (increase reflects renter-occupied units becoming a higher proportion of counties occupied housing stock, i.e., a growing market). The score for these cases is as follows: 0-25 percent (score 1); 26-50 percent (score 2); 51-75 percent (score 3); and 76-100 percent (score 4). The final distribution of cases is based on these ratings scores. (See Table A7.)

**Table A7. Final Change Renter-occupied Units Ranking**

Final Ranking	Ranking Description	Number of Counties	Percent
0	Weakest	710	26.31

<sup>1</sup> The authors used only the bottom and top categories for the percent of population moving from another county, state, and abroad because there were only two periods and eight possible summed scores. Similarly, where there were 16 possible summed points, the authors identified the top and bottom three counties as the strongest and weakest markets.

1	Weak	497	18.41
2	Stable	497	18.41
3	Growing	497	18.41
4	Strongest	498	18.45
Total		2,699	100

### Unemployment Rates

This measure assesses unemployment rates during 1990, 2000, 2010, and 2015.<sup>1</sup> The unemployment rates for all counties were ranked for each of the four study periods, put into quintiles – lowest to highest, and given a score: 0-20 percent (score 0); 21-40 percent (score 1); 41-60 percent (score 2); 61-80 percent (score 3); 81-100 percent (score 4). The authors summed the scores for the four study periods. (See Table A8.)

**Table A8. Summed Unemployment Rate Rankings**

Summed Rankings	Number of Counties	Percent
0	161	5.97
1	139	5.15
2	143	5.3
3	148	5.49
4	162	6
5	166	6.15
6	153	5.67
7	173	6.41
8	189	7.01
9	150	5.56
10	173	6.41
11	148	5.49
12	144	5.34
13	143	5.3
14	145	5.37
15	141	5.23
16	220	8.15
Total	2,698	100

The unemployment rates summed scores were converted into a single four-point score. The top and bottom three scores received the weakest and strongest scores with the next three scores, both top and bottom, coded as declining and growing.<sup>11</sup> The authors classified the remaining scores as stable. The final ranking is provided in Table A9.

**Table A9. Final Unemployment Rate Ranking**

Final Ranking	Ranking Description	Number of Counties	Percent
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<sup>1</sup> Here, the analysis uses Department of Labor Bureau of Labor Statistics LAUS historic data from each of the four periods. Where counties changed only names over the years, the most recent name and FIPS code was used to link them together.

<sup>11</sup> The authors used only the bottom and top categories for the percent of population moving from another county, state, and abroad because there were only two periods and eight possible summed scores. Similarly, where there were 16 possible summed points, the authors identified the top and bottom three counties as the strongest and weakest markets.

0	Weakest	443	16.42
1	Weak	476	17.64
2	Stable	838	31.06
3	Growing	435	16.12
4	Strongest	506	18.75
Total		2,698	100

### Population with BA Degree or More

This measure evaluates the degree to which a county’s population contains residents with at least a Bachelor of Arts degree. The higher the percentage of skilled workers, as estimated by the percent of a population with a bachelor’s degree or more, the stronger a local economy will be. The analysis looks at the 2010 (2006-10) to 2015 (2011-15) data sets and time periods. Focusing on the more recent years, this information should better capture more recent trends, and in this case, a variable that portends future economic strength.

The analysis involves, for both time periods, ranking counties, based on the percentage of their population age 25 or older with a bachelor’s degree or more, from lowest to highest, and scored as follows: 0-20 percent (score 0); 21-40 percent (score 1); 41-60 percent (score 2); 61-80 percent (score 3); 81-100 percent (score 4). The final distribution of cases is based on these ratings scores. (See Table A10.)

**Table A10. Summed Population with BA Degree or More Education Rankings**

Summed Rankings	Number of Counties	Percent
0	399	14.78
1	250	9.26
2	315	11.67
3	229	8.48
4	342	12.67
5	202	7.48
6	377	13.97
7	95	3.52
8	490	18.15
Total	2,699	100

The percent of the population with a bachelor’s degree summed scores were converted into a single four-point score. The top and bottom scores received the weakest and strongest scores with the next two scores, bottom and then top, coded as declining and growing.<sup>1</sup> The authors classified the remaining scores as stable. The final ranking is provided below in Table A11.

**Table A11. Final Percent Population with BA Degree or More Education Ranking**

Final Ranking	Ranking Description	Number of Counties	Percent
0	Weakest	399	14.78

<sup>1</sup> The authors used only the bottom and top categories for the percent of population moving from another county, state, and abroad because there were only two periods and eight possible summed scores. Similarly, where there were 16 possible summed points, the authors identified the top and bottom three counties as the strongest and weakest markets.

1	Weak	565	20.93
2	Stable	773	28.64
3	Growing	472	17.49
4	Strongest	490	18.15
Total		2,699	100

### Final Index

These six final variable rankings were added together to create a single measure. The distribution of the summed six variable rankings is shown in Table A12.

**Table A12. Summed Six Attribute Rankings**

Summed Rankings	Number of Counties	Percent
0	1	0.04
1	2	0.07
2	8	0.3
3	15	0.56
4	41	1.52
5	68	2.52
6	95	3.52
7	145	5.37
8	160	5.93
9	232	8.6
10	259	9.6
11	268	9.93
12	244	9.04
13	241	8.93
14	182	6.75
15	204	7.56
16	169	6.26
17	100	3.71
18	84	3.11
19	82	3.04
20	53	1.96
21	35	1.3
22	8	0.3
23	2	0.07
24	0	0
Total	2,698	100

The scores were put into a final five-part ranking. The top and bottom six scores (0 through 5 and 19 through 24) coded as weakest and strongest. The next four cases are coded weak and growing (6 through 9 and 15 through 18). The remaining scores are coded as little change. The final distribution of cases is seen in Table A13. Note there were 20 additional properties added to the strongest market category. These were the counties with a population in excess of one million. The final rankings are in Table A13.

**Table A13. Final County Market Typology Ranking**

Final Ranking	Ranking Description	Number of Counties	Percent
0	Weakest	135	4.97
1	Weak	632	23.25
2	Stable	1,194	43.93
3	Growing	557	20.49
4	Strongest	200	7.36
Total		2,718	100

This ranking corresponds to the following distribution of USDA Section 515 properties – cases were removed for this analysis if they were not in one of the 50 states, if they had no occupied units listed, and if the county changed over the study period so typology information was not available.<sup>1</sup> Table A14 provides a distribution of USDA Section 515 properties, total units, and occupied units by market typology ranking.

**Table A14. Distribution of Section 515 Properties and Units by Market Typology**

Final Ranking		Properties		Total Units		Occupied Units	
Number	Description	Number	Percent	Number	Percent	Number	Percent
0	Weakest	650	4.7%	18,883	4.6%	17,634	4.6%
1	Weak	3,205	23.4%	92,956	22.7%	86,780	22.5%
2	Stable	5,903	43.1%	173,888	42.5%	163,085	42.3%
3	Growing	2,918	21.3%	91,092	22.2%	86,439	22.4%
4	Strongest	1,013	7.4%	32,787	8.0%	31,183	8.1%
Total		13689	100.0%	409,606	100.0%	385,121	100.0%

### The Risks of Risk Indicators and Typologies

No index is perfect. If nothing else, markets are constantly changing and the past is not always the best predictor of the future. For example, the fracking boom in the upper Plains region was likely not seen as a major possibility at the turn of this century. This index should not be viewed as a single, definitive resource regarding which properties will and will not cease providing affordable rental housing. The information provided here, in this index and in the other measures, should be used along with other resources to help policymakers understand what the data suggest may occur and where it may be most impactful. Understanding this is critical to effectively addressing the issue of lost affordable housing units, but it is important to remember the limitations of any one resource.

### Persistent Poverty Counties

#### Approach

The authors initially employ the USDA ERS persistent poverty classification to identify counties experiencing chronic and severe economic struggles. The ERS methodology defines persistent poverty counties as those that have experienced poverty rates of 20 percent or higher for four consecutive decades as measured by the Census 1980, 1990, and 2000, along with the ACS 2007-11. The ACS 2007-11 estimates replace the decennial Census estimates because the ACS replaced the decennial Census long form which was used to collect such information every ten years. The USDA ERS classification system identifies 353 counties and county-equivalent areas as

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<sup>1</sup> This was the case for a property in an Alaska county equivalent jurisdiction. The missing information on the Alaska county is why there are only 2,698 counties included for the summed individual variable rankings where the data went back to 1990. The total number of cases including the Alaska property, which is used for the analysis, is 13,690. The case is used and treated as if it is not in a high risk county.

experiencing persistent poverty. This analysis adds to the list the city of Charlottesville, Virginia, which is a county equivalent. The USDA did not include it with its list since they combined it with a surrounding county to make some of its poverty rate calculations. The Census Bureau, however, has calculated 1980, 1990, 2000 and ACS 2007-11 poverty rates for Charlottesville and it does meet the threshold for each period. Based on this, the authors include the city in its list of persistent poverty counties and county equivalents, bringing the total to 354.

This study also wanted to account for more recent trends and take into account the expansion of areas experiencing chronic economic struggles over the last few decades. The four-decade requirement tends to minimize recent conditions. Other persistent poverty definitions, specifically the Office of Treasury’s approach, employ a three-decade measure that picks up these trends. The authors, following suit, abbreviate the USDA ERS measure to identify counties that have experienced 20 percent or higher poverty rates over the 1990, 2000, and 2010 period (ACS 2007-11). Using this approach, 41 counties are added. The analysis reviews these additional counties to assess the potential loss they may experience with the maturing Section 515 properties.

**Data Specifics**

The USDA ERS provides their persistent poverty typology<sup>1</sup> for download at the following url:

[www.ers.usda.gov/data-products/county-typology-codes/](http://www.ers.usda.gov/data-products/county-typology-codes/)

**Table A15. USDA Section 515 Properties by County Persistent Poverty Status**

Persistent Poverty Classification	Number of Counties		USDA Properties		USDA Total Units		USDA Occupied Units	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Not Persistent Poverty	2359	86.8%	11784	86.1%	349510	85.3%	328768	85.3%
Persistent Poverty County	360	13.2%	1906	13.9%	60120	14.7%	56377	14.7%
Total	2719	100.0%	13690	100.0%	409630	100.0%	385145	100.0%
Persistent Poverty USDA Properties	360	91.1%						
Persistent Poverty No USDA Properties	35	8.9%						
Total	395	100.0%						

**Data Analysis USDA Properties Role in Market  
Percent County Renter-occupied Units USDA 515 Properties Specifics**

**Approach**

The authors aggregated USDA Section 515 property data to the county level. This refers to the number of properties, units, and occupied units. Next, the authors calculated the USDA Section 515 properties’ share of all

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<sup>1</sup>The USDA ERS typology identifies Cibola County, New Mexico as experiencing persistent poverty. The authors’ calculations were unable to make such a distinction because no poverty estimate existed for Cibola County in 1980 (the county did not come into existence until 1981). The analysis stays with the USDA ERS classification of the county understanding that they had other data which must have confirmed the county would have exceeded the threshold.

renter-occupied units. The study used an average of the last three ACS county renter-occupied housing unit estimates. The three estimates are averaged to smooth out any fluctuations that might occur for any one estimate, particularly those for sparsely-populated geographies. The larger the percentage of renter-occupied units contained in Section 515 properties, the more important the program is in that county as a source of rental housing, and the greater the potential damage for tenants could be from maturing loans.

This analysis set a 10 percent threshold for determining when the Section 515 program reached the level of playing a large role in a county’s rental housing market. There is no one agreed-upon percentage to apply here. At the 10 percent threshold, USDA renter units make up at least one out of every ten renter-occupied units in a county. In the case of affordable housing units, which are about half of all renter-occupied units in the U.S., the 10 percent threshold is much closer to 20 percent or one in five. This analysis considers both of these percentages to indicate the program plays a big role in the local rental market. Counties where the USDA percentage met or exceeded this 10 percent share of all renter-occupied units were classified as “substantial presence.”

This study further scrutinized these counties. Since there is much variation in the number of Section 515 properties in a substantial presence county, this analysis highlighted two cases where the number of properties involved is small. Counties where a single property alone exceeds the 10 percent renter-occupied threshold are considered to be at the highest risk. There are two groups of these properties, those with a single USDA property and those where there is more than one USDA property but one of them alone reaches the threshold.

The other highlighted group are counties where the threshold is met by two to four properties. While not in as much danger of losing a large portion of its rental stock as are counties with a single, relatively large rental property, it only takes the loss of few properties to seriously reduce the rental market in such a county. These properties are referred to as “significant risk.” Table A16 gives a breakdown of the significant presence counties by risk level.

*Additional Considerations on USDA Section 515 as a Portion of the Overall Rental Stock*

Where a single maturing property represents 10 percent of all occupied rental units, the market is considered “high risk,” and where there are two to four properties involved in meeting the threshold, the county is considered to have a “significant risk.” When decisions by a small number of Section 515 property owners can greatly reduce rental housing options, a county is at an elevated risk. The analysis concludes by exploring the degree to which the Section 515 loans make up a majority of project-based subsidized units and how the loss of USDA properties may impact the overall rental market.

**Table A16. Substantial Presence Counties by Risk**

<b>Substantial Presence Counties by Risk</b>	<b>Number of Counties</b>	<b>Number of Properties</b>	<b>Number of Occupied Units</b>
One Section 515 Property Alone - High Risk	11	11	327
One Section 515 Property 10 Percent, but other USDA Sec. 515 properties exist - High Risk	10	31	856
Two to Four Section 515 Properties to Reach Threshold - Significant Risk	81	258	6461

More than Four Section Properties to Reach the Threshold	148	1377	36495
Total	250	1677	44139

### Percent of Project-Based Subsidized Units That are in Section 515 Properties

#### Approach

The authors added to the dataset information on project-based, federal housing assistance units (public housing, project-based Section 8, Section 202, and Section 811).<sup>1</sup> The data is limited to project-based data due to an inability to avoid double counting with housing choice vouchers data, since many of these vouchers are being used in assisted properties.

The authors next calculated the percent of project-based assisted units represented by the Section 515 properties. A threshold of 50 percent was then established to identify counties where the USDA Section 515 program was the main provider of project-based subsidized units. The threshold was set high because the analysis wanted to clearly identify areas where the Section 515 program is the dominant form of project-based assistance where the loss of units will not easily be replaced by existing substitutes (other, similarly subsidized units by other programs).

At-risk and high-risk counties where the USDA units represent a majority of project-based assisted units are highlighted as being of particular interest since they do not have many subsidized housing alternatives.

#### Additional Considerations on Section 515 as a Portion of the Subsidized Rental Stock

A total of 133 counties, located in 33 different states, have between two and four Section 515 properties that made up a majority of all project-based assisted renter-occupied units. Approximately 36 percent of the counties are in the Plains region. Missouri had the most qualifying counties at 17. There were 418 properties with 9,708 occupied units in these 133 counties. There was a median of three properties per county with a median age of 33, two years older than the median age for the entire Section 515 housing stock.

The tenant population generally matched the overall description earlier in this paper. Shaped by the Plains region where many of these properties are located, the population is whiter and older than that in the portfolio as a whole. Fifty-three percent of the tenants are classified as elderly, disabled, or handicapped. While a higher percent of these USDA majority project-based assisted counties lost population during the last five to ten years, the difference is not so large – 59 percent compared to 49 percent. Fifty-four of the 133 counties actually gained population. The counties are small – with a median population of less than 9,000 – and the USDA’s Section 515 program large.

**Table A17. USDA Majority Project-Based Subsidized Counties by Risk**

Majority Place-Based, Assisted Unit Provider	Number of Counties	Number of Properties	Number of Occupied Units
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<sup>1</sup> The authors want to thank the Urban Institute, particularly Amanda Gold, for providing us with the subsidized housing unit data. The data does not include Housing Choice Vouchers, which is a limitation. It would be impossible to avoid double counting with vouchers (they are used in other government project-based units listed here). The data source for Public Housing, Project-Based Section 8, Section 202, and Section 811 is HUD’s Picture of Subsidized Housing Data 2015 (accessed 2/18/17 at [www.huduser.gov/portal/datasets/assthsq.html](http://www.huduser.gov/portal/datasets/assthsq.html)) and HUD’s Low-Income Housing Tax Credits data 2014 (accessed 2/18/17 at [www.huduser.gov/portal/datasets/lihtc.html](http://www.huduser.gov/portal/datasets/lihtc.html)).

One Section 515 Property Alone - High Risk	52	52	1,064
One Section 515 Property Meets threshold, but Other Properties Exist - High Risk	31	74	1,474
Two to Four Section 515 Properties to Reach Threshold - Significant Risk	133	417	9,708
More than Four Section Properties to Reach the Threshold	114	941	21,130
Total	330	1,484	33,376

\*Threshold 50 percent or more of all project-based units

**Log Regression Model**

Through logistic regression analysis, the analysis more closely explored the relationship between leaving the Section 515 program (maturing and prepayment) and select owner/property and location characteristics. Properties leaving the Section 515 portfolio during the 2005 to 2016 period were compared to those properties that were eligible to leave (prepay eligible) but did not and currently remain active in the program. The analysis categorized properties into a dichotomous yes or no outcome or dependent variable, which lends itself to logistic regression, based on whether they left the program. The potential predictor or independent variables explored include basic owner/property characteristics, such as property size and ownership structure, and location/service area characteristics, such as geographic region and rurality. Building off the earlier market area index work in this report, the service area characteristics included demographic, economic, and rental market measures.

The analysis explored whether or not a property leaves the Section 515 program as a function of owner/property, location and service area attributes. The relationship is modeled as follows:

$$\text{logit}(p) = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + b_7X_7 + b_8X_8 + b_9X_9 + b_{10}X_{10} + b_{11}X_{11} + b_{12}X_{12} + b_{13}X_{13}$$

logit (p) = left the program 2005-2016

- X<sub>1</sub> = Nonprofit owner
- X<sub>2</sub> = Number of units in property (occupied and vacant) logged base 2
- X<sub>3</sub> = Age of property (current age of property)
- X<sub>4</sub> = Rural or small-town census tract
- X<sub>5</sub> = New England or Mideast region (reference Southeast region)
- X<sub>6</sub> = Great Lakes region (reference Southeast region)
- X<sub>7</sub> = Plains region (reference Southeast region)
- X<sub>8</sub> = Southwest region (reference Southeast region)
- X<sub>9</sub> = Rocky Mountain region (reference Southeast region)
- X<sub>10</sub> = Far West region (reference Southeast region)
- X<sub>11</sub> = Percent Population Change 2000-2015
- X<sub>12</sub> = Average Unemployment Rate 2005, 2010, and 2015
- X<sub>13</sub> = Average Renter Vacancy Rate 2000, 2010, and 2015

There were two slightly different versions of the dependent variable. The first version included all properties that left the program, regardless of reason (prepay, mature, foreclosure), and all those that remained active – with the 1990 or earlier stipulation to ensure that all properties included could have prepaid and left the portfolio. Using this version of the dependent variable resulted in a model with 10,531 total properties of which 1,563 (15 percent) left. The analysis with this version of the dependent variable served as the base model.

The second version of the dependent variable excluded properties that left the program due to a loan maturing or a foreclosure during the 2005-2015 period. By excluding those cases, the comparisons focused on properties where owners chose to leave earlier (prepay) versus active properties. If there were factors that served as enticements to leaving the program, they should be most conspicuous in prepaying properties. Using this version of the dependent variable resulted in a model with 9,669 total properties of which 701 (7 percent) left early (pre-paid) with the remainder still active.<sup>I</sup> The second set of models run with this dependent variable served as a check on the base model.

### ***Owner/Property Characteristics***

The analysis explored three measures associated with owner/property characteristics. The first variable identified properties with nonprofit ownership. Nonprofits own 2,412 or 23 percent of all properties used in this analysis.<sup>II</sup> The hypothesized relationship was that nonprofits would be less likely to leave the program early than profit-focused owners.

The second owner/property attribute variable was total number of units in a property. The number of units, which included both occupied and vacant units, ranged from 1 to 305 with a median of 24 and average of 29 units.<sup>III</sup> The variable was logged because it improved the model's goodness of fit. Log base 2 was used for ease of interpretation. A one-unit change using log base 2 represented a doubling of the variable in question.<sup>IV</sup> The relationship was hypothesized to be positive assuming that leaving the program would be riskier for owners as property sizes increased. For example, it would be easier to find one or two market-rate renters for a small project than, say, 25 for a larger building.

The third owner/property variable was age of property. The age of property variable represented a property's current age based on its initial Section 515 loan date.<sup>V</sup> Because this analysis restricted cases to only properties in operation before 1990 (to ensure the data only included properties that could have left the program), the range of values was from 27 to 52 with a median of 33 and average of 34.<sup>VI</sup> In addition to older properties being more likely to reach their loan maturation date, property age also indirectly reflected the corresponding rules and restrictions that governed a borrower's ability to leave the Section 515 program. Because loans made pre-1979 had no

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<sup>I</sup> Prepayment means that the owner paid the loan in full before the loan maturity date. It does not relate to the number of extra payments.

<sup>II</sup> The percentage of nonprofit properties is the same when limiting the analysis to prepayment leavers – second dependent variable.

<sup>III</sup> The minimum, maximum, and median are the same when excluding cases to prepayment leavers, second dependent variable. The only difference is the average was 30 rather than 29 units.

<sup>IV</sup> If we used the natural log a one unit would be a 2.72-fold change and log base 10 would be a 10-fold change. One is hard to explain – doubling much easier, and the other reflects a huge change – ten times as much. The log base 2 is easier to explain and it does not change the results.

<sup>V</sup> The age of structure is not the same as the number of years in the Section 515 program. Number of years in the program would measure the same thing as prepayment, since a loan that prepays would have fewer years in the program than a loan that went to term.

<sup>VI</sup> The minimum, maximum, median, and mean are the same when excluding cases to prepayment leavers using the second dependent variable.

restrictions on prepayment and the rules later became more restrictive, the association with age and leaving the program would likely be positive.

### ***Geographic Location Characteristics***

The analysis explored two measures associated with property location. The first measure classified properties based on their location in a Housing Assistance Council (HAC) classified rural and small-town census tract.<sup>I</sup> Properties located in a HAC classified rural and small-town census tract accounted for 7,773 or 74 percent of all properties used in this analysis.<sup>II</sup> The geographic isolation of many rural areas, particularly in comparison to suburban/urban areas, might serve as a disincentive to leaving the program since alternative uses may be more limited and land-use practices more static.

The second property location measure was the U.S. Department of Commerce Bureau of Economic Analysis (BEA) classification of states by region. The BEA classifies states into eight distinct regions. This analysis combined the New England and adjacent Mideast regions together into a single group due to a smaller number of observations.<sup>III</sup> The analysis excluded the Southeast region as the reference group, resulting in six variables. In total, the Southeast region is home to the largest percentage of properties in this sample, 30 percent.<sup>IV</sup>

The BEA region variables accounted for potential regional differences associated with leaving the program, particularly prepayment. It might be that owners in certain regions had different practices that led to more prepayment than in other regions. The data showed regional concentration of activity particularly during the program's early years when a disproportionate share of loans occurred in the Plains and Great Lakes region – 73 percent of prepayment properties are in those regions. The exact direction or nature of these relationships was not clear.

### ***Service Area Characteristics***

The analysis explored three service area measures addressing demographic, economic, and housing conditions. The data was county-level information. The first measure was percent population change, 2000 Census count to ACS 2011-15 estimate. The variable was in percent, not ratio, format.<sup>V</sup> The distribution of properties had a wide range from a minimum of -27 percent to a maximum of 120 percent increase. The distribution had a median of 4 and mean of 7 percent increase in population with a relatively normal distribution. While there was great variation between the minimum and maximum, 90 percent of properties were in counties with population change within a much smaller range, from -7 percent to 27 percent. It was hypothesized that an increase in population would mean an improving rental housing market and a desire to leave the program.

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<sup>I</sup> The Housing Assistance Council (HAC) definition classifies census tracts based on housing unit density and commuting patterns. For a detailed explanation of the Housing Assistance Council's rural-suburban-urban census tract classification methodology see *Taking Stock: Rural People, Poverty and Housing in the 21<sup>st</sup> Century* (Housing Assistance Council: Washington, DC, 2012). Page 113 of the report provides details. Accessed 6/7/17 at [http://www.ruralhome.org/storage/documents/ts2010/ts\\_full\\_report.pdf](http://www.ruralhome.org/storage/documents/ts2010/ts_full_report.pdf).

<sup>II</sup> This is the same percentage as one finds when excluding cases to prepayment leavers using the second dependent variable.

<sup>III</sup> For the second version of the dependent variable, there were only five New England properties that prepaid. The analysis wanted to keep the totals at a minimum of 10, so New England and neighboring Mideast region properties were combined into a single category.

<sup>IV</sup> The percent of properties in the Southwest BEA region is slightly higher when using only the prepayment leavers – 31 percent.

<sup>V</sup> The analysis explored whether or not the relationship between population change and leaving the Section 515 program was non-linear – specifically, a positive association with leaving the program at both ends of the population change spectrum and little impact in the middle. The data only supported a direct relationship.

The second measure was an average of unemployment rates in the 2005-2015 period. The variable was an average of annual Bureau of Labor Statistics (BLS) unemployment rates for 2005, 2010 and 2015.<sup>i</sup> The variable was in percent, not ratio, format.<sup>ii</sup> The distribution of unemployment rates ranged from a minimum of 2.29 percent to a maximum of 22.9 percent. The median and mean were 6.8 and 6.9 respectively. While there were a few cases with near 20 percent unemployment rates, there was, by nature of the measure itself, less variation for this variable than for population change. It was hypothesized that a decrease in unemployment rates would mean an improving rental housing market and a desire to leave the program.

The third measure was an average of renter vacancy rates between the 2000 and 2015 periods. The model variable was an average of the Census 2000 and ACS 2006-10 and 2011-15 rental vacancy rates.<sup>iii</sup> The variable was in percent, not ratio, format.<sup>iv</sup> The distribution of average rental vacancy rates was quite large, ranging from a minimum of 2.1 to a maximum of 55.8. Despite the wide variation in rental vacancy rates, the majority of properties were located in counties with a vacancy rate between 7 and 8 percent; the median rental vacancy rate was 7.47 and the average was 7.97.

### Logistic Regression Models Descriptive Data

**Table A18. Dependent Variable Distribution by Model**

Property Status	Model 1: Includes All Leaving Properties		Model 2: Leaving Properties Only Include Pre-Payment	
	Number	Percent	Number	Percent
Active Property	8,968	85.2%	8,968	92.8%
Leaving Property	1,563	14.8%	701	7.2%
Total	10,531	100.0%	9,669	100.0%

**Table A19. Nonprofit Variable Distribution by Model**

Ownership Non-Profit Status	Model 1					Model 2				
	Active		Leavers		Total	Active		Leavers		Total
	Number	Percent	Number	Percent		Number	Percent	Number	Percent	
For-Profit	7,059	78.7%	1,060	67.8%	8,119	7,059	78.7%	434	61.9%	7,493
Non-Profit	1,909	21.3%	503	32.2%	2,412	1,909	21.3%	267	38.1%	2,176
Total	8,968	100.0%	1,563	100.0%	10,531	8,968	100.0%	701	100.0%	9,669

**Table A20. Number of Units (Occupied and Vacant) by Model Descriptive Statistics**

<sup>i</sup> The analysis used annual unemployment rate estimates from the U.S. Department of Labor Bureau of Labor Statistics. Because BLS has annual data for all years, the analysis used three periods that spanned the beginning, middle, and end points at which properties were identified as leaving the program. This was not possible with the ACS data.

<sup>ii</sup> The analysis explored whether the relationship between unemployment rates and leaving the Section 515 program was non-linear – specifically, a positive association with leaving the program at both ends of the unemployment rate spectrum and little impact in the middle. The data did not support that relationship and the model performed well with a single measure in percentage format.

<sup>iii</sup> The analysis uses Census 2000 and ACS 2006-10 and 2001-15 data to capture three different periods during the time which the Section 515 properties of interest were leaving the program.

<sup>iv</sup> The analysis explored whether or not the relationship between rental vacancy rates and leaving the Section 515 program was non-linear – specifically, a positive association with leaving the program at both ends of the vacancy rate spectrum and little impact in the middle. The data did not support that relationship and the model performed well with a single measure in percentage format.

Ownership Non-Profit Status	Model 1			Model2		
	Active	Leavers	Total	Active	Leavers	Total
Minimum	1	2	1	1	2	1
Maximum	305	92	305	305	83	305
Median	24	16	24	24	14	24
Mean	30.5	19.7	28.9	30.5	18.7	29.6

Table A21. Age of Property by Model Descriptive Statistics

Ownership Non-Profit Status	Model 1			Model2		
	Active	Leavers	Total	Active	Leavers	Total
Minimum	27	27	27	27	27	27
Maximum	52	51	52	52	51	52
Median	33	36	33	33	37	37
Mean	33.7	36.0	34.0	33.7	37.1	34.0

Table A22. Property Rural and Small-town Status by Model Descriptive Statistics

Ownership Non-Profit Status	Model 1					Model 2				
	Active		Leavers		Total	Active		Leavers		Total
	Number	Percent	Number	Percent		Number	Percent	Number	Percent	
Rural & Small Town	6,524	72.7%	1,249	79.9%	7,773	6,524	72.7%	590	84.2%	7,114
Suburban, Exurban, & Urban	2,444	27.3%	314	20.1%	2,758	2,444	27.3%	111	15.8%	2,555
Total	8,968	100.0%	1,563	100.0%	10,531	8,968	100.0%	701	100.0%	9,669

Table A23. Properties by BEA Regions by Model Descriptive Statistics

Ownership Non-Profit Status	Model 1					Model 2				
	Active		Leavers		Total	Active		Leavers		Total
	Number	Percent	Number	Percent		Number	Percent	Number	Percent	
New England*	424	4.7%	29	1.9%	453	424	4.7%	6	0.9%	430
Mid East*	557	6.2%	65	4.2%	622	557	6.2%	24	3.4%	581
Great Lakes	1,618	18.0%	301	19.3%	1,919	1,618	18.0%	96	13.7%	1,714
Plains	1,811	20.2%	728	46.6%	2,539	1,811	20.2%	418	59.6%	2,229
South East	2,868	32.0%	241	15.4%	3,109	2,868	32.0%	82	11.7%	2,950
South West	663	7.4%	90	5.8%	753	663	7.4%	20	2.9%	683
Rocky Mountain	373	4.2%	51	3.3%	424	373	4.2%	25	3.6%	398
Far West	654	7.3%	58	3.7%	712	654	7.3%	30	4.3%	684
Total	8,968	100.0%	1,563	100.0%	10,531	8,968	100.0%	701	100.0%	9,669

\*Combine these two categories together

Table A24. Percent County Population Change 2000 to 2015 by Model

Ownership Nonprofit Status	Model 1			Model2		
	Active	Leavers	Total	Active	Leavers	Total
Minimum	-26.98	-25.64	-26.98	-26.98	-21.81	-26.98
Maximum	120.07	106.68	120.07	120.07	106.68	120.07

Median	4.35	2.75	4.10	4.35	3.02	4.31
Mean	7.72	5.69	7.41	7.72	5.31	7.54

**Table A25. Average County Unemployment Rate 2005, 2010 and 2015**

Ownership Non-Profit Status	Model 1			Model2		
	Active	Leavers	Total	Active	Leavers	Total
Minimum	2.29	2.29	2.29	2.29	2.29	2.29
Maximum	22.92	22.92	22.29	22.92	16.26	22.92
Median	6.91	6.03	6.77	6.91	5.62	6.81
Mean	7.03	6.16	6.90	7.03	5.82	6.95

**Table A26. Average County Renter Vacancy Rate 2000, 2010 and 2015**

Ownership Non-Profit Status	Model 1			Model2		
	Active	Leavers	Total	Active	Leavers	Total
Minimum	2.10	2.10	2.10	2.10	2.10	2.10
Maximum	55.77	41.20	55.77	55.77	27.77	55.77
Median	7.47	7.53	7.47	7.47	7.27	7.47
Mean	7.95	8.06	7.97	7.95	7.67	7.93

**Table A27. Regression Models with Coefficients and Standard Errors**

Variables	Dependent Variable: 1 = All Properties Leaving the Program and 0 = Active Properties						Dependent Variable: 1 = Only Properties Leaving the Program with Prepayment and 0 = Active Properties					
	1A		1B		1C		2A		2B		2C	
	Coefficient	Std Error	Coefficient	Std Error	Coefficient	Std Error	Coefficient	Std Error	Coefficient	Std Error	Coefficient	Std Error
Non Profit	-0.147**	0.072	-0.330***	0.076	-0.323***	0.077	-0.098	0.099	-0.417***	0.106	-0.397***	0.106
Total Number of Units Logged Base 2	-0.703***	0.029	-0.602***	0.032	-0.599***	0.032	-0.738***	0.041	-0.579***	0.045	-0.565***	0.046
Age	0.075***	0.006	0.067***	0.007	0.066***	0.007	0.110***	0.009	0.096***	0.009	0.095***	0.009
Rural			-0.120	0.073	-0.058	0.080			0.030	0.114	0.170	0.125
BEA Region: New England & Mid East			0.016	0.131	0.037	0.135			-0.078	0.220	-0.116	0.226
BEA Region: Great Lakes			0.380***	0.096	0.478***	0.100			0.241	0.159	0.283*	0.164
BEA Region: Plains			0.872***	0.093	0.851***	0.107			1.274***	0.141	1.123***	0.161
BEA Region: South West			0.301**	0.135	0.201	0.139			-0.175	0.257	-0.350	0.262
BEA Region: Rocky Mtn			-0.068	0.171	-0.143	0.175			0.195	0.244	0.015	0.250
BEA Region: Far West			0.025	0.156	0.142	0.159			0.378*	0.221	0.432*	0.226
Percent Population Change 2000 to 2015					0.005**	0.002					0.008**	0.003
Average Unemployment Rate 2005, 2010 & 2015					-0.048**	0.020					-0.080***	0.029
Average Renter Vacancy 2000, 2010, & 2015					0.040***	0.008					0.012	0.014
Constant	-1.284***	0.260	-1.664***	0.275	-1.743***	0.315	-3.231***	0.368	-3.909***	0.397	-3.607***	0.457
Pseudo R <sup>2</sup>	10.2%		11.6%		12.0%		12.8%		16.0%		16.3%	
Number of Cases	10,531		10,531		10,531		9,669		9,669		9,669	

note: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Variables	Dependent Variable 1 = All leaving properties and 0 Active Properties		
	A	B	C
Non-Profit	0.86**	0.72***	0.72***
Total Number of Units Logged(Base2)	0.49***	0.55***	0.55***
Age of Property	1.08***	1.07***	1.07***
Rural and Small Town		0.89	0.94
BEA Region: New England & Mid East		1.01	1.04
BEA Region: Great Lakes		1.46***	1.61***
BEA Region: Plains		2.39***	2.34***
BEA Region: South West		1.35**	1.22
BEA Region: Rocky Mountain		0.93	0.87
BEA Region: Far West		1.03	1.15
Percent Population Change 2000 to 2015			1.01**
Average Unemployment Rate (2005, 2010 & 2015)			0.95**
Average Rental Vacancy Rate (2000, 2010, 2015)			1.04***
Constant	0.277	0.189	0.175
Number of Observations	10,531	10,531	10,531
Pseudo R <sup>2</sup>	10.2%	11.6%	12.0%
Prog>ch <sup>2</sup>	0.000	0.000	0.000

### Model 1

Model 1B added to Model 1A location characteristics. The model's pseudo R<sup>2</sup> improved somewhat to 11.6 percent from 10.2 percent. The same number of properties were included in the analysis and there was still a statistically significant chi-square test. The statistically significant variables in Model 1A remained significant at similar values/ odds ratios. The nonprofit variable did increase in significance level and impact, with it now being associated with a 38 percent reduction in the odds of leaving the program in comparison to for-profits (limited for profit).

Of the location variables added, the BEA-defined Great Lakes, Plains, and Southwest regions were statistically significant. Specifically, the odds of prepayment were 2.4 greater for properties located in the Plains region in comparison to properties in the Southeast region (reference group). In percentage terms, the difference is a 139 percent increase, all else equal. Odds of leaving the program were positive for the other two regions as well, but not as large.

Model 1C added to Model 1B select service area characteristics. The model's pseudo R<sup>2</sup> improved slightly to 12 percent with the same number of properties included in the analysis and a still statistically significant chi-square test. The statistically significant factors from Model 1B – nonprofit status, total number of units, age of structure and location in the BEA-defined Great Lakes and Plains region – continued to be significant at similar odds ratios. The Southwest region variable no longer had a statistically significant relationship.

All three service area variables were statistically significant. Experience of population growth and rental vacancy rate increase increased the odds of leaving the program. These likely work in different ways but are related to the same issue, potential renters. In areas with population growth, the number of potential customers increases and in areas with growing vacancy rates the number of tenants decreases. There was a statistically significant, negative association between unemployment rates and leaving the program. A 1 percent point increase in the unemployment rate, say from 4 to 5 percent, is related to a 5 percent reduction in the odds of leaving the program, holding other factors constant. It may be that a growing unemployment rate means there are fewer potential renters outside of the program so owners have an incentive to keep the property in the program.

While the Plains region variable was statistically significant and was associated with a larger odds ratio when compared to the reference group, Southeast region properties, the actual probabilities for both for an average case were relatively small, 16.8 and 8.1 percent respectively. Probabilities did suggest that cases at the extreme of certain characteristics might be important. One variable that did show considerable variation in impact, specifically at the extremes, was number of units (logged base 2 in this model). While the percentage point difference in probabilities associated with number of units and leaving the program for the average case between the 25<sup>th</sup> and 75<sup>th</sup> percentiles was not huge, 12.7 percent to 6.2 percent, there was a much higher drop for the smallest properties. Using the average case and only properties with four units, the proportion probability is 32.8 percent.

### *Model 2*

Model 2, which restricted the analysis to those properties that left the program with prepayment and those that are still active, represents more of the extremes, those who chose to leave early and those who chose to remain – year of operation restriction at pre-1990 means prepayment was an option. The hope was that sample might pick up differences that were obscured with Model 1, which included maturing, foreclosing, and prepayment leavers. The only variation between the models was the removal of leavers who did not prepay.

Model 2 had a higher pseudo R<sup>2</sup> for each step, which might be expected given that the dependent variable differences between leavers and active properties should have been at their peak when the analysis was restricted to only prepayment leavers. The results were generally similar for both sets of models.

The results for owner/structure measures were extremely similar, which reflected robustness; however, there were some differences in location and service area estimates. Only the Plains region had a statistically significant association with leaving in Model 2. The small percentage of prepayment cases located in the other regions may explain the lack of statistical significance.<sup>1</sup>

The coefficients and odds ratios were similar for both Model 1 and 2 service area measures, which suggests that similar associations exist. Both unemployment and rental vacancy rate measures were statistically significant in the second set of models but rental vacancy rates were not. This may mean that rental vacancy rates were not as important a consideration when it comes to owners of prepayment properties as they were for maturing properties, or it could simply mean more variance in the smaller sample of Model 2 leavers, making it more difficult to reach statistical significance.

## **DATA SOURCES**

### **Data on USDA's Section 515 Multifamily Portfolio**

Information on USDA's Section 515 multi-family portfolio was largely garnered from administrative and programmatic data from the U.S. Department of Agriculture. Much of the data were accessed from USDA's public website at [https://www.sc.egov.usda.gov/data/data\\_files.html](https://www.sc.egov.usda.gov/data/data_files.html).

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<sup>1</sup> Sixty percent of the Model 2 leavers (just prepayment) were located in the Plains Region and 85 percent in either the Great Lakes, Plains, or Southeast region.

Historical data were accessed from Housing Assistance Council tabulations of programmatic data from USDA 205 C, D, and F reports. The USDA Rural Development (RD) Year-End Report presents fiscal year Rural Housing program loan and grant funding activities for most USDA housing programs at the state and national level. These figures derive from HAC tabulations of USDA-Finance Office reports. Most of the data comes from the USDA Rural Development “Report Code (RC) 205– Report of Loan and Grant Obligations, Vouchers, Allotments or Distributions.”

The RC 205 report summarizes the number and dollar amount of the agency’s fund obligations by program and by state.

Sections of the report include:

- RC 205 – C includes data on the USDA housing programs except for programs in the AMAS and Rental Assistance systems.
- RC 205 – D includes data on USDA obligations from the USDA Automated Multi-Family Housing Accounting System (AMAS).
- RC 205 – F contains summarized Rental Assistance data.

Other administrative data used in this report were accessed from USDA’s Multi-Family Housing Divisions in the National Office. USDA Finance Office reports focus on the numbers and dollar amounts of the program loans and grants. Breakout information such as the numbers of new construction and rehabilitated/repared units financed in multi-family housing complexes comes from the agency’s National Office program staff.

Additional data on USDA tenants were accessed from USDA’s annual Multi-Family Fair Housing Occupancy reports from 2010-2016 and accessed from HAC’s USDA rural housing data page at <http://www.ruralhome.org/sct-information/usda-housing-program-data/usda-historic>.

### **U.S. Census Bureau’s 2010 Census of Population and Housing<sup>25</sup>**

The U.S. Census counts every resident in the United States. It is mandated by Article I, Section 2 of the Constitution and takes place every 10 years. The data collected by the decennial census determine the number of seats each state has in the U.S. House of Representatives and is also used to distribute billions in federal funds to local communities.

Approximately 74 percent of U.S. households returned their census forms by mail; the remaining households were counted by census workers walking neighborhoods throughout the United States. National and state population totals from the 2010 Census were released on December 21, 2010.

### **U.S. Census Bureau’s American Community Survey (ACS) Five-Year Estimates (ACS)<sup>26</sup>**

The American Community Survey (ACS) is a nationwide survey designed to provide communities with reliable and timely demographic, social, economic, and housing data every year. The U.S. Census Bureau will release data from the ACS in the form of both single-year and multiyear estimates. These estimates represent concepts that are fundamentally different from those associated with sample data from the decennial census long form.

Every 10 years since 1790, Congress has authorized funds to conduct a national census of the U.S. population. The decennial census is required by the U.S. Constitution. Recent censuses have consisted of a “short form,” which included basic questions about age, sex, race, Hispanic origin, household relationship, and owner/renter status, and a “long form.” The long form was used at only a sample of households and included not only the basic questions on the short form but also detailed questions about social, economic, and housing characteristics. The questions on the long form supplied the raw data needed for a range of programs affecting education, veterans, employment, housing and community development, public health care, commuting, services for the elderly and

disabled, and assistance programs for low-income families and children. About \$300 billion in federal program funds are distributed each year based, in whole or in part, on these data.

The U.S. Census Bureau, under the authority of Title 13, U.S. Code, Sections 141 and 193, conducts the American Community Survey. Title 13 also requires that the Census Bureau use this information only for statistical purposes. All statistical tables and public use files based on ACS results strictly maintain the confidentiality of individual responses.

Survey questionnaires are sent to approximately 250,000 addresses across the country every month. Addresses from which a questionnaire is not returned by mail are followed-up, first in an attempt to obtain the information by telephone, and then, for a sample of nonresponding households, in person by a Census Bureau field interviewer.

Based on responses from the series of 12 independent monthly samples each calendar year, the ACS can provide estimates of demographic, housing, social, and economic characteristics for all states, as well as for cities, counties, metropolitan areas, and population groups of 65,000 or more. These estimates, based on a full year's worth of collected ACS data, are called "1-year estimates." For less populated areas, such as rural villages and towns, 3 or 5 years of ACS data are accumulated to produce statistically reliable estimates of population and housing characteristics. Estimates for areas with populations of 20,000 or more are based on data collected over 3 years ("3-year estimates").

For rural areas, urban neighborhoods, census tracts, block groups, and population groups of fewer than 20,000 people, it will take 5 years to accumulate enough survey data to achieve data estimates with statistical reliability that is similar to that of the Census 2000 long-form sample survey. These latter survey estimates, called "5-year estimates," are published for areas with small populations each year.

In order to deliver more timely information for all the geographic areas served by the decennial long form, the Census Bureau designed the ACS as a sample survey using a continuous measurement approach to data collection. A sample of 3 million addresses is drawn from the Census Bureau's Master Address File (MAF) each year. For geographic areas with populations larger than 65,000, the sample is sufficient to produce reliable estimates based on a year's worth of responses. However, in order to provide estimates for areas with smaller populations, the sample must be accumulated over a number of years. The Census Bureau produces 3-year estimates for areas down to populations of 20,000 or more and 5-year estimates for all units of census geography.

A detailed description of ACS data collection methodology and the survey's sample design may be found at: [http://www.census.gov/acs/www/SBasics/desgn\\_meth.htm](http://www.census.gov/acs/www/SBasics/desgn_meth.htm).

For more information on data and methodology in the American Community Survey (ACS) please consult the Census Bureau Documentation: <http://www.census.gov/acs/www/Downloads/handbooks/ACSResearch.pdf>

<http://www.census.gov/acs/www/Downloads/handbooks/ACSRuralAreaHandbook.pdf>

### **Bureau of Labor Statistics Local Area Unemployment Statistics<sup>27</sup>**

The Bureau of Labor Statistic's *Local Area Unemployment Statistics (LAUS)* program produces monthly and annual employment, unemployment, and labor force data for Census regions and divisions, states, counties, metropolitan areas, and many cities. For detailed information about the Bureau of Labor Statistic's Local Area Unemployment Statistics data used in this database, please consult the Bureau's report, *LAUS Estimation Methodology*. <http://www.bls.gov/lau/laumthd.htm>

## DEFINING RURAL - GEOGRAPHIC TERMS AND CONCEPTS

Establishing a definition of rural poses many challenges. Rural areas share the common characteristics of comparatively few people living in an area, limited access to large cities, and considerable traveling distances to market areas for work and everyday-living activities. Over the years, public agencies and researchers have used combinations of these factors to define rural areas and designate population as rural.

**USDA-RURAL DEVELOPMENT (RD) DEFINITION OF RURAL (ELIGIBLE) AREAS** USDA administers a wide array of economic and community development programs through its Rural Development agency. Many of these programs operate under differing concepts of “rural” to determine program eligibility. Most housing programs within the agency’s Rural Housing Service (RHS) are available to eligible households in “rural areas” defined as:

*Any area classified as “rural” or a “rural area” prior to October 1, 1990, and determined not to be “rural” or a “rural area” as a result of data received from or after the 1990, 2000, or 2010 decennial census, and any area deemed to be a “rural area” at any time during the period beginning January 1, 2000, and ending December 31, 2010, shall continue to be so classified until the receipt of data from the decennial census in the year 2020, if such area has a population in excess of 10,000 but not in excess of 35,000, is rural in character, and has a serious lack of mortgage credit for lower and moderate-income families.*

As indicated in the statute, updates to the definition are contingent upon the release of the 2010 Census of Population and Housing. This multifaceted definition of “rural areas” utilized by USDA is arguably complex. It includes a compilation of differing concepts of rural, and is further convoluted by arbitrary stipulations such as rural character and grandfathering.

### HAC’s Rural & Small Town Tract Designation

Given the changes and shortcomings to traditional definitions used to identify rural areas, HAC developed a sub-county designation of rural and small-town areas which incorporates measures of housing density and commuting at the Census tract level to establish a more precise measure of rural character.<sup>1</sup> This alternative residence definition includes six classifications: 1) rural, 2) small-town, 3) exurban, 4) outer suburban, 5) inner suburban, and 6) urban. For simplicity, these designations are often collapsed into 3 general classifications of: 1) small town and rural tracts, 2) suburban and exurban tracts, and 3) urban tracts.

The HAC rural tract classifications are specifically defined by the following characteristics.

1 = Rural tract – Less than 16 housing units per square mile (.025 housing units per acre).

2 = Small-town tract – Sixteen to 64 housing units per square mile (.025 to 0.1 housing units per acre), as well as a low degree of commuting to a metropolitan core area identified by a USDA ERS designated “Rural Urban Commuting Area Code” (RUCA) score of 4 or higher.

3 = Exurban tract - Sixteen to 64 units per square mile (.025 to 0.1 housing units per acre) along with a high degree of commuting to a metropolitan core area identified by a USDA ERS Rural Urban Commuting Area Code (RUCA) score of 3 or lower.

4 = Outer Suburban tract – 65 to 640 housing units per square mile. (0.1 to 1.0 housing units per acre).

5 = Inner Suburban tract – 641 to 1,600 housing units per square mile. (1.1 to 2.5 housing units per acre).

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<sup>1</sup> HAC’s tract-based rural classification definition is based in part on concepts of housing density introduced by David Theobald. “Land-Use Dynamics Beyond the American Urban Fringe.” *Geographical Review*. (Volume 91, Number 3. 9 July 2001) pages 544-564.

6 = Urban tract - More than 1,600 housing units per square mile (2.5 housing units per acre).

### **USDA Economic Research Service (ERS) Rural-Urban Commuting Area Codes<sup>28</sup>**

The Rural-Urban commuting area (RUCA) codes, a detailed and flexible scheme for delineating sub-county components of the U.S. settlement system developed by the U.S. Department of Agriculture's Economic Research Service (ERS). RUCA codes are based on the same theoretical concepts used by the Office of Management and Budget (OMB) to define county-level metropolitan and micropolitan areas. We applied similar criteria to measures of population density, urbanization, and daily commuting to identify urban cores and adjacent territory that is economically integrated with those cores. ERS adopted OMB's metropolitan and micropolitan terminology to highlight the underlying connectedness between the two classification systems. However, the use of census tracts instead of counties as building blocks for RUCA codes provides a different and more detailed geographic pattern of settlement classification. Census tracts are used because they are the smallest geographic building block for which reliable commuting data are available.

### **Office of Management and Budget (OMB) Defined Metropolitan and Micropolitan Statistical Areas<sup>29</sup>**

The United States Office of Management and Budget (OMB) defines Metropolitan and Micropolitan statistical areas according to published standards that are applied to Census Bureau data. The general concept of a Metropolitan or Micropolitan statistical area is that of a core based statistical area (CBSA) containing a substantial population nucleus, together with adjacent communities having a high degree of economic and social integration with that core. Currently defined Metropolitan and Micropolitan statistical areas are based on application of 2000 standards. Current Metropolitan and Micropolitan statistical area definitions were announced by OMB effective June 6, 2003.

The 2000 standards provide that each CBSA must contain at least one urban area of 10,000 or more population. Each metropolitan statistical area must have at least one urbanized area of 50,000 or more inhabitants. Each micropolitan statistical area must have at least one urban cluster of at least 10,000 people but a population of less than 50,000.

Under the standards, the county (or counties) in which at least 50 percent of the population resides within urban areas of 10,000 or more population, or that contain at least 5,000 people residing within a single urban area of 10,000 or more population, is identified as a "central county" (counties). Additional "outlying counties" are included in the CBSA if they meet specified requirements of commuting to or from the central counties. Counties or equivalent entities form the geographic "building blocks" for metropolitan and micropolitan statistical areas throughout the United States and Puerto Rico. The basic categories of the 2000 OMB Metropolitan classifications include:

*Metropolitan Statistical Areas* Metropolitan Statistical Areas have at least one urbanized area of 50,000 or more population, plus adjacent territory that has a high degree of social and economic integration with the core as measured by commuting ties. With these standards there are 1090 counties classified as metropolitan.

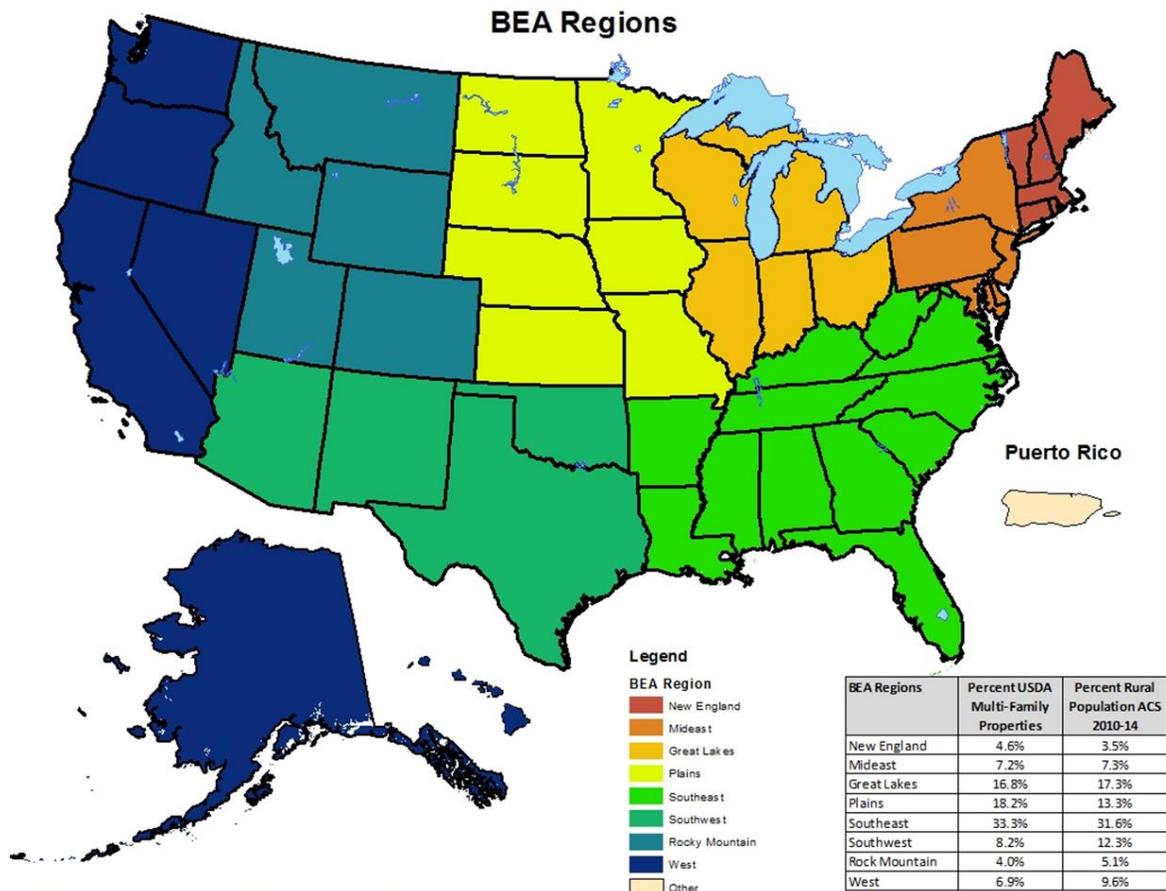
*Micropolitan Statistical Areas* Micropolitan Statistical Areas – a new set of statistical areas – have at least one urban cluster of at least 10,000 but less than 50,000 population, plus adjacent territory that has a high degree of social and economic integration with the core as measured by commuting ties.

*Outside Core Based Statistical Areas (Outside CBSA):* Areas not included in Metro or Micropolitan Statistical Areas.

### **Region**

Regional analyses incorporated into the study utilized the Bureau of Economic Analysis classifications. The BEA classifies regions as follows: *New England* – Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont; *Mideast* – Delaware, District of Columbia, Maryland, New Jersey, New York, and Pennsylvania; *Great*

*Lakes* – Illinois, Indiana, Michigan, Ohio, and Wisconsin; *Plains* – Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota; *Southeast* – Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia; *Southwest* – Arizona, Oklahoma, New Mexico, and Texas; *Rocky Mountain* – Colorado, Idaho, Montana, Utah, and Wyoming; and, *Far West* – Alaska, California, Hawaii, Nevada, Oregon, and Washington. The BEA classifications did not include Puerto Rico, Virgin Islands, or Western Pacific areas; HAC assigned the category “Other” to these areas. It should be noted that the BEA assigned regions are not equal in size (number of states or population). The grouping does, however, allow for comparison of neighboring states with common economic characteristics. This information came from the following url: <http://www.bea.gov/regional/docs/regions.cfm> . The BEA classification was chosen since it represents economic regional connections and shared characteristics.



### County (or Statistically Equivalent Entity)<sup>30</sup>

The primary legal divisions of most states are termed “counties.” In Louisiana, these divisions are known as parishes. In Alaska, which has no counties, the statistically equivalent entities are census areas, cities and boroughs (as in Juneau City and Borough), a municipalities (Anchorage), and organized boroughs. Census areas are delineated cooperatively for data presentation purposes by the state of Alaska and the U.S. Census Bureau. In four states (Maryland, Missouri, Nevada, and Virginia), there are one or more incorporated places that are independent of any county organization and thus constitute primary divisions of their states; these incorporated places are known as “independent cities” and are treated as equivalent to counties for data presentation purposes. (In some data presentations, they may be treated as county subdivisions and places.) The District of Columbia has no primary divisions, and the entire area is considered equivalent to a county for data presentation purposes.

## Census Tracts<sup>31</sup>

Census Tracts are small, relatively permanent statistical subdivisions of a county or equivalent entity that are updated by local participants prior to each decennial census as part of the Census Bureau's Participant Statistical Areas Program. The Census Bureau delineates census tracts in situations where no local participant existed or where state, local, or tribal governments declined to participate. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data.

Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. A census tract usually covers a contiguous area; however, the spatial size of census tracts varies widely depending on the density of settlement. Census tract boundaries are delineated with the intention of being maintained over a long time so that statistical comparisons can be made from census to census. Census tracts occasionally are split due to population growth or merged as a result of substantial population decline.

Census tract boundaries generally follow visible and identifiable features. They may follow nonvisible legal boundaries, such as minor civil division (MCD) or incorporated place boundaries in some states and situations, to allow for census-tract-to-governmental-unit relationships where the governmental boundaries tend to remain unchanged between censuses. State and county boundaries always are census tract boundaries in the standard census geographic hierarchy.

## DATA LIMITATIONS

### Concerns and Limitations with USDA Program Data

Much of the data utilized for this study was accessed from USDA's public website [https://www.sc.egov.usda.gov/data/data\\_files.html](https://www.sc.egov.usda.gov/data/data_files.html).

There are challenges to using USDA administrative and programmatic data for tracking the disposition of properties. Currently properties are identified using the data elements for borrower ID, project ID, and a check digit. When the property ownership changes hands, the borrower ID also changes. Rather than rely upon a borrower ID, a permanent unique identifying variable for each Section 515 property would help. This would help data users to fully understand what happens to a property over time, particularly with regards to things such as ownership changes and additional loans. This change would lead to a better understanding of how the program and its properties adapt to change over time.

The public data should allow easy comparison with other USDA published information, especially as it relates to tenant data. The tenant data on USDA's website is not updated. The tenant data has not changed since at least March 2016, when HAC began this study. The data supplied for this study (as of March 31, 2016) indicates there were 13,829 Section 515 properties, 391,583 tenants, and 271,418 Rental Assistance units. The September 2015 Occupancy report indicated 13,957 properties, 389,255 tenants, and 261,081 Rental Assistance units. There are also some areas where the data may be inaccurate. For example, of the 13,829 Section 515 properties in the data initially provided, the data file state and county FIPs codes do not match up with the FIPs associated with the longitude and latitude coordinates in 715 cases. It might be useful to employ different measures that essentially capture the same information to assess whether the data is accurate.

USDA data reviewed included seven variables labeled "Race Code [race] Counts" which are generally defined as "Number of tenants that are marked as selecting [one of the agency provided race codes]." As defined, these numbers should reflect tenants or co-tenants but it appears the number reflects all occupants. In other words, some data elements appear to reflect the head of household while others include all occupants.

The data indicates that there are 634,574 household members. However, the total of all of the race counts adds up to 665,942. Hispanic tenants (totaling 89,261) could be any race, so it is not possible to look at the total number of minority tenants because the race and ethnicity data could not be combined. To address this, the study calculated percentages by race and ethnicity.

Household Count	634,574
Race	Number of "Tenants"
American Indian/Alaskan Native	4,187
African American/Black	155,643
Asian	17,128
Hawaiian/Pacific Islander	3,855
White	482,771
Not Specified	2,358
Sum Race	665,942

Ethnicity	Number of Tenants
Hispanic	89,261

Likewise, the variable "Subsidy [type] Count" is defined as the "Number of tenants receiving subsidy type [type]." The numbers add up to the total number of occupants (Household Count – see above).

Rent Subsidy	<b>Total</b>
USDA Section 521 RA	412,851
HUD PB Section 8	50,890
HUD HCV	33,052
Other Public Rent Subsidy	6,487
Other Basic Rate	1,349
Private Voucher	632
HUD HCV @ Basic Rate	1
No Rental Assistance	129,312
Totals	634,574

A cross-check of information could be used to explore the data and identify issues before it is publicly released.

### **Census 2010 Overcount/Undercount<sup>32</sup>**

The Census Bureau estimates that among the 300.7 million people who live in housing units, about 94.7 percent were counted correctly, about 3.3 percent were counted erroneously, 1.6 percent provided only a census count and had their demographic characteristics imputed, or statistically inserted, and 0.4 percent needed more extensive imputation after all census follow-up efforts were attempted. Among those erroneously counted, about 84.9 percent were duplicates, while the remainder were incorrectly counted for another reason, such as people who died before Census Day (April 1, 2010), who were born after Census Day or were fictitious census records.

The Census Bureau estimated 16.0 million omissions in the census. Omissions include people missed in the census and people whose census records could not be verified in the post-enumeration survey because they did not answer enough of the demographic characteristic questions in the census. Of the 16.0 million omissions, about 6.0 million were likely counted in the census but couldn't be verified in the post-enumeration survey.

The 2010 Census undercounted renters by 1.1 percent, showing no significant change compared with 2000. Homeowners were overcounted in both the 2000 and 2010 censuses. However, the 2010 Census reduced the net overcount for homeowners from 1.2 percent to 0.6 percent. Renters were more likely to be duplicated than owners and twice as likely to have all of their characteristics imputed.

As with prior censuses, coverage varied by race and Hispanic origin. The 2010 Census overcounted the non-Hispanic white alone population by 0.8 percent, not statistically different from an overcount of 1.1 percent in 2000.

The 2010 Census undercounted 2.1 percent of the African American (black) population, which was not statistically different from a 1.8 percent undercount in 2000. In 2010, 1.5 percent of the Hispanic population was undercounted. In 2000, the estimated undercount of 0.7 percent was not statistically different from zero. The difference between the two censuses was also not statistically significant.

The Census Bureau did not measure a statistically significant undercount for the Asian or for the Native Hawaiian and Other Pacific Islander populations in 2010 (at 0.1 percent and 1.3 percent, respectively). These estimates were also not statistically different from the results measured in 2000 (a 0.8 percent overcount and a 2.1 percent undercount, respectively).

Coverage of the American Indian and Alaska Native population varied by geography. American Indians and Alaska Natives living on reservations were undercounted by 4.9 percent, compared with a 0.9 percent overcount in 2000. The net error for American Indians not living on reservations was not statistically different from zero in 2010 or 2000.

Men 18 to 29 and 30 to 49 were undercounted in 2010, while women 30 to 49 were overcounted, a pattern consistent with 2000. The estimated overcount of women 18 to 29 was not statistically significant.

The post-enumeration survey did not measure a statistically significant undercount or overcount in the population or housing units for any state. The survey did not measure a statistically significant undercount or overcount for the population in any counties or places of 100,000 or more. The 2010 Census undercounted housing units, mostly because of an undercount of vacant units. On the other hand, there was no statistically significant undercount or overcount of occupied housing units.

### **Margin of Error in the American Community Survey<sup>33</sup>**

Data from the American Community Survey (ACS) is based on a sample and is subject to sampling variability. Sampling error is the uncertainty associated with an estimate that is based on data gathered from a sample of the population rather than the full population. The American Community Survey (ACS) provides users with measures of sampling error along with each published estimate. To accomplish this, all published ACS estimates are accompanied either by 90 percent margins of error or confidence intervals, both based on ACS direct variance estimates.

ACS estimates include a point estimate as well as a margin of error. The margin of error is most often indicated by plus and minus signs followed by a number value. This value represents the range within which one can assert the population value will be found, according to varying levels of confidence. The margin of error gives nuance to the best guess point estimates by providing a more accurate range of data values. Adding and subtracting the margin of error to a point estimate creates the range, or the confidence interval.

Point estimates use statistical techniques, such as regression models, to infer from sample data what the actual value of the characteristic is in the population. These point estimates can be thought of as a best guess of the population characteristic value, given the available sample survey data information. As with any guess or prediction, estimates are only as reliable as the information they are based on. Estimates such as those presented in the ACS can vary in precision, especially in relationship to the overall sample size. A smaller number of sample observations leads to less accurate estimates, while a larger number of sample observations often provide more accurate estimates.

For more information of accuracy of data from the American Community Survey please consult the Census Bureau publication, ACS Design and Methodology: [http://www.census.gov/acs/www/methodology/methodology\\_main/](http://www.census.gov/acs/www/methodology/methodology_main/)

## DERIVED MEASURES<sup>34</sup>

**Mean.** This measure represents an arithmetic average of a set of values. It is derived by dividing the sum (or aggregate) of a group of numerical items by the total number of items in that group. For example, mean household earnings is obtained by dividing the aggregate of all earnings reported by individuals with earnings in households by the total number of households with earnings.

**Median.** This measure represents the middle value (if n is odd) or the average of the two middle values (if n is even) in an ordered list of n data values. The median divides the total frequency distribution into two equal parts: one-half of the cases falling below the median and one half above the median. The median is computed on the basis of the distribution as tabulated, which is sometimes more detailed than the distribution shown in specific census publications and other data products.

**Interpolation.** Interpolation frequently is used in calculating medians or quartiles based on interval data and in approximating standard errors from tables. Linear interpolation is used to estimate values of a function between two known values.

**Percentage.** This measure is calculated by taking the number of items in a group possessing a characteristic of interest and dividing by the total number of items in that group and then multiplying by 100.

**Rate.** This is a measure of occurrences in a given period of time divided by the possible number of occurrences during that period. Rates are sometimes presented as percentages.

## ENDNOTES

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<sup>1</sup> HAC tabulations of USDA multi-family tenant data.

<sup>2</sup> Senate Report to accompany S. 1603, the fiscal year 2018 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Bill, S.Rept. 115-131 (July 20, 2017). Accessed 9/11/17 at <https://www.appropriations.senate.gov/imo/media/doc/FY2018%20Agriculture%20Appropriations%20Bill,%20Report%20115-131.pdf>.

<sup>3</sup> The Multi-Family Housing subsection of the Rural Development Dataset Website is at [https://www.sc.egov.usda.gov/data/data\\_files.html](https://www.sc.egov.usda.gov/data/data_files.html). All USDA Section 515 data, besides the loan maturity date, can be found as of 7/26/16 at [http://www.sc.egov.usda.gov/data/MFH\\_section\\_515.html](http://www.sc.egov.usda.gov/data/MFH_section_515.html). The data USDA provided to HAC for this review is slightly different from the data found on the USDA website.

<sup>4</sup> Housing Assistance Council, USDA RD Historic Activity Through FY 2015. Accessed 9/12/17 at <http://ruralhome.org/sct-information/usda-housing-program-data/rd-annual-obs/189=historic-activity>.

<sup>5</sup> Property Owners and Managers Survey (POMS) dated 12/19/12. Accessed 9/10/17 at [https://data.hud.gov/data\\_sets.html](https://data.hud.gov/data_sets.html).

<sup>6</sup> Residential Vacancies and Homeownership in the First Quarter 2016. Accessed 2/28/17 at <https://www.census.gov/housing/hvs/files/qtr116/qtr116hvspress.pdf>.

<sup>7</sup> CoreLogic Inc. and RSM US LLP, "USDA Rural Development Multi-Family Housing Comprehensive Property Assessment" (2016). Accessed 8/10/16 at <http://www.rd.usda.gov/files/reports/USDA-RD-CPAMFH.pdf>.

<sup>8</sup> U.S. Department of Housing and Urban Development, *What Happens to Low Income Housing Tax Credit Properties at Year 15 and Beyond?*, 2012, Washington, DC (Submitted by Abt Associates Inc.)

<sup>9</sup> U.S. Census Bureau, U.S. Department of Commerce, *Income, Poverty and Health Insurance Coverage in the United States: 2011*, Current Population Reports, Washington, DC: U.S. Census Bureau, September 2012.

<sup>10</sup> USDA Rural Housing Service, "Results of the 2006 Multi-Family Housing Annual Fair Housing Occupancy Report" (March 22, 2006).

<sup>11</sup> 7 CFR §3560.658(b).

<sup>12</sup> USDA Rural Housing Service, "Rural Development Voucher Program" (notice), *Federal Register* 82:21972-75 (May 11, 2017). Accessed 9/11/17 at <https://www.gpo.gov/fdsys/pkg/FR-2017-05-11/pdf/2017-09500.pdf>.

<sup>13</sup> 7 CFR §3560.456.

<sup>14</sup> HB-3-3560, p. 12-1. Accessed at <https://www.rd.usda.gov/files/3560-3chapter12.pdf>.

<sup>15</sup> HB-3-3560, Chapter 6. Accessed at <https://www.rd.usda.gov/files/3560-3chapter06.pdf>.

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- <sup>16</sup> USDA Rural Housing Service, “Management of Loan Payoffs in Multi-Family Housing Properties,” Unnumbered Letter (December 28, 2016). Accessed at <https://www.rd.usda.gov/files/RDUL-Payoffs.pdf>.
- <sup>17</sup> Two studies describe the negative impacts to rural communities from losing first a local school and second a health clinic. Jane Wishner, Patricia Sollevald, Robin Rudowitz, Julia Paradise, and Larisa Antonisse, *A Look at Rural Hospital Closures and Implications for Access to Care: Three Case Studies*, Kaiser Commission on Medicaid and the Uninsured: Issue Brief, July 2016. Accessed 2/15/17 at [kff.org/report-section/a-look-at-rural-hospital-closures-and-implications-for-access-to-care-three-case-studies-issue-brief/](http://kff.org/report-section/a-look-at-rural-hospital-closures-and-implications-for-access-to-care-three-case-studies-issue-brief/). Thomas Lyson, *What Does a School Mean to a Community? Assessing the Social and Economic Benefits of Schools to Rural Villages in New York*, *Journal of Research in Rural Education*, 17(3): 131-137 (2002). Accessed 2/15/17 at [jrre.vhost.psu.edu/wp-content/uploads/2014/02/17-3\\_1.pdf](http://jrre.vhost.psu.edu/wp-content/uploads/2014/02/17-3_1.pdf).
- <sup>18</sup> 7 CFR §3560.662.
- <sup>19</sup> USDA Rural Housing Service, “March 1, 2017, Pilot Program to Promote Non-Profit Participation in Transactions to Retain the Section 515 Portfolio,” Unnumbered Letter (September 16, 2016). Accessed at <https://www.rd.usda.gov/files/RDUL-Nonprofit.pdf>.
- <sup>20</sup> Consolidated Appropriations Act, 2017, P.L. 115-31, Division A, Section 771. Accessed at <https://www.congress.gov/115/bills/hr244/BILLS-115hr244enr.pdf>.
- <sup>21</sup> U.S. Department of Housing and Urban Development, *Worst Case Housing Needs: 2017 Report to Congress* (Washington, DC: HUD, 2017), p. xi. Accessed 9/14/17 at <https://www.huduser.gov/portal/sites/default/files/pdf/Worst-Case-Housing-Needs.pdf>.
- <sup>22</sup> USDA Rural Housing Service, “Results of the 2016 Multi-Family Housing Annual Fair Housing Occupancy Report,” Unnumbered Letter (December 6, 2016). Accessed at [http://www.ruralhome.org/storage/documents/rd\\_obligations/mfh-occupancy/occupancymfh2016.pdf](http://www.ruralhome.org/storage/documents/rd_obligations/mfh-occupancy/occupancymfh2016.pdf).
- <sup>23</sup> Federal Housing Finance Agency, “Enterprise Duty to Serve Underserved Markets” (final rule), *Federal Register* 81: 96242-96301, p. 96242. Accessed at <https://www.gpo.gov/fdsys/pkg/FR-2016-12-29/pdf/2016-30284.pdf>.
- <sup>24</sup> Accessed at <https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/Duty-to-Serve.aspx>.
- <sup>25</sup> Excerpted from *What is the Census?* Accessed at <http://2010.census.gov/2010census/about/>.
- <sup>26</sup> Excerpted from U.S. Census Bureau, *A Compass for Understanding and Using American Community Survey Data: What Researchers Need to Know*. U.S. Department of Commerce. Washington DC, May 2009. Accessed at <http://www.census.gov/acs/www/Downloads/handbooks/ACSResearch.pdf>.
- <sup>27</sup> Excerpted from *LAUS Estimation Methodology*. Accessed at <http://www.bls.gov/lau/laumthd.htm>.
- <sup>28</sup> Excerpted from UDSA Economic Research Service, *Rural-Urban Commuting Area Codes*. Accessed at <http://www.ers.usda.gov/data-products/rural-urban-commuting-area-codes.aspx>.
- <sup>29</sup> Excerpted from U.S. Census Bureau, *Geographic Terms and Concepts - Core Based Statistical Areas and Related Statistical Areas*. Accessed at [http://www.census.gov/geo/www/2010census/gtc/gtc\\_cbsa.html#md](http://www.census.gov/geo/www/2010census/gtc/gtc_cbsa.html#md).
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- <sup>34</sup> Excerpted from American Community Survey – *Subject Definitions*. Accessed at [http://www.census.gov/acs/www/Downloads/data\\_documentation/SubjectDefinitions/2009\\_ACSSubjectDefinitions.pdf](http://www.census.gov/acs/www/Downloads/data_documentation/SubjectDefinitions/2009_ACSSubjectDefinitions.pdf).