



Rural Rental Housing Preservation: Legislative Proposals

Housing Assistance Council

November 2007

This policy brief describes two bills introduced in the House of Representatives in October 2007 to assist with the preservation of affordable rental housing produced through the U.S. Department of Agriculture's Section 515 Rural Rental Housing program. Section 515 has financed more than 550,000 decent, safe, sanitary, and affordable homes, which are often the only such rental housing in rural communities. Residents' incomes average about \$10,000 per year, and more than half of resident households are headed by elderly people or people with disabilities.

The Rural Housing Preservation Act of 2007

H.R. 4002, the Rural Housing Preservation Act of 2007, was introduced in the House of Representatives on October 30, 2007 by Reps. Lincoln Davis (D-Tennessee) and Geoff Davis (R-Kentucky). The bill is in some ways a successor to H.R. 5039, which passed the House Committee on Financial Services in 2006 but was never considered by the full House. Unlike H.R. 5039, however, H.R. 4002 would not remove prepayment restrictions on pre-1989 Section 515 properties.

H.R. 4002 addresses the need for revitalization and refinancing of properties developed under the U.S. Department of Agriculture (USDA) Section 515 Rural Rental Housing Program. It would:

- create a new Section 544 preservation program that would:
 - provide the kind of financial restructuring options that have been available through USDA's Multi-Family Housing Preservation and Revitalization Restructuring Program (MPR) demonstration, including loan forgiveness, payment deferrals, reamortizations, grants, loans, loan guarantees, and others;
 - authorize USDA to use third parties – participating administrative entities – as in the Mark to Market program for U.S. Department of Housing and Urban Development (HUD) rental properties;
- require use restrictions (i.e., continued affordability for low-income tenants) lasting 30 years or the term of USDA's loan, whichever is longer, for any property participating in the revitalization program;
- cap rents for all tenants in revitalized properties at 30 percent of income, providing new USDA Section 542 vouchers as necessary (not new Section 521 Rental Assistance (RA), although USDA would still be able to offer new RA as a preservation incentive to owners who requested prepayment);
- be offered to an owner who was awarded damages through a prepayment lawsuit only if the owner contributed the lesser of 50 percent of the damage award or \$100,000 towards revitalizing the property; and
- not be available to owners who were participating in active lawsuits, had a history of poor property management, were in default on a Section 515 loan, or the like.
- add two new types of vouchers under Section 542 for:
 - tenants in Section 515 properties preserved under Section 544 who did not have Section 521 or Section 8 rental assistance and needed aid to keep their rent costs at 30 percent of income; and
 - tenants of Section 515 properties whose mortgages were prepaid or foreclosed, whether the tenants relocated or remained in the properties.

H.R. 4002 is not expected to be considered in the House this year. House Financial Services Committee Chairman Barney Frank (D-Massachusetts) has said preservation of both HUD and USDA properties will be a priority for his committee in 2008.

H.R. 4002 is available in PDF format on HAC's website at <http://www.ruralhome.org/manager/uploads/HR4002.pdf>. Details, as well as the text of the bill, are available at <http://thomas.loc.gov> (search for the bill by number).

The Section 515 Rural Housing Property Transfer Improvement Act of 2007

H.R. 3873, the Section 515 Rural Housing Property Transfer Improvement Act of 2007, is intended to expedite transfers of ownership of Section 515 rural rental properties in connection with rehabilitating them and preserving them as affordable housing.

The bill was introduced on October 17, 2007 by Rep. Paul Hodes (D-New Hampshire) and Rep. Shelley Moore Capito (R-West Virginia). Reps. Rubén Hinojosa (D-Texas) and Joe Baca (D-California) are also co-sponsors. The House Financial Services Committee approved H.R. 3873 on October 31. The measure goes next to the House floor.

H.R. 3873 would establish new requirements for USDA approval of ownership transfers for Section 515 properties.

- It directs USDA to make whatever changes are needed to expedite approvals. "Such changes may include changing approval procedures, increasing staff and resources, improving outreach to project sponsors regarding information that is required to be submitted for such approvals, changing approval authority between national offices and the State and local offices, simplifying approval requirements, establishing uniformity of transfer requirements among State offices, and any other actions which would expedite approvals."
- It directs USDA to consult with the IRS and HUD to simplify the coordination of rules, forms, and approval requirements for Section 515 properties that have financing from the Low Income Housing Tax Credit or tax-exempt housing bonds.
- It directs USDA to "actively facilitate" ownership transfers for preservation and rehabilitation.
- It makes clear that USDA's Office of Rental Housing Preservation (ORHP) has final regulatory authority over all transfers of Section 515 properties, and that ORHP may work with USDA Rural Development (RD) State Offices.
- It establishes deadlines for processing of transfer applications. After a complete application is submitted, RD state and local offices must approve or deny it within:
 - 45 days if one property is involved,
 - 90 days if 2-10 properties are involved, or
 - 120 days if 11 or more properties are involved.
- After the appropriate deadline passes, if an application has not been acted upon, it must be transferred to ORHP, which must approve or deny it within:
 - 30 days for one property,
 - 60 days for 2-10 properties, or
 - 120 days for 11 or more properties.

- ORHP may obtain the assistance of other RD staff, although it remains responsible. This provision allows RD to continue using experienced staff in certain states to review applications from other states, while requiring ORHP to ensure that deadlines are met.
- Final decisions on transfers could be appealed to USDA's National Appeals Division.

The bill would also require USDA to submit a report to Congress by July 1, 2008 explaining what actions it took, what improvements resulted, and what additional legislative changes would help expedite transfers.

H.R. 3873 is available in PDF format on HAC's website at <http://www.ruralhome.org/manager/uploads/HR3873.pdf>. Details, as well as the text of the bill, are available at <http://thomas.loc.gov> (search for the bill by number).

This policy brief was prepared by the Housing Assistance Council. The work that provided the basis for this publication was supported by funding from the John D. and Catherine T. MacArthur Foundation. The substance and finding of that work are dedicated to the public. The publisher is solely responsible for the accuracy of the statements and interpretations contained in this publication.

A national nonprofit corporation headquartered in Washington, DC, and founded in 1971, the Housing Assistance Council helps local organizations build affordable homes in rural America by providing below-market financing, technical assistance, research, training, and information services to the organizations. HAC's programs focus on local solutions, empowerment of the poor, reduced dependency, and self-help strategies. HAC is an equal opportunity lender.

More information about rural rental housing preservation is available on HAC's website at <http://www.ruralhome.org/issues/preservation>.

HOUSING ASSISTANCE COUNCIL
1025 Vermont Avenue, NW
Suite 606
Washington, DC 20005
202-842-8600
www.ruralhome.org