

Affordable Housing in Rural New England

Rural Development Programs and the FY12 Budget

New England Housing Network – Rural Working Group

In rural New England, as in the rest of rural America, residents are more likely to be elderly and/or to live in poverty than the population as a whole. USDA Rural Development has a long and successful history of facilitating the provision of affordable housing to these low and very low income rural Americans including in the rural areas of New England. During the past three years alone RD has invested \$828 million in the six New England states. Nearly 5,200 homeowners have benefitted from RD loans, loan guarantees and grants. Numerous residents of rental properties have also benefitted from RD's rental housing programs. USDA Rural Development has been an essential partner in revitalizing New England communities, creating new affordable rental housing, enabling low income residents to become homeowners, and helping very low income homeowners to make essential repairs. New Englanders have also relied on RD to house farm workers, preserve existing multi-family rental developments and help potential homeowners build their own homes through self-help technical assistance.

These programs are essential to meeting the affordable housing needs of rural New England. Comparable programs do not exist at HUD and rural communities in New England often are not competitive for some HUD programs.

Given these highly effective accomplishments, the Administration's proposed FY12 budget is particularly alarming. It calls for deep cuts to many programs and the complete elimination of several valuable RD programs. The modest savings that would be achieved through these cuts would clearly be offset by the elimination of asset building and security provided by homeownership, jobs and job training opportunities. They could also jeopardize the preservation of past investments of public dollars.

Some programs being severely cut or proposed for elimination are:

Section 502 Single Family Direct Loans – Many low and very low income homebuyers rely on this program as their only way to achieve homeownership. In the past three years alone, the 502 program has enabled nearly 500 New England families to accumulate assets through equity on their homes and to achieve the security that homeownership brings. The program's success record is strong not only in building assets, but in protecting the federal investment, with delinquency and foreclosure rates that are better than conventional mortgages. Nationally, the foreclosure rate on direct loans is 4.23 percent. Because it is a loan program, funds are returned to the federal government.

We are distressed that the *2012 budget would reduce 502 direct funding by 80%*. No other federal homeownership program serves households with such a low income profile. Replacing 502 Direct with the 502 Guarantee program is an entirely inadequate substitute. The guarantee program serves much higher income homeowners who purchase more expensive homes; loss of the 502 Direct resource will eliminate the possibility of homeownership for thousands of low-income residents. According to the

National Rural Housing Coalition, the 502 Direct loan program is the federal government's most cost effective affordable housing program with a per unit cost of less than \$5,000 per low income household in FY10.

Section 504 Very Low Income Repair Grants and Loans – The FY12 budget proposes *elimination* of this relatively small (\$34 million) program that makes an enormous difference to the very low income elderly homeowners who benefit from the program. It provides small amounts of money to some of the most vulnerable and economically fragile citizens for such items as fixing a leaky roof or hole in the floor, installing a modern furnace, or installing indoor plumbing. It extends the time that seniors can remain safely in their homes. Nearly 500 of the poorest rural New England households have benefitted from this program during the past three years.

Multi-Family Preservation and Revitalization (MPR) - The proposed 2012 budget *eliminates* all funding for this program and for the Preservation Revolving Loan Fund. These small programs are important tools in the preservation of valuable affordable multi-family developments previously funded by Rural Development. For example, in Vermont alone, eight rental properties have benefitted from the MPR program, often resulting in the successful transfer of the property from an owner who wished to divest to one who has kept it as affordable housing for very low income households. The high cost of creating new units and the social and economic cost of displacing low income residents when properties are not preserved argues persuasively for federal funding of preservation efforts. One important element of the MPR program is its flexibility, flexibility that does not exist in the Section 515 multi-family rental program. It is for this reason that the plan to designate a portion of 515 funding for preservation will not achieve the same ends. For example, unlike the 515 program, the MPR program allows for deferral of principal payments. In rural New England, these projects are often the only affordable rental housing available – and sometimes the only multifamily rental housing - in a community.

It is our understanding that one reason for this cut may be the continuing “pilot” status of this program. We urge legislators and USDA Rural Development to work together to put forward legislation that will finally authorize this valuable program.

Rental Assistance – The 2012 budget proposes *significant cuts* to RD rental assistance. The vast majority of rental assistance funds renew expiring contracts. Reliable sources believe that the proposed reduction would result in some contracts not being renewed which would displace low income residents. These residents will find it difficult, if not impossible, to find equally safe and affordable housing in their rural communities. In addition, there would be virtually no likelihood that Section 515 funds for new construction would have any rental assistance attached. This essentially means that no new 515 projects would be built. Rental assistance, used in combination with a 515 loan, is absolutely essential in rural areas where incomes are too low to support operating costs. In New England alone, during the past three years over \$68 million in rental assistance has been provided, serving nearly 12,000 rural households.

Section 523 Self-Help Housing – The 2012 budget proposes to *eliminate* this very small (\$37 million) program. Although it has not been used to a large extent in New England, it is one of the government’s most successful homeownership programs, involving groups of low income households who contribute sweat equity to build their own and their neighbors’ houses. A 2009 report from OMB concurs with this assessment. Not only does this program create affordable homeownership for families who otherwise could not achieve it but it also teaches marketable skills and builds community. There is one Self-Help housing organization in Maine, which has created 209 houses in some of the poorest counties in the state.

These RD programs are an extremely small portion of the federal budget yet they are vitally important to rural communities. It is critical that such programs that not be drastically cut or eliminated. We urge the Secretary, Under Secretary, and other senior USDA officials to recognize the importance of these programs to the people and communities that they serve and to *strongly* advocate maintenance of funding at meaningful levels. Allowing these relatively small programs to be greatly diminished in size or eliminated not only short changes rural America but also its poorest and most vulnerable citizens.

Other Comments and Issues

Stakeholder Conversations - We appreciate the effort that RD has made to involve stakeholders in meetings and conference calls about particular topics. We would encourage you to continue such efforts and to remain in contact with participants and other stakeholders regarding outcomes from those meetings and calls.

Harmonizing Federal Programs - We understand that RD and HUD have been working together with other federal agencies on efforts to harmonize programs. One area of interest to us is 515 funded developments with HUD Section 8 rental assistance. Another area of interest is how a home-centered long-term care system funded by HHS or Medicare can be instituted in affordable senior housing. We applaud the efforts at coordination and hope that you will continue to do so and that other federal agencies such as HHS, DOE and the National Park Service (because of their role in the rehabilitation tax credit) continue to participate as well. Again, we encourage transparency and input from a variety of stakeholders.

Service Coordination – A component of keeping seniors in their affordable apartments as they age and need more services is service coordination. We believe that RD should treat service coordination in the same way that the HUD 202 senior housing program does, that is, it should be an eligible expense in RD 515 operating budgets. Rural households usually have limited or no choices for long term care as assisted living and more intensive long term care facilities are usually non-existent in those communities.

515 NOFA – We were pleased to see RD paying attention to energy conservation in last year’s 515 NOFA. However we are concerned that the scoring criteria, if repeated again this year, makes it virtually impossible for a project involving acquisition and rehabilitation to compete with new construction. Much of New England’s housing stock is old and many New England communities have successfully

converted former mill buildings and other historic structures into affordable housing. We believe that these efforts are important to maintain because they help to revitalize downtowns and village centers and because rehabilitating an old building is much more “green” than building new. The 515 NOFA was obviously written with new construction projects in mind. More specifically, we recommend the following: (1) Recognize preservation of existing housing units as being a more environmentally sustainable approach than new construction in terms of its re-use of existing materials and by reducing existing energy loads; (2) Adopt a certification protocol or offer full points for participating in a single third party certification program rather than requiring multiple certifications to earn full points; (3) Revise the “net-zero” energy calculation in favor of a point system that rewards applications with smaller energy loads (HERC Scores) first, and then provides additional points for projects that use renewable energy resources; (4) Clarify and expound on the system by which RD will verify whether commitments made in the initial application will be verified and what data and reporting requirements successful applicants may be required to provide, and on what schedule; (5) Maintain the Rural Economic Area Partnership (REAP) zone set-aside and adjust the eligibility date for this set-aside funding to be concurrent with the award of funds for all other funding under the NOFA, (6) Eliminate the funding by the five climate zones initiated last year and return to a nationwide competition. The northern zone, which includes all of Northern New England and part of Massachusetts is the largest zone, making the competition for funding in that region extremely competitive. The result was that in some cases projects with extremely low scores were funded in other states while New England projects scoring 50-60 points higher were not funded.

502 Defaults – We urge that regional Rural Development offices be given more flexibility to manage troubled 502 Direct loans that are in default, including permitting loan modifications, acceptance of a deed in lieu of foreclosure, partial mortgage write-offs, and other measures to minimize losses and re-establish responsible ownership. Owners who act in good faith, are in default, and because of market conditions are forced to sell their property for less than the mortgage amount should be encouraged to transfer their property to avoid foreclosure and should be released from the liability of the remaining debt. Also, in cases in which there are non-profit sponsors of secondary financing there should be a strong emphasis on finding ways to maintain their security interest and participation in affordable homes. The current system for default management is inflexible and gives the regional office little latitude in working with homeowners and community partners.

Conclusion

USDA Rural Development is an essential partner in providing decent, affordable housing for poor, rural Americans. We value the programs and the partnerships that we’ve had with RD and its regional offices throughout New England. We urge the Administration and Congress to recognize the value of these programs and to strongly and forcefully advocate for their continuation at sustainable levels. They are too important to rural America to risk losing.