Community Development Publication

Affordable Rental Housing in Rural Texas
Needs and Solutions

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Andrew Dumont, Emily Ryder Perlmeter and Julie Gunter

Overview

Rural communities have long faced unique challenges. Some of these include lower median incomes, older housing stock, large aging populations and substandard infrastructure relative to their metropolitan counterparts. The creation of rural-targeted federal programs throughout the decades has been key to mitigating many of these issues. One such program is the U.S. Department of Agriculture's Office of Rural Development (USDA RD) Section 515 Program (*see Box 1*), historically the largest federal program aimed at subsidizing rental housing in rural communities.

Section 515 addresses the housing needs of very-low-income, elderly and/or disabled residents. At last count, Texas, was home to 646 Section 515 properties, the largest number of any state. However, the level of federal support for this program has been dwindling. No new properties have been built since 2011, with the declining dollars instead directed toward repairing or preserving existing units. And yet over this time, nonmetro[1] Texas has added more renter households (19,000, an increase in share of 1.3 percent) than owner households as the rural homeownership rate has dropped.

At the same time, rents have been rising. Exacerbating this problem is the fact that growing numbers of Section 515 properties are set to exit the program. Exiting the program means a loss of rental subsidies that keep units affordable, which could leave very-low-income, elderly and disabled households with few alternatives.

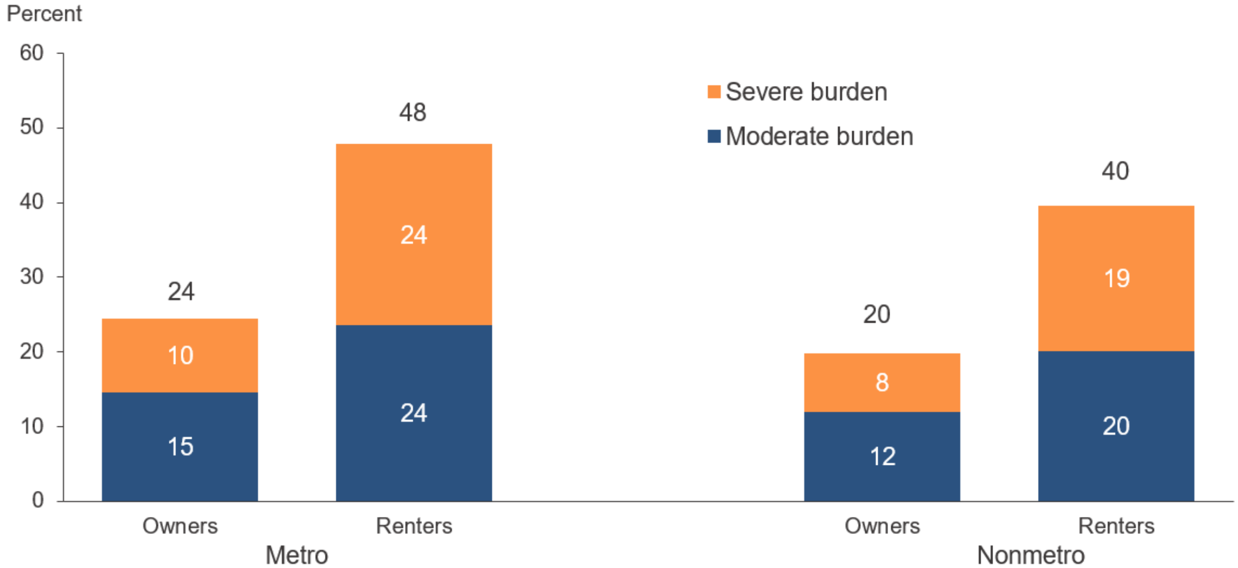
This paper explores shifts in the housing market and factors that have increased rental-cost burdens across Texas and the country. It examines the loss of Section 515 units and offers strategies for preservation as well as possible alternatives to help mitigate negative outcomes.

Introduction

The financial and housing market crisis of 2008 and 2009 has had a lasting impact. Various factors—including delays in major life events such as household formation and home purchases[2] and tighter mortgage credit conditions[3]—have resulted in the U.S. homeownership rate dipping to a level not seen since the mid-1990s.[4],[5]

The subsequent increase in demand for rental housing has put significant upward pressure on rental prices—and incomes have not kept pace.[6] This has caused the share of renters in the U.S. who are housing-cost burdened—spending more than 30 percent of their incomes on housing—to surge (*Table 1*). Renters are about twice as likely to be housing-cost burdened as owners (*Chart 1*).

Chart 1
Metro and Nonmetro Renters in U.S. Have High Housing-Cost Burdens



NOTE: Totals are above the bars; all figures are rounded.
SOURCES: 2017 American Community Survey 5-year Estimates; author's tabulations.

Federal Reserve Bank of Dallas

Trends in U.S. and States in Dallas Fed's District

Nationally, the share of renter households that are housing-cost burdened increased 0.6 percentage points between 2009 and 2017.[7] That means nearly 3 million additional households were struggling to pay for housing in 2017. Over this same period, however, the share of homeowners who were housing-cost burdened decreased more than 6 percentage points nationally. As a result, more than 4.5 million owner households were no longer struggling to pay for their housing in 2017. These trends and the disparity in recent experiences between renters and owners hold true in both metro and nonmetro areas.[8]

Table 1: Change in Housing-Cost-Burden Rates from 2009 to 2017: All of U.S.

	Nonmetro areas					
	Renters (percent)			Owners (percent)		
Cost-burden level	**2009**	**2017**	**Change**	**2009**	**2017**	**Change**
Moderate cost burden	19.7	20.3	0.6***	14.7	12.0	-2.7***
Severe cost burden	19.6	19.7	0.1	9.1	8.0	-1.1***
Any cost burden	39.3	40.0	0.7***	23.8	20.0	-3.8***
	Metro areas					
	Renters (percent)			Owners (percent)		
Cost-burden level	**2009**	**2017**	**Change**	**2009**	**2017**	**Change**
Moderate cost burden	23.3	23.6	0.3***	19.2	14.6	-4.6***
Severe cost burden	24.0	24.3	0.3***	12.2	9.9	-2.3***
Any cost burden	47.3	47.9	0.6***	31.4	24.5	-6.9***

***Statistically significant at the 99 percent confidence level based on t-tests for independent groups.

NOTE: Totals and percent changes are rounded. Moderate cost burden is defined as spending between 30-50 percent of income on housing costs; severe cost burden is more than 50 percent.

SOURCES: American Community Survey 5-Year Estimates for 2005–09 and 2013–17; authors' tabulations.

A review of data for states in the Federal Reserve Bank of Dallas' district (Texas, Louisiana and New Mexico) reveals that some housing-affordability trends in these states over this period are consistent with national trends (*Table 2*).[9]

As in the nation, fewer homeowners—both metro and nonmetro—in the three Dallas Fed district states were burdened by housing costs from 2009 to 2017. Also consistent with national trends, a greater share of nonmetro renters in Louisiana and New Mexico struggled with housing costs in 2017 than in 2009. Texas did not experience the same uptick in the nonmetro rental-cost burden, though the share of cost-burdened rural renters in the lowest-earning cohorts did climb.

Table 2: Change in Housing-Cost-Burden Rates from 2009 to 2017: Dallas Fed District States

Nonmetro areas						
	Renters (percent)			Owners (percent)		
State	**2009**	**2017**	**Change**	**2009**	**2017**	**Change**
Louisiana	37.5	42.1	4.6***	19.1	16.2	-2.9***
New Mexico	35.0	38.3	3.4	19.8	18.3	-1.5
Texas	37.3	36.6	-0.8	20.6	17.4	-3.2***
U.S. total	39.3	40.0	0.7***	23.8	20.0	-3.8***

Metro areas						
	Renters (percent)			Owners (percent)		
State	**2009**	**2017**	**Change**	**2009**	**2017**	**Change**
Louisiana	45.1	47.5	2.3**	22.2	19.7	-2.5***
New Mexico	46.2	47.3	1.1	27.5	23.7	-3.8***
Texas	45.3	45.0	-0.3	26.4	21.1	-5.3***
U.S. total	47.3	47.9	0.6***	31.4	24.5	-6.9***

**Statistically significant at the 95 percent confidence level.
***Statistically significant at the 99 percent confidence level.

NOTE: Totals and percent changes are rounded. Shares are for any cost burden.

SOURCES: American Community Survey 5-Year Estimates, 2005–09 and 2012–17; authors' tabulations.

The overall divergence in housing-cost-burden trends between owners and renters is partially the result of a shift in housing choice, with a greater proportion of households renting homes in recent years than in the past. That trend holds true in the Dallas Fed's district states (*Table 3*).

Table 3: Change in Renter Households from 2009 to 2017: Dallas Fed District States

	Nonmetro areas					
	Number of renter households			Percent of all households		
State	**2009**	**2017**	**Change**	**2009**	**2017**	**Change**
Texas	290,060	307,527	17,467	27.2	28.5	1.3***
Louisiana	128,066	135,997	7,931	30.2	32.2	2.0***
New Mexico	70,143	75,476	5,333	28.7	30.9	2.2***
U.S. total	5,255,502	5,695,066	439,564	27.0	28.8	1.8***

	Metro areas					
	Number of renter households			Percent of all households		
State	**2009**	**2017**	**Change**	**2009**	**2017**	**Change**
Texas	2,628,780	3,271,846	643,066	36.5	39.2	2.7***
Louisiana	395,184	464,186	69,002	32.4	35.3	2.9***
New Mexico	153,816	172,029	18,213	31.3	32.7	1.4***
U.S. total	32,035,105	37,297,720	5,262,615	34.4	37.6	3.2***

***Statistically significant at the 99 percent confidence level.

NOTE: Totals and percent changes are rounded.

SOURCES: American Community Survey (ACS) 5-Year Estimates, 2005–09, Table B25007, and ACS 5-Year Estimates, 2013–17, Table B25007; authors' tabulations.

Affordability Challenges for Rural Renters in Texas

While housing-cost-burden rates for renters in rural Texas are favorable relative to the nation, the sheer size of the state means it still had the second-highest number of such renters of any state (112,441 in 2017), behind only North Carolina. More than 60 percent of those cost-burdened households are renter households with income of less than $20,000 a year.

Households with annual income of less than $20,000 represent the precise target population and current resident makeup of the USDA RD Section 515 program, discussed in detail in the next section.

Section 515: An Important Low-Income Rental Housing Program

Texas ranks first in the nation in terms of the number of Section 515 multifamily rural rental properties (646 as of September 2017), and second in the number of Section 515 households (20,330).[10] Section 515 is the largest federal affordable rental housing program for rural communities—a direct-to-developer loan program with approximately 416,000 rental units still in operation nationally as of the writing of this report.

Those eligible to live in a Section 515 property include low- and moderate-income families, the elderly and people with disabilities. Residents never pay more than 30 percent of their income for rent, which ensures they are not cost burdened. Many of these units also include rental assistance through the Section 521 program to reduce the financial burden even more for very-low-income families. The other USDA RD direct loan program, Section 514, provides loans to build, repair or purchase housing for farm laborers. It is a smaller program but still sustains around 16,500 units nationwide.

These rural rental housing sources are dwindling, however. Funding for the programs is at historically low levels, and virtually no new 515 units have been produced across the country since 2011.[11] Complicating matters is the fact that many of these Section 515 and Section 514 properties were financed with loans that originated in the early 1990s and had terms of around 30 years, which means those loans are maturing.

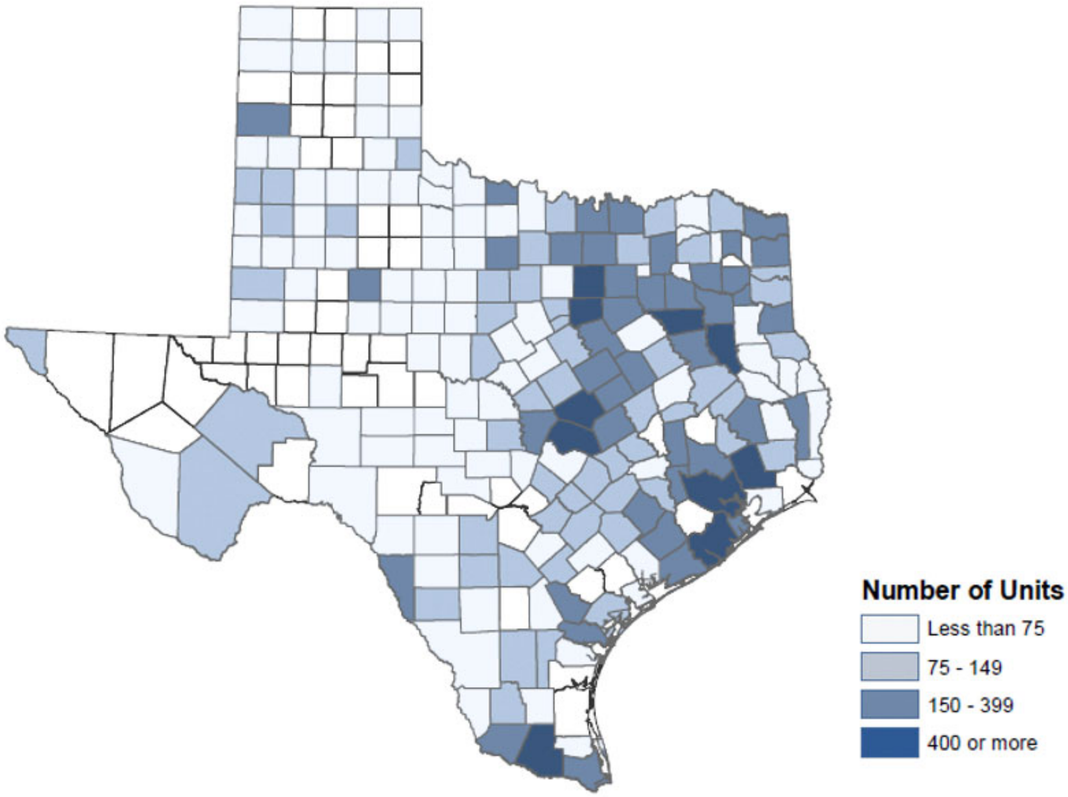
Once the property owner's loan is paid off and the property exits the Section 515 program, the units may move up to market rates, and residents lose the ability to access rental assistance through the Section 521 program. Potentially exacerbating the housing losses are prepayments, which allow properties to exit the program early. Prepayments had once been such a concern in the 515 program that legislation was enacted that rendered all loans made after Dec. 15, 1989, ineligible for this type of early exit.[12]

Cost pressures will likely increase on low-income rural renters when Section 515 properties mature out of the program. Indeed, current residents of Section 515 units have few other options. A majority of them (63.7 percent) are elderly or living with disabilities and their household income is less than $14,000 a year on average.[13]

However, a Section 515 or Section 514 property owner may elect to stay in the program by taking one of a few different actions, including: re-amortizing the remaining loan balance over a longer term, requesting a debt deferral or transferring the property to a new owner interested in maintaining the property's status. Owners may be offered incentives like additional rental assistance for tenants.[14] If the owner takes no action, the property will almost certainly exit the program.

In Texas, Section 515 properties are spread across the state but are most heavily concentrated in East Texas and the Texas–Mexico border area. At an average operating age of 30 years—but as old as 51—some of these properties likely also need renovation and repair.[15] Map 1 shows the concentration of Section 514 and 515 units by county.

Map 1: Concentration of Section 514 and 515 Units in Texas as of 2017



Twenty-five Texas properties are aging out of the 514 and 515 programs from 2018 through 2023. This will result in the loss of 550 units. But by 2030, 6,249 units—over 28 percent of those in operation—will leave the program unless these projects are preserved.

Preservation Strategies

As noted above, Texas is at risk of losing a significant affordable housing asset if action is not taken. Preservation of Section 515 units is often possible using strategies and tools outlined below.

One tool is the Low Income Housing Tax Credit (LIHTC). However, while LIHTC is available to support those looking to preserve rural affordable rental housing, it is also a tool that is looked to by many other stakeholders trying to construct new or acquire and rehabilitate existing rental housing in rural and urban areas. Therefore, it is worth assessing how this tool has been used in the past and how it aligns with the requirements and scale of need when it comes to preserving Section 515 properties.[16]

The Tax Reform Act of 1986 created the LIHTC to provide an incentive for the development and rehabilitation of affordable rental housing. It does so by providing state and local LIHTC-allocating agencies—generally state or local Housing Finance Agencies (HFAs)—with annual budget authority to issue federal tax credits for the acquisition, rehabilitation or construction of rental housing targeted to lower-income households. The tax credits give investors a dollar-for-dollar reduction in their federal tax liability and are claimed pro rata over 10 years. Since its creation, the LIHTC has represented the single-largest source of support for the production or preservation of affordable housing in the United States. Since the LIHTC's implementation, approximately 19 percent of LIHTC projects have been placed in service in rural areas.

Using a competitive application process, state HFAs award LIHTCs to developers who submit qualifying projects. State HFAs use Qualified Allocation Plans (QAPs) to award points based on their requirements and priorities; the points then help decide which projects will receive credits. Developers either use the credits themselves or sell them to investors to raise capital, which reduces the debt or equity contribution they would otherwise be required to make. With lower financing costs, tax credit properties can potentially expand the supply of affordable rental housing.

Analysis indicates that LIHTC is an important, but probably insufficient, tool in the preservation of affordable rural rental housing in Texas. Between 1987 and 2014, just under 254,000 low-income units were developed or preserved using the credit. This compares with over 533,000 units produced or preserved through the Section 515 program between 1963 and 2011 (the last year in which the Section 515 program financed the production of any new units). The LIHTC program is not large enough to take on the additional load of the at-risk 515 properties without supplementary resources such as HOME funds, Community Development Block Grants, Federal Home Loan Bank funds and other federal or state funds.

The average size of an LIHTC project in nonmetro Texas between 1987 and 2014 was 38 units, compared with a national average of 34 units. This average LIHTC project size is consistent with the average Texas Section 515 property of 36 units.

Given that the average size of nonmetro LIHTC and Section 515 properties has been similar, LIHTC may be an appropriate tool from a project-scale standpoint for preserving Section 515 properties. But has Texas historically deployed the LIHTC tool in nonmetro areas at a scale that reflects the relative needs in those communities?

On average, Texas does allocate a share of its LIHTC ceiling to rural projects consistent with the need in rural communities relative to urban communities. Specifically, between 2010 and 2014, 8.5 percent of LIHTC low-income units on average were placed in service in nonmetro counties in the state. For comparison, 7.4 percent of cost-burdened renters lived in rural areas of Texas in 2014.[17]

Additionally, a detailed review of Texas' 2016 Qualified Allocation Plan by researchers at the Federal Reserve Board identified numerous provisions that incentivize the preservation of rural affordable rental housing, including:

- Set-asides for USDA-financed developments (5 percent) and at-risk developments (15 percent).
- Automatic qualification for points that are awarded based on a unit's square footage if the project is USDA financed.
- Up to a 30 percent boost in the basis eligible for credits for projects located in a rural area.

Developers have successfully used the LIHTC to preserve Section 515 properties in other parts of the country. In April 2018, Greystone Affordable Development announced the preservation of 1,310 Section 515 units in 17 counties across Georgia through recapitalization and rehabilitation.

Greystone Senior Vice President Will Eckstein described LIHTC as "absolutely essential" to the feasibility of the deal. In this transaction, Greystone and its partners generated about $34 million from the sale of LIHTCs and an additional $20 million from state tax credits.

The Georgia transaction brought together public organizations—namely USDA RD, Georgia's Department of Community Affairs and local housing authorities—with private companies such as Hallmark Cos., the owner/operator, and Boston Financial Investment Management, the purchaser of the tax credits. Along with LIHTCs, Greystone used sources like tax-exempt bonds, reamortization of original Section 515 debt, investment income and deferred developer fees.[18]

Collaboration Models

In addition to the Greystone public/private model, other examples of collaboration to preserve critical rural rental housing can be found across the country, including Texas. Government entities, nonprofit organizations and for-profit companies can all play key roles—as can financial institutions through the Community Reinvestment Act (*Box 2*). Here's a look at some of the models, by state.

Texas

The Dallas Fed teamed up with Enterprise Community Partners, the Texas State Affordable Housing Corporation (TSAHC), Motivation Education and Training (MET), and the Rural Rental Housing Association of Texas to launch the Rural Rental Housing Preservation Academy after learning about the maturing USDA RD mortgages while conducting research for its Community Outlook Series: Texas Affordable Housing Issue.

With the first session in January 2018, the five-session academy provided training and technical assistance for acquisition and preservation of USDA RD multifamily housing at no cost to interested participants. The nearly 70 registered participants were a mix of current owners of USDA projects, both for-profit and nonprofit firms, and those interested in acquiring a property to preserve affordability.

The intention of the academy was to provide training to anyone who wanted to maintain the properties' affordability. Michael Wilt, external relations manager for TSAHC, a nonprofit that provides affordable housing opportunities to low-income and underserved populations, cited two examples of how the academy has already impacted the preservation effort.

In one case, a small-town housing authority had made the decision to sell its property, but after the representative began attending the academy, the housing authority made changes to preserve its units instead of selling them. In another example, an owner of multiple properties in several small towns in Texas had been planning to combine 55 properties into one portfolio. However, based on information gained from the academy, that group decided to reduce that number to 22 to make procurement of financing—and property preservation—more likely.

To create the academy, Enterprise received support from the Meadows Foundation. A key success factor has been developing partnerships with state and national USDA offices that participated in and presented at all academy the sessions.

Topics covered included technical aspects of the 515 program, such as USDA appraisals, capital needs assessments, and undergoing a transfer process. Sessions also covered financing and deal structuring, property management and resident services.

Susan Anderson, director of Enterprise's Rural and Native American program, said the academy has benefited both participants and presenters, noting that "we've also seen a lot of interest from other regions and other states. The rural rental housing preservation academy model will be replicated in Colorado in 2020." One surprising outcome was the level of interest from not only housing developers, but also industry practitioners—from financiers such as Fannie Mae and Freddie Mac to affordable housing accounting firms, citing the need to better understand the USDA program and portfolio to better serve their client. "They were interested in the level of information we're providing on USDA Rural Development programs," Anderson said. "They were interested in having a more in-depth understanding."

Minnesota

Like Texas, Minnesota relies substantially on the Section 515 program to house low-income rural residents. In fact, the first property ever to use a Section 515 loan was developed in Grove City, Minnesota, in 1964.[19] Today, Minnesota ranks third, just after Texas, in terms of properties eligible for prepayment through 2050 with 223. Preservation, therefore, is critical to protect rural residents in the state.

Fortunately, a multisector collaborative effort exists. The Greater Minnesota Interagency Stabilization Group (ISG), created two decades ago, boasts membership from government and nonprofit housing entities including USDA RD, the U.S. Department of Housing and Urban Development, the Federal Home Loan Bank of Des Moines and the Minnesota chapter of the National Association of Housing and Redevelopment Officials.

The group meets every two months to discuss the current inventory of subsidized rural housing, including Section 515, and strategize about how to preserve properties. Oftentimes, a property owner or a funder approaches the group to solicit guidance in stabilizing units. ISG members vet the request to establish whether a property is a strong candidate—for instance, if it is "in a strong market with relatively high rents but receives rental assistance to help offset the amount a low-income tenant must pay."[20] The ISG then will advise the owner or potential new buyer on funding options.

Part of the strength of this model is in the collaboration across housing agencies and organizations. In particular, members have successfully streamlined funding applications. In 1994, the ISG created a common "request for proposals" for developers to submit when applying for tax credits or other financing, which not only reduces time and red tape, but also requires that the funders prioritize collaboratively.

Finally, in instances where preservation does not work out, the group works with partners across the state to gather information on local resources that can help the tenants of the existing property. Resources such as Section 8, a voucher program that allows low-income families to pay for housing within their budgets, can provide tenants with alternative forms of affordable housing.

Indiana

Indiana is first in the nation in terms of the number of properties eligible for prepayment with 253. The state has been proactive in tackling its expiring Section 515 mortgage problem. The Moving Forward initiative is a partnership between the Indiana Housing and Community Development Authority (IHCDA) and Energy Systems Network to provide energy-efficient housing for low-income families.[21]

For 2019, Moving Forward's goal is to preserve at least 30 USDA RD properties that are at risk of losing affordability by 2020. To achieve this, the IHDCA is setting aside 10 percent of its annual rental housing tax credits for projects that advance its mission, regardless of other evaluation criteria.

Moving Forward selected three developers from a pool of applicants to attend a series of rural development workshops and connect them to potential financial resources to preserve Section 515 housing, including the set-aside credits. Each developer will create a plan to group at least 10 of the state's 472 properties into one portfolio to manage.[22]

The Path Forward

Across the country, demographic shifts, tightening lending standards and financial crisis aftereffects have coalesced to boost demand for apartments and, hence, rents. For much of the nation, this upward pressure on rents has increased housing cost burdens because incomes have failed to keep pace. While Texas hasn't yet experienced increasing housing cost burdens in rural areas, rising rents are still affecting the growing, and aging, rural rental population.

Texas relies heavily on the USDA RD's Section 515 program to house its low-income, disabled and elderly rural residents: It ranks first in the nation in the number of 515 properties and third in terms of individual units. In addition, Texas is overrepresented in the number of 515 properties set to mature out of the program, potentially shrinking this important resource for rural households.

Given that this resource is at risk, and given the addition of nearly 17,500 rural renter households from 2009 to 2017, Texas is in a critical period for preserving its affordable housing stock. At the same time, multiple models across the country have shown promise in addressing this issue, including the multiagency academy preservation effort in Texas.

Dealing with rural housing affordability will require considerable commitment, work and resources from the government, nonprofit and for-profit sectors. Collaboration through programs like Section 515 is essential to make preservation and rehabilitation projects feasible. A few examples of this exist: Greystone's Georgia transaction has shown the potential for maintaining financial returns while strengthening communities, and Minnesota's Interagency Stabilization Group and Texas' Rural Rental Housing Preservation Academy models illustrate the success that can come from partnerships among multiple agencies.

Housing affordability does not occur in a vacuum—workforce development, job growth, quality education, income support programs and opportunities for enhanced financial capability will all be necessary to ensure inclusive and economically healthy rural communities for generations to come.

Notes

1. For purposes of this paper, we use the terms "nonmetro" and "rural" interchangeably, recognizing that some metro areas include substantial areas that the Census Bureau classifies as rural.
2. "Headship and Homeownership: What Does the Future Hold?" by Laurie Goodman, Rolf Pendall and Jun Zhu, Urban Institute, June 8, 2015, www.urban.org/research/publication/headship-and-homeownership-what-does-future-hold.
3. "The Impact of Tight Credit Standards on 2009–13 Lending," by Laurie S. Goodman, Jun Zhu and Taz George, Urban Institute, April 2, 2015, www.urban.org/research/publication/impact-tight-credit-standards-2009-13-lending, accessed Sept. 22, 2016.
4. Not seasonally adjusted homeownership rate (percent), Current Population Survey/Housing Vacancy Survey, Series H-111, Census Bureau.

5. For homeownership, we use the American Community Survey definition, found at "Owner-occupied housing unit rate," Census Bureau, www.census.gov/quickfacts/fact/note/US/HSG445217.
6. Median gross rents increased in 67 percent of nonmetro counties and 73 percent of metros between 2010 and 2017, based on author calculations using 2013–2017 American Community Survey 5-Year Estimates, and 2008–2010 American Community Survey, 5-Year Estimates.
7. Data are unavailable on these measures before 2009. Overall, the cost-burden rate increased between 2009 and 2014, and started to decrease from 2015 to 2017.
8. The analysis does not address the issue of wealth, much of which was lost for homeowners during the Great Recession.
9. The Federal Reserve Bank of Dallas' district covers all of Texas, as well as portions of Louisiana and New Mexico, states the Dallas Fed shares with the Federal Reserve Banks of Atlanta and Kansas City, respectively.
10. Multi-Family Housing Occupancy Statistics Report as of September 2017, U.S. Department of Agriculture Rural Development, April 6, 2018, www.rd.usda.gov/files/RDUL-MFHannual.pdf.
11. "Rural Affordable Rental Housing: Quantifying Need, Reviewing Recent Federal Support, and Assessing the Use of Low Income Housing Tax Credits in Rural Areas," by Andrew M. Dumont, Finance and Economics Discussion Series no. 2018–077, Federal Reserve Board, 2018, www.federalreserve.gov/econres/feds/files/2018077pap.pdf.
12. "Better Data Controls, Planning, and Additional Options Could Help Preserve Affordable Rental Units," U.S. Government Accountability Office, May 2018, www.gao.gov/assets/700/691851.pdf.
13. "Rental Housing for a 21st Century Rural America: A Platform for Preservation," Housing Assistance Council, September 2018, www.ruralhome.org/storage/documents/publications/rrreports/HAC_A_PLATFORM_FOR_PRESERVATION.pdf.
14. "An Advocate's Guide to Rural Housing Preservation: Prepayments, Mortgage Maturities, and Foreclosures," the National Housing Law Project, 2018, www.nhlp.org/wp-content/uploads/2018/05/Rural-Preservation-Handbook.pdf.
15. Operating age is defined as the initial date of the loan on the project and is used as a proxy for property age.
16. See note 11. Much of the analysis in this section is from "Rural Affordable Rental Housing," by Dumont.
17. See note 11. This is the most recent year of data available for the analysis.
18. "Greystone Affordable Development Spearheads Preservation of 1,310 Low-Income Rental Units with $168.6 Million Transaction in Georgia," Globe Newswire, April 11, 2018, www.globenewswire.com/news-release/2018/04/11/1468667/0/en/Greystone-Affordable-Development-Spearheads-Preservation-of-1-310-Low-Income-Rental-Units-with-168-6-Million-Transaction-in-Georgia.html.
19. "Key Housing Organizations Take Coordinated Approach to Preserving Rural Minnesota's Affordable Rentals," by Jacob Wascalus, Federal Reserve Bank of Minneapolis, Nov. 10, 2015, www.minneapolisfed.org/publications/community-dividend/key-housing-organizations-take-coordinated-approach-to-preserving-rural-minnesotas-affordable.
20. See note 19.
21. Moving Forward Program, Indiana Housing and Community Development Authority, 2018, www.in.gov/ihcda/movingforward.htm.
22. "Three Developers Selected to Participate in the Moving Forward Rural Development (RD) Program," Indiana Housing and Community Development Authority, Aug. 16, 2018, https://calendar.in.gov/site/ihcda/event/three-developers-selected-to-participate-in-the-moving-forward-rural-development-rd-program/.

Box 1: USDA Rural Development's Section 515 Program

Federal rural housing programs, based in the Rural Development office of the U.S. Department of Agriculture, were originally conceived in the American Housing Act of 1949. However, it wasn't until the 1960s that the multifamily direct loan program Section 515 and its related programs, Sections 514, 516 and 521,[1] were funded.

Section 515 provides direct loans to individuals, corporations or nonprofit organizations for the construction, improvement or purchase of rural multifamily housing. Although loan terms were up to 50 years in the earliest days of the program, they are currently up to 30 years. Loans have interest rates of 1 percent and amortization periods of up to 50 years. The properties must serve low- and moderate-income families, the elderly and/or people with disabilities.[2] The average income for a tenant in a Section 515 property is $13,600 annually.[3] Sixty-five percent of residents also have Section 521 rental assistance that further reduces their rent obligation.

A total of 533,000 units have been produced or preserved under the Section 515 program nationwide since 1963, and the properties currently house more than 630,000 residents. At the height of Section 515's prominence, in the early 1980s, the program produced about 1,000 properties each year.[4] In recent years, funding for the program has contracted, dropping from $115 million in appropriations in the early 2000s to less than $30 million in fiscal year 2017. No new buildings have been constructed under Section 515 since 2011; funding in recent years has been used entirely for repairing or preserving existing properties.

According to the Housing Assistance Council, nearly half of all properties are older than 30 years, and just 12 percent are 20 years or less. Because most have terms of 30 or 50 years, an increasing number of loans are maturing. When a loan matures, a property exits the Section 515 program unless action is taken by the borrower. Once a property leaves, it is no longer subject to Section 515 rules of affordability, and any Section 521 rental assistance leaves with it. Owners are under no obligation to continue to keep units affordable.[5]

Nationally, thousands of units have exited the program due to prepayment or loan maturity. An estimated 21,400 units (about 900 properties) will mature out of the program through 2027.[6] The number of units expected to leave the program will accelerate from 2028 through 2040 (16,364 units annually after 2028 and 23,117 in the later years).[7]

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1. Section 514 and 516 provide loans and grants, respectively, for housing for farm laborers. Section 521 provides rental assistance for tenants of Section 515 or 514/516 properties with particularly low incomes, so their rents are not more than 30 percent of their household incomes.
2. Very low income is defined as below 50 percent of the area median income (AMI), while low income is 50 to 80 percent of AMI. Moderate income is up to $5,500 above low-income levels.
3. "Rental Housing for a 21st Century Rural America: A Platform for Preservation," Housing Assistance Council, September 2018, www.ruralhome.org/storage/documents/publications/rrreports/HAC_A_PLATFORM_FOR_PRESERVATION.pdf.
4. "Section 515 Rural Rental Housing Loans," National Rural Housing Coalition, February 2011, http://ruralhousingcoalition.org/section-515-rural-rental-housing-loans/.
5. See note 2.
6. "USDA Rural Rental Housing Programs," by Leslie R. Strauss, Housing Assistance Council, https://nlihc.org/sites/default/files/AG-2019/04-13_USDA-Rural-Rental-Housing-Programs.pdf, 2019.
7. "USDA Releases Maturing Mortgage Dates for Multifamily Loans," Housing Assistance Council, www.ruralhome.org/whats-new/menu-policy/1392-usda-releases-maturing-mortgage-dates, June 30, 2017.

Box 2: How Banks May Contribute to Rural Rental Housing Under CRA

Banks in small towns and rural areas play an important role in the preservation of affordable rural rental housing. The Community Reinvestment Act (CRA) is a law intended to encourage banks to meet the credit needs of the communities they serve, including low- and moderate-income (LMI) areas, consistent with safe and sound banking operations. Bank compliance with the CRA includes activities in three categories: lending, investments and services, with the most weight given to lending.

Lending

Banks may make loans for the acquisition and rehabilitation of existing rural rental properties. These loans meet the required "community development (CD) purpose" for CRA eligibility because they provide housing for low- and moderate-income households. Opportunities to make loans with a CD purpose are typically few and far between in nonmetro areas, making these deals even more attractive to bankers.

An example of one such loan was provided by Home Bank to the Groesbeck Housing Authority. Groesbeck is a small Central Texas town with a population under 5,000. The bank provided rehablitation financing and, as a member of the Federal Home Loan Bank of Dallas, assisted the borrower in applying for grant funds needed to cover the gap between the tax credit proceeds and the equity available for rehabilitation of the units. The newly improved properties were not only safer and more energy efficient, but also an attractive addition to the community and boon to the local economy.

Investments

Banks may invest in low-income housing tax credits, which are CRA eligible and provide a return on investment. Grants to nonprofit organizations that provide housing and other services to LMI consumers are also considered CRA-eligible investments.

An example of one such contribution is the grant made by Capital One to Enterprise Community Partners for underwriting the capacity-building training and technical assistance provided through the Rural Rental Housing Preservation Academy project (see the academy section). Another example would be a bank making a donation to procure computers for a computer-learning center at a rental housing property.

Services

Bank officials and staff may donate their time in service to nonprofit housing providers and their LMI residents. Examples of CRA-eligible services may include a bank officer providing financial expertise by serving on a nonprofit's board of directors, a fundraising committee, or an advisory council charged with evaluating preservation options.

Other CRA-eligible services would be a bank sponsoring an application for a Federal Home Loan Bank Affordable Housing Program grant, as in the Groesbeck example, and bank staff members providing training workshops for rental-housing residents on topics such as budgeting, building credit and using basic banking services.

Authors

- **Andrew Dumont**
  Federal Reserve Board of Governors
- **Emily Ryder Perlmeter**
  Community Development Advisor, Federal Reserve Bank of Dallas
- **Julie Gunter**
  Federal Reserve Bank of Dallas
