Statement for the Record of Elizabeth Glidden,
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Before U.S. Senate Committee on Banking, Housing and Urban Affairs, Subcommittee on Housing Transportation and Community Development

Hearing on U.S. Department of Agriculture's Rural Housing Service: Stakeholder Perspectives
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Introduction

Chairwoman Smith and Members of the Subcommittee. Thank you for the opportunity to testify regarding rural housing issues. My name is Elizabeth Glidden, and I am the Deputy Executive Director of Minnesota Housing Partnership or MHP. MHP is a non-profit organization that advocates for equitable housing policy, produces data informed research to inform solutions, and delivers community development services across the United States.

We specialize in serving rural communities and Native Nations with programs such as our Housing Institute, Native Community Development Institute, Emerging Developer Initiative, and Strengthening Rural Communities. In the past year alone, we have provided direct technical assistance to thirty-six rural communities including fourteen Native Nations. In addition, we prioritize rural issues with original research and public policy solutions, including as a board member of the National Rural Housing Coalition, an active member of the Rural Preservation Working Group convened by the Housing Assistance Council, and by convening community-based rural developers to develop administrative and public policy recommendations for rural housing programs.

Rural Housing Issues in Minnesota

Rural communities are experiencing a housing affordability crisis. In Greater Minnesota (the geography outside of the seven-county Twin Cities metropolitan area), 24% of households are cost burdened, or paying more than 30% of their monthly income on housing costs, a number that increases to 41% for rural renter households. Two-thirds of renter households in Greater Minnesota earn less than $50,000 a year, which is under 50% of the state's area median income.

In Minnesota, rural residents have fewer housing options and are more likely to live in substandard housing than their urban peers, due to older housing stock, and less compliance and enforcement of codes. More than 40% of homes in Greater Minnesota are over fifty years old, built prior to 1970. New construction permits remain low in many rural areas, with some communities going years without a new multifamily housing project.

Importance of 515 properties

Minnesota was an early and enthusiastic adopter of the USDA's Section 515 program, which provides low-interest loans for rental homes for very low- and low-income households. In return for low-cost financing,

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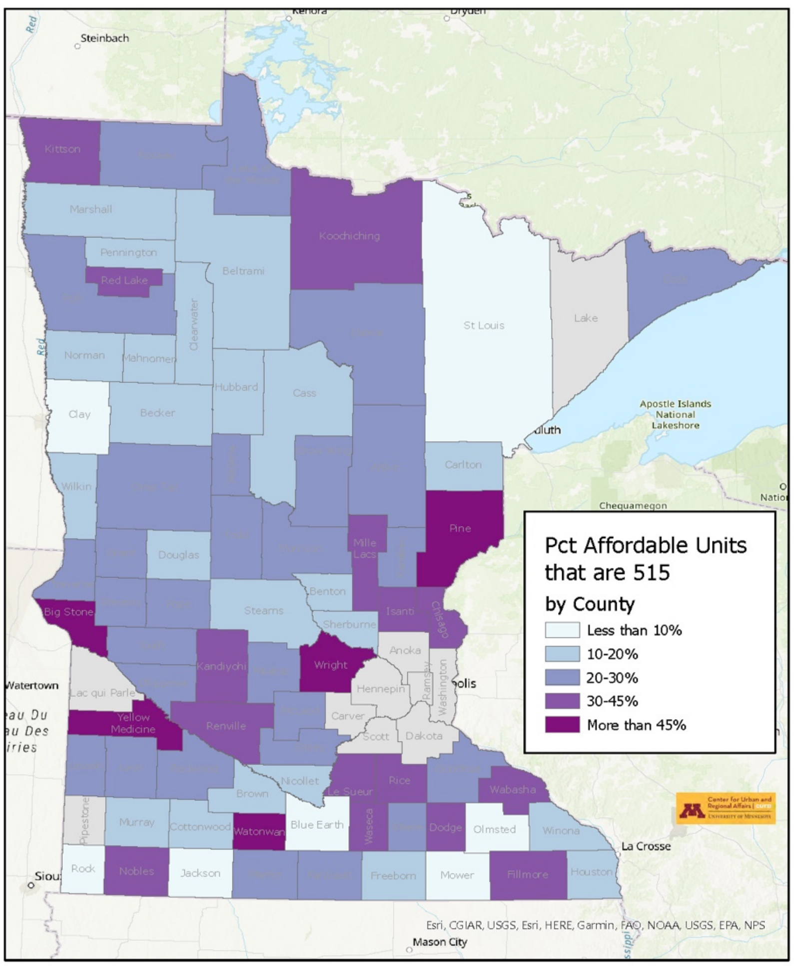
borrowers of Section 515 loans are restricted in the amount of rent they can charge tenants, with 30-year loans amortized over 50 years. When loans mature, or properties otherwise exit the 515 program, the owner is no longer required to keep rents affordable to any particular income, which can result in displacement and housing insecurity for current residents and a loss of available housing to future residents.

Percentage of Affordable Units in 515 Program



Section 515 properties make up a substantial portion of the affordable rental options for Minnesota's rural households, with such properties located in 82 of Minnesota's 87 counties. Of the total subsidized housing units in Greater Minnesota, Section 515 homes made up almost 19% of that total in 2020. That percentage is higher in some areas of Minnesota, as 515 units make up more than 45% of the available affordable homes in multiple counties. A Section 515 property may provide the only affordable housing options within a community or for miles around. Minnesota's 515 properties are smaller in size than the U.S. average, at twenty-one units compared to thirty-one, indicating that policy solutions must be flexible to address variations across the country in the 515 portfolio. The Section 515 program is unique in rural communities in that it provides very deep subsidies, especially when combined with rental assistance, which is the case for a super majority of units. The average annual income of Minnesota's Section 515 residents utilizing rental assistance is less than $12,000. 40% of Midwestern 515 properties are designated for seniors, higher than in other areas of the U.S., although the number of units designated for families continues to increase. Nationally and in Minnesota, we are not meeting the market need for homes affordable to extremely low-income residents, especially in rural communities, so preserving the Section 515 homes we have is even more critical to the housing stability of lowest income rural residents.

Section 515 Maturing Mortgages and Property Exits at a Crisis for Rural Households

The Midwest, and Minnesota, will see much of its Section 515 properties mature out of the program earlier than the U.S. overall. The peak of mortgage maturation for Section 515 properties in Midwest states is 2030, about ten years before the peak of mortgage maturations for the United States. According to the Housing Assistance Council (HAC), Minnesota currently leads the nation in the number of properties exiting the program. Between 2016 and 2021, over eighty properties, with 1,153 units, exited the 515 program, representing more than one-tenth of all Section 515 properties in Minnesota. Our loss of affordable rural homes will continue to accelerate in the coming years.

In addition to mortgage maturation, the decrease in Section 515 housing is impacted by factors such as owners prepaying their mortgages, owners selling outside of the USDA transfer process to avoid it, and deteriorating property condition such that rehab may cost more than property value.

Decouple Rental Assistance from Mortgages, With Conditions

Section 515 rental housing and 514/516 farmworker housing properties are frequently coupled with Section 521 Rental Assistance, ensuring these homes are affordable to our lowest income rural residents. In Minnesota 96% of Section 515 properties have at least one unit with rental assistance; and 68% of all units have rental assistance. Under current law, when a mortgage is paid off a Section 515 or 514/516 property loses its Section 521 Rental Assistance. When rental assistance is removed from a property, residents may face displacement, housing instability, and loss of community. Also, a property may also face negative financial consequences from the loss of rental assistance.

Decoupling the mortgage from rental assistance is a policy solution that can support continued housing stability for rural residents, as U.S.D.A. preservation resources are limited, by allowing rental assistance to continue at a property that no longer has a qualifying mortgage. As properties in states like Minnesota are currently facing a high number of mortgage maturations and other exits, this is an option that needs serious consideration.

We agree with our colleagues at the National Rural Housing Coalition, Housing Assistance Council, and others that decoupling should be paired with increased funding for U.S.D.A.'s Rural Housing Service programs, such as the Multifamily Preservation and Revitalization Program (MPR) and 515 program, and that implementation conditions should be included with any program change. We support provisions in S.4762 (A bill to establish a permanent rural housing preservation and revitalization program, and for other purposes) and H.R. 1728 (Strategy and Investment in Rural Housing Preservation Act), which would require properties seeking to decouple to:

- Sign a restrictive use agreement and multiyear rental assistance contract, preferably for 20 years
- Demonstrate that they have tried to access other preservation funding before pursuing decoupling as a last resort

- Agree to maintain the housing as decent, safe, and sanitary and in conformity with provisions established in Title V of the Housing Act

Funding Necessary for Preservation and Program Operations

Past underinvestment in U.S.D.A.'s Rural Housing programs has increased the housing challenges faced by rural residents. Due to lack of resources, U.S.D.A. has not offered loans for new construction of multifamily rental housing in over a decade, and there is a backlog of approximately 200 applications for rental preservation resources, so that projects in need of these scarce resources must continue to delay preservation activities if they can't identify alternative sources. Recent estimates shared by the USDA identify that $30 billion is needed over the next thirty years to preserve 80% of the existing section 515 portfolio.

We are pleased that the fiscal year 2023 budget includes increases to many rural housing programs, including increases for 515's and to the Multifamily Preservation and Revitalization Program (MPR). We appreciated the Presidents' recommended increase to USDA rural housing programs, and hope this is the track we take, but more investments will be needed to preserve rental housing and ensure rental assistance remains accessible. We need these investments sufficiently to support healthy rural communities, and preserve valuable USDA financed assets.

We were also please that the Inflation Reduction Act included $100 million for U.S.D.A. Rural Development administrative costs. We urge the Committee to encourage U.S.D.A. to allocate a significant share of those funds for the Rural Housing Service to support its field structure and upgrade its information technology

Incentivize Transfers to Mission-Focused Nonprofits

MHP is one of a small number of organizations that have provided technical assistance pursuant to the Multifamily Preservation Technical Assistance (MFTA) program. This program provides competitive grants to eligible organizations to provide technical assistance and other services to support preservation of affordable homes through the transfer of Section 515 properties from current owners to nonprofits or public housing authorities.

Through a 2018 grant, MHP assisted four rural housing and community development authorities with the RD transfer process, preserving eighty-two units as affordable properties in Minnesota and Illinois, and helped 515 transfer property owners secure eighteen and a half million dollars in loans, low-income housing tax credits, and loan funds from bonds. Through the term of the grant, MHP worked on preservation strategies for a total three hundred and thirty Section 515 units. MHP, in partnership with Enterprise Community Partners, will continue supporting nonprofit transfers with a recent award of USDA technical assistance grant funds, with MHP serving twelve central region states.

Many of the organizations MHP has supported are very small rural non-profits or housing authorities that are new to owning 515 properties, new to working with USDA, new to USDA's complex transfer process, and some are even new to multifamily development and ownership generally. While there is declining interest in 515 ownership from private owners and investors, mission driven owners maintain a strong interest in the 515 program as one of the few affordable housing resources available to rural residents. To continue to incentivize nonprofit transfers we recommend:

- Permanently authorize the MFTA program. Today, MFTA is funded through appropriations, but not authorized. Authorization will ensure the program remains stably funded and is permanent part of the preservation tools of Rural Housing Service.
- Simplify the transfer process by instituting a two-step transfer. This would allow a transfer to a nonprofit owner to close, with time then allowed to develop a rehab plan and funding. Today, a buyer must have prior to closing funding for all capital needs as determined by a Capital Needs Assessment and any adjusted reserve requirement. This process change would eliminate a critical administrative barrier to preservation, one that creates sometimes insurmountable burden to small community-based nonprofits.
- Set aside funding for smaller organizations in the Section 515 and MPR programs.

Extend Section 521 Rental Assistance

The American Rescue Plan Act included $100 million for Section 521 rental assistance for previously unassisted units and households, allowing the USDA's Rural Housing Service to extend rental assistance coverage to 27,000 units in 3,700 properties. This funding, which is set to run out at the end of fiscal year 2022, ensures housing stability for tens of thousands of rural residents and has helped to stabilize the long-term preservation needs of the fragile USDA multifamily portfolio. Removing rental assistance from these units will create tremendous hardship for the households they support today, as well as hastening the deterioration of USDA properties — both circumstances we cannot afford.

Thank you for the opportunity to address the Committee. I look forward to any comments or questions the Committee may have.

References:

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