Statement for the Record of Anne Mavity,
Executive Director, MHP (Minnesota Housing Partnership)
Before the U.S. Senate Committee on Banking, Housing and Urban Affairs,
Subcommittee on Housing Transportation and Community Development

May 2, 2023

Introduction

Chairwoman Smith, Ranking Member Lummis, and Members of the Subcommittee. Thank you for the opportunity to testify on improvements to the Rural Housing Service (RHS) programs at the U.S. Department of Agriculture (USDA) and the Rural Housing Service Reform Act of 2023. My name is Anne Mavity and I am the 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. While our organization is based in Minnesota, we provide direct technical assistance across the country, specializing in serving rural communities and Native Nations. We have provided services through H.U.D.'s Rural Capacity Building program and U.S.D.A.'s Rural Community Development Institute (RCDI), as well as U.S.D.A.'s 515 Technical Assistance program. We have developed unique programs to support community capacity building goals including our Housing Institute, Native Community Development Institute, and Emerging Developer Initiative. In the past year alone, we have provided direct technical assistance to forty-three rural communities including fifteen Native Nations, supporting the production and preservation of 380 housing units.

MHP's original research on housing issues and housing-related demographics is frequently cited as support for public policy solutions and by the media. Our recent report, "The USDA Section 515 Program and the Challenge of Preserving Affordable Housing in Greater Minnesota," was the result of a multi-year collaboration between the Center for Urban and Regional Affairs at the University of Minnesota, the Housing Justice Center, and MHP.

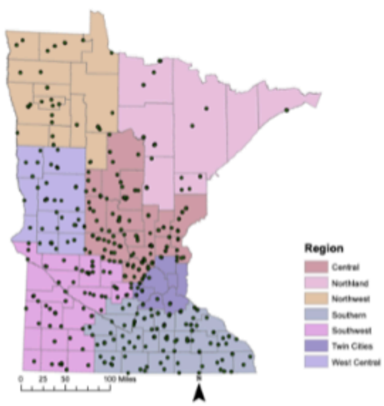
MHP provides public policy solutions, including advocacy at the federal, state, and regional levels of government. We regularly convene non-profit and for-profit rural developers to discuss issues and develop policy and administrative recommendations for rural housing programs, including through our Minnesota Rural Development Workgroup. MHP serves on the boards of the National Rural Housing Coalition, the National Low Income Housing Coalition, and is an active member of the Rural Preservation Working Group convened by the Housing Assistance Council.

Minnesota Housing Partnership : : 2446 University Ave West, #106 : : St Paul, MN 55114 : : 651-649-1710 : : mhponline.org

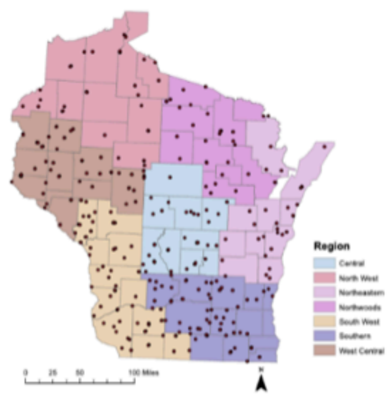
Rural Rental Options in Midwest States

Many Midwest states, including Minnesota, Wisconsin, South Dakota, and Iowa have a high number of USDA Section 515 homes compared the rest of the United States, a comparison even more striking when viewed by rate of units to state population. Minnesota and other Midwest states were early adopters of the USDA's Section 515 program, which provides low-interest loans for rental homes for very low- and low-income households. These Section 515 homes are often paired with Section 521 Rental Assistance, supporting homes to be affordable to our lowest income rural residents. Section 515 rental homes are required to maintain affordability restrictions for the life of the loan (30-year loan term, often amortized to 50 years) but may exit the program and revert to market rate rents following the maturation of the original loan.

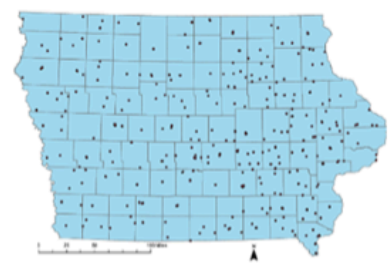
Map 1: Section 515 Properties - Minnesota



Map 2: Section 515 Properties - Wisconsin



Map 3: USDA Section 515 Properties - Iowa*

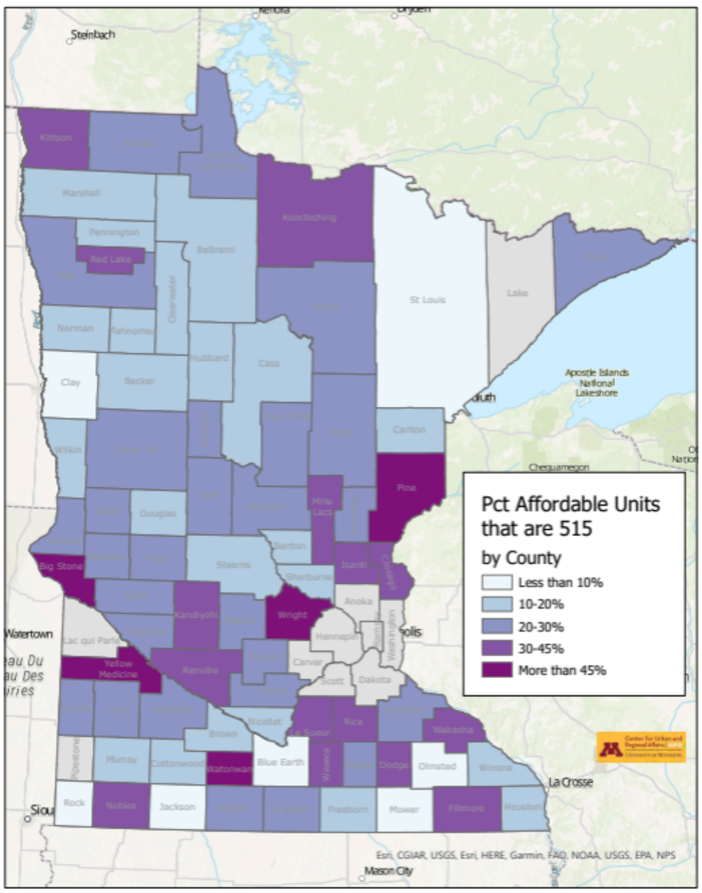


*Iowa does not have regions designated by their state housing authority.

Sources: Section 515 Properties: USDA Rural Development Datasets; Active Projects, 2020-07-17, (https://www.sc.egov.usda.gov/data/MFH_section_515.html)
MN, WI and IA Counties: US Census
MN Regions: Minnesota Housing Finance Authority, WI Regions: Wisconsin Department of Administration, Housing Regions

Section 515 homes are a significant portion of the affordable rural rental options in Minnesota, Wisconsin and Iowa, which we examined in a recent report. Minnesota has 9,597 Section 515 units, while Wisconsin has 8,127 Section 515 homes and Iowa has 7,837. When controlling for population differences, Iowa has the largest number of 515 properties on a per capita basis of these three states.

Percentage of Affordable Units in 515 Program



In Minnesota, 515 properties are located in 82 of Minnesota's 87 counties. As of 2020, Section 515 homes made up almost 19% of all subsidized housing units in Greater Minnesota. In many counties, section 515 homes account for at least 20% and up to 45% of all subsidized housing. Rural residents have affirmed the importance of 515 homes in their communities. A Section 515 property may provide the only affordable housing option for miles around. One mission-driven owner with a small portfolio emphasized that "the [R]ural [D]evelopment properties are very, very good at helping rural communities with very, very low-income people. It keeps people in the communities that they live in and gives them an option to live there at an affordable rate." Due to the scarcity of affordable options in rural communities, the loss of even one 515 apartment building from the program is exponentially significant for rural residents. As a consultant working in small communities pointed out, "if you have some of these small communities where there's only a couple multifamily properties and one [Section 515 property]...exits the program and converts to market rate, it's a concern."

Residents in 515 homes have very low incomes, increasing the vulnerability of these families to housing instability and homelessness. The average annual income of Minnesota's Section 515 residents utilizing rental assistance is less than $12,000. Forty percent 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, with the Midwest states of Michigan, Wisconsin, South Dakota, and Iowa rounding out the top five states with 515 property exits. To be more specific, between 2016 and 2021 over eighty properties, with 1,153 units, representing more than one-tenth of all Section 515 properties in Minnesota, exited the 515 program. What is happening in the Midwest will soon be experienced across the country, as a loss of affordable rural homes for seniors, individuals with disabilities, and families will mean displacement from home and community, and potentially homelessness.

In addition to mortgage maturation, the loss of Section 515 affordability protections and the rental assistance that often is paired with these homes can result from owners eligible for prepayment selling outside of the USDA transfer process to avoid it, and deteriorating property conditions that cause rehab cost to exceed property value. Even with protections that require owners to seek a nonprofit or HRA to purchase a property, those deals at times fall through, which can then result in a sale to a private buyer. The time for action is now if we want to prevent displacement of renters with low-income and save these irreplaceable resources in our rural communities.

Rural Housing Service Reform Act of 2023

MHP strongly supports the Rural Housing Service Reform Act of 2023, a bill that contains many practical solutions to improve rural housing in America, incorporates feedback from rural practitioners and residents, and builds on successful pilot projects and demonstrations. Below we highlight some of the provisions of the bill for comment.

Authorize the Multifamily Preservation and Revitalization (MPR) program and the Multifamily Preservation Technical Assistance (MFTA) program

MHP applauds the bill's provisions to authorize the MPR program and the MFTA program. These two programs have received past appropriations and been proven successful in preserving Section 515 and Section 514/516 rental properties as affordable.

The MPR program provides critical funds for preserving and improving rural rental homes, helping extend affordability terms and supporting repair needs for aging properties. Recent estimates shared by the U.S.D.A. indicate that $30 billion is needed over the next thirty years to preserve 80% of the existing section 515 portfolio. Authorization of this program will help support healthy rural communities, and preserve valuable USDA financed assets.

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 for providing RD transfer process technical assistance, MHP worked on preservation strategies for a total of three hundred and thirteen Section 515 units, including helping 515 transfer property owners secure eighteen and a half million dollars in loans, low-income housing tax credits, and deferred loan funds and loan funds from bonds. MHP, in partnership with Enterprise Community Partners, is continuing to support nonprofit transfers with an award of USDA technical assistance grant funds, with MHP serving twelve central region states.

For small mission driven nonprofits and public housing authorities, completing a nonprofit transfer – requiring years of working through complicated and costly U.S.D.A. procedures – may be an insurmountable goal without the support of no-cost technical assistance. An example of the importance of TA support for 515 non-profit transfers is Swift County Housing and Redevelopment Authority's (HRA) acquisition of Gra-Mar Apartments in Kirkhoven, Minnesota, a town of 814. Gra-Mar Apartments is a 16-unit Section 515 apartment building built in 1978. The last living owner of an original group of four requested that the Swift County HRA, a small HRA serving a county of just 10,000 residents, acquire Gra-Mar and continue to operate it in the 515 program.

With MHP's 515 technical assistance, the Swift County HRA raised funds for the purchase and renovation of the property, secured additional rental assistance for all apartment households, and expects to close on the transfer with U.S.D.A. Rural Development and rehab funders in July of 2023. Construction is planned for 2023 to address health, safety, deferred maintenance and energy efficiency. Over the course of this project, Swift County HRA experienced some of the issues faced by many other housing organizations, including staff changes and few resources in a property tax-poor community. This successful result for Gra-Mar's continued affordability would not have been possible without technical assistance resources provided by U.S.D.A.'s Rural Development over more than three and a half years.

Decouple Rental Assistance from RHS Mortgages, With Conditions

Section 515 rental housing and Section 521 Rental Assistance are frequently paired to offer deep subsidies to residents with very low incomes. However, when a property exits the 515 program and the mortgage matures or is paid off, the renters – and the property – also lose the rental assistance. In Minnesota 96% of Section 515 properties have at least one unit with rental assistance; and 68% of all units have rental assistance. When rental assistance is removed from a property, residents have no ongoing way to pay rents; they will face displacement, housing instability, and loss of community. A property may also face negative financial consequences from the loss of rental assistance.

As Minnesota has many properties exiting the 515 program right now, the loss of affordability requirements is not uncommon, with significant impacts for low-income renters. In a recent instance, MHP was contacted by the daughter of a 20-year resident of a rental home in a small rural community in Minnesota. Her apartment building was in the Section 515 program and managed by a local church, but the mortgage recently matured with the new owner announcing that rents would double as of June 1. The 74-year-old resident, who experiences mental and physical health concerns including degenerative disk disease, knee and hip issues, was distraught to be displaced from her home with no known options, leaving her community of many decades.

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 increasingly facing a high number of mortgage maturations and other exits, we support decoupling as an important option for preserving affordable rural homes. We appreciate that the bill includes conditions for decoupling, permitting extension of a Rental Assistance contract for a decoupled property for 10 to 20 years subject to requirements that the property is maintained as decent, safe, and sanitary and rents remain restricted, among other conditions.

Simplify the Transfer Process, Incentivize Transfers to Mission-Focused Nonprofits, Alerting Owners of Transfer Options

Simplifying the transfer process and incentivizing transfers to mission-based nonprofits are some of the top recommendations for improvements to Rural Housing Services that MHP has received from owners, buyers, and community-based developers.

Many original owners of Section 515 homes are interested in exiting the program, through mortgage maturation or other means. While a transfer to a mission-based owner may ensure continued affordability of the property, the bureaucratic transfer process is formidable and the long time frame associated with completing transfers – typically increasing the cost of the deal – makes a transfer extremely unattractive. Mission driven owners maintain a strong interest in the 515 program as one of the few affordable housing resources available to rural residents.

Without progress to simplify transfer procedures and support transfers to mission-driven nonprofits, even motivated buyers may walk away. MHP worked with an Illinois city Housing Authority on a 515 transfer for several years. After multiple delays in completing the transfer process with Rural Development, the seller announced it was frustrated with the extended time for the deal and demanded a higher price for the property. The Housing Authority, disheartened with both RD and the seller, would not continue negotiations; they walked away from this deal they had already invested significant time and resources in. The likely result will be a sale to a for-profit owner with no continued affordability provisions.

The bill's provisions addressing transfer process challenges are strongly welcomed. As one example, when new buyers seek to purchase a Section 515 property, a Capital Needs Assessment (CNA) is required to identify all repair and rehabilitation needs. The non-profit buyer must demonstrate that reserves are available to cover the cost of the property's capital needs. At times, a lack of regular past inspections as well as constrained reserves and negligent owners result in 515 properties with significant deferred repair issues. For the Carver County Community Development Association (CDA), a Minnesota-based organization which worked to acquire a 515 property with MHP's technical assistance, repair costs resulted in delays and put the CDA's ability to complete the transfer process at risk. The properties, 42 units spread over three buildings, required $1.6 million to address the rehab needs, and took years to get to closing with RD. Had Carver County CDA not been an extremely motivated mission-based purchaser, and able to secure the additional funds needed to address rehab needs at time of purchase, these dilapidated homes may not have been upgraded as healthy, safe, and affordable options to Carver County residents. The ability to address the repairs needed immediately at time of purchase, but reserving other rehab needs to be addressed at a future point, could have reduced the complications and overall cost of this property transfer to Carver County CDA.

MHP supports the bill's provisions to simplify the transfer process by allowing nonprofit transfers to move forward before funds for rehabilitation are identified, as long as the nonprofit buyer accepts long-term use restrictions and makes a commitment to address rehabilitation needs during ownership.

Notice of pending maturation

MHP supports the requirement U.S.D.A. provide official notice to owners and to tenants of maturing loans. Proactive communication with property owners nearing the mortgage maturation date for their property to educate them about transfer options has been recommended for years by housing advocates, community groups, and rural housing developers and owners.

Native American Rural Homeownership

MHP strongly supports the bill's provisions to codify and expand the successful Native CDFI lending pilot for the USDA Section 502 Direct Loan program. The USDA Section 502 direct loan program promotes homeownership with affordable mortgages at fixed rates as low as 1%. This successful program has not, however, equitably served Indian County, with only six loans to Native borrowers on tribal land in 2019.

In 2018, USDA and two Native community development financial institutions (CDFIs) in South Dakota implemented a successful $2 million demonstration that sought to improve the deployment rate of the 502 Direct program in Native communities in South Dakota. Two Native CDFIs borrowed mortgage capital from the 502 Direct program and then relent it to qualified families for the construction, acquisition, and rehabilitation of affordable homeownership on tribal land. In partnership with USDA, the Native CDFIs made 19 mortgage loans totaling $2.4 million, nearly double the volume of loans than USDA deployed on its own on the same two reservations during the previous ten years. Expanding on this successful pilot through the Rural Housing Service Reform Act of 2023 is a practical way to expand on proven success, addressing the need for lending capital for mortgages on tribal land, and a solution that is supported by a broad range of partners.

Closing

Thank you for the opportunity to address the Committee. We are grateful to Senator Smith and Senator Rounds for their hard work to identify bipartisan commonsense solutions to improve the critical work of Rural Housing Service programs. I look forward to any comments or questions the Committee may have.

References:

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An Update on Maturing Mortgages in USDA'S Section 515 Rural Rental Housing Program (HAC 2022), https://ruralhome.org/update-maturing-mortgages-usda-section-515-rural-rental-housing-program/