



NEW ENGLAND HOUSING NETWORK

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Mr. Carlisle Clark
Mr. Bob Ross
US Senate Appropriations Subcommittee
on Agriculture, Rural Development, Food and Drug Administration, and Related
Agencies
116 Dirksen Senate Office Building
Washington, DC 20510

June 30, 2015

Dear Mr. Clark and Mr. Ross:

At a meeting on May 19 with Bob Ross and the lead agencies of the New England Housing Network, housing advocates raised concerns over the number of maturing USDA 515 properties in the region and the lack of policy solutions to address preservation options, potential tenant displacements and needed tenant protections. We also raised these concerns at meetings with USDA RD Administrator Tony Hernandez, Members of the New England Congressional Delegation, and the White House. In an effort to improve the policy landscape to address this growing problem, we are pleased to share the following policy recommendations with you, as well as with other policy makers and interested parties.

515 in New England

The 515 Direct Program was developed in 1974. The mortgage terms were initially 40 years, then 50 years, then 30-year terms (with 50 amortized). Under current policy, affordability guarantees, along with rental assistance, terminate upon the maturation of the mortgage.

Many 515 properties across the country are now maturing, creating the risk of loss of thousands of affordable units and displacement of low income and vulnerable populations without supports.

New England has thousands of units at risk¹.

State	Active 515 Direct Loan Properties	Number of Units
New Hampshire	88	2706
Maine	332	8048
Vermont	79	1842
Massachusetts	40	1262
Connecticut	33	1382
Rhode Island	9	335

Nationally, 60 projects are scheduled to reach maturation this year. The number is predicted to double in 2016. USDA estimates that up to 11,576 affordable rental developments that include 333,856 units could be lost in the next 10 years.

Response by USDA

We appreciate that the USDA Rural Development National Office issued an “Unnumbered Letter” on April 28, 2015 to clarify to state offices how to deal with maturing properties. The Unnumbered Letter offers the following options:

1. The re-amortization of loans for up to 20 years (taking the existing mortgage debt and re-amortizing it over an additional 20 years with rental assistance and interest credit continuing);
2. Deferring debt through the Multi-Family Preservation and Restructuring Program (MPR);
- 3.

¹ National Preservation Database. USDA *NH Projects by County* (May, 2015).

Generating a prepayment process to acquire new portable vouchers for tenants;

4.

Selling or transferring the property to new ownership to stay within the 515 Direct Program, which would include continuation of the rental assistance contract.

USDA's regional offices have shared lists of 515 properties that include location and number of units information. However, **advocates have not gained access to a list that includes dates of mortgage maturity**, a critical piece of information in order to assess the challenge and provide necessary supports.

Policy Recommendations

While the April 28, 2015 "Unnumbered Letter" provides preservation mechanisms currently available, **there is a critical need to update national policy to address the potential loss of thousands of affordable housing units and provide necessary protections for low-income populations at risk of homelessness.**

With high housing costs relative to incomes, competitive housing markets, high property values, high energy costs, low vacancy rates and a lack of rental housing stock, the New England region is particularly vulnerable.

1.

Update the RD Voucher Program to Work Like HUD's Enhanced Voucher Program.

First, RD Vouchers must be extended to make persons who reside in developments with maturing mortgages eligible to receive vouchers. Residents should not have to depend on owners filing a prepayment application to receive a voucher.

Second, RD vouchers should operate like the HUD Enhanced Vouchers. This would allow potentially displaced residents to find and afford market rate

replacement housing, or remain in place and afford new higher rents after the property's rent restrictions expired.

2.

Increase the Voucher Program to \$25.7 million in FY 16.

The \$15 million requested in the FY 2016 budget proposal will fail to cover the estimated 3,000 households that will become eligible for vouchers due to prepayments, nor will it cover 3,270 households that will become eligible due to loan maturity. More funding is needed to cover the program which currently is only operating at a 50 percent utilization rate.

3.

Extend *Letters of Priority Entitlement* to Persons Displaced Because of Maturing and "Paid Ahead" Mortgages.

The April 28, Unnumbered Letter allows residents to move their Rental Assistance subsidy to another RD property during a 4 month term. Unfortunately, this is a useless option because residents displaced from a maturing mortgage property are not given priority admission to other RD properties and, as a consequence, few if any will be able to move to other RD properties without getting a Letter of Priority Entitlement (LOPE).

We recommend that the report language of the FY 16 USDA appropriations bill include language clarifying the use of *Letters of Priority Entitlement*:

The Secretary shall declare persons, who are threatened with displacement from RD rental housing because the loan for that housing is scheduled to mature within 24 months, eligible to receive priority for relocation to alternative housing assisted pursuant to Title V of the Housing Act of 1949. The Secretary shall notify each and every person of their eligibility for such priority no later than 24 months prior to the date of the loan maturity. Persons so notified shall be eligible to relocate to such housing at any time after receipt of the notice notwithstanding any lease agreement with the owner of the housing.

4.

Require USDA to Share 515 Loan Maturity Dates.

In order to provide adequate supports to potential displaced populations, state and local agencies need accurate information. In addition, some preparation time is needed by developers interested in purchasing and/or re-financing 515 properties. Finally, statewide housing needs assessments currently lack data about 515 properties with maturing loans. Therefore, USDA should be directed to provide this information to the public.

5.

Provide a Purchase Option for Expiring 515s to Nonprofit Affordable Housing Developers.

An important preservation tool is to provide the right of first refusal to purchase affordable housing properties with expiring affordability provisions to nonprofit developers and community development associations. Updating the 515 Loan Program with this purchase option would help communities concerned about the number of maturing 515s in a given region.

6.

Direct USDA to extend expiring subsidy contracts to non-profit developers willing to purchase expiring use properties and preserve affordability. Together with a right of first refusal, this is a key tool needed for mission-driven non-profits to buy and continue to operate 515 properties as affordable housing. The contracts should be extended for at least twenty years, much like HUD's Project Based Section 8 Program. USDA should clarify that limited partnerships and limited liability corporations with significant non-profit involvement, such as those formed to take advantage of the federal Low Income Housing Tax Credit, should be eligible for preservation funding.

Conclusion

The New England Housing Network will continue to work with policy leaders, stakeholders and other national partners to raise concerns surrounding the wave of expiring affordable multi-family properties funded by USDA's section 515 program.

We welcome your questions and feedback and look forward to working with you on policy solutions to address this situation.

Sincerely,

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