

# RURAL POLICY NOTE

August 29, 2016

## THE HOUSING ASSISTANCE COUNCIL



The Housing Assistance Council (HAC) is a national nonprofit organization that supports affordable housing efforts in rural areas of the United States. HAC provides technical housing services, seed money loans from a revolving fund, housing program and policy assistance, and research and information services. HAC is an equal opportunity lender.



## MATURING USDA RURAL RENTAL HOUSING LOANS: AN UPDATE

In 1963, USDA made its first rental housing loans under the Section 515 Rural Rental Housing loan program. Since then, the Section 515 program financed nearly 28,000 properties containing over 533,000 affordable apartment rental homes. Tenants in these properties often have very low incomes and represent some of our nation's most vulnerable residents including elderly persons, people with disabilities, and mothers with young children.

Section 515 rental properties were financed with USDA loans that could be amortized over terms as long as 50 years. Tenants in these projects may receive 'Rental Assistance' which reduces their monthly rent obligation to about 30 percent of their household income.

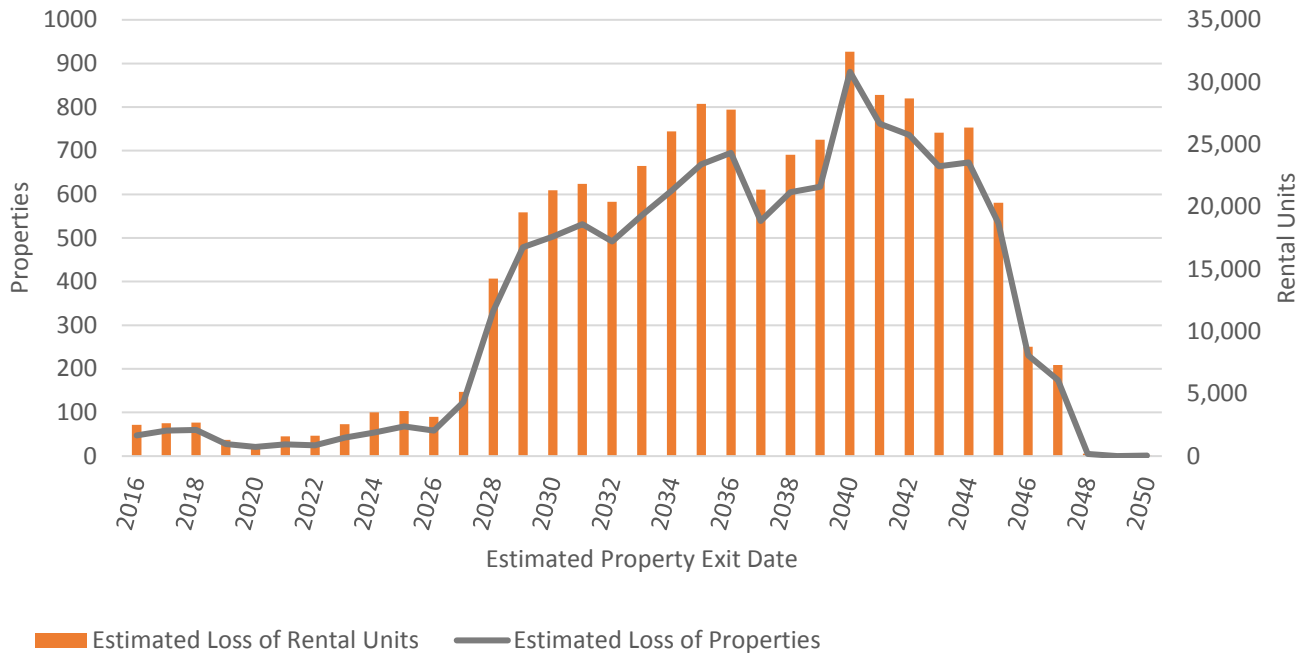
**Maturing Mortgages** Once the USDA loan is paid in full, owners are under no obligation to maintain the properties as affordable housing. After the loan matures, tenants living in these properties are also no longer eligible for USDA's Rental Assistance.

**Analysis** The Housing Assistance Council (HAC) analyzed data on USDA's multifamily loan portfolio as of the end of March 2016. At that time, there were about 13,830 Section 515 properties with over 416,000 rental units. Nearly two-thirds of the households in these properties receive USDA Rental Assistance. The average tenant household has an income of about \$13,600.

USDA calculated a "project exit" date which includes a loan maturity, or estimated payoff date. These projections indicate that an average of 74 properties (1,788 units) per year will leave the program over the next 12 years (2016 – 2027). In 2028, the number of properties exiting the program is expected to increase significantly with an average loss of 556 properties (16,364 units) per year through 2032. For the following eight years after 2032, the numbers of properties exiting the program increases for an average loss of roughly 22,600 units per year, peaking in 2040. (For a table of estimated property exits by year please see Appendix A)

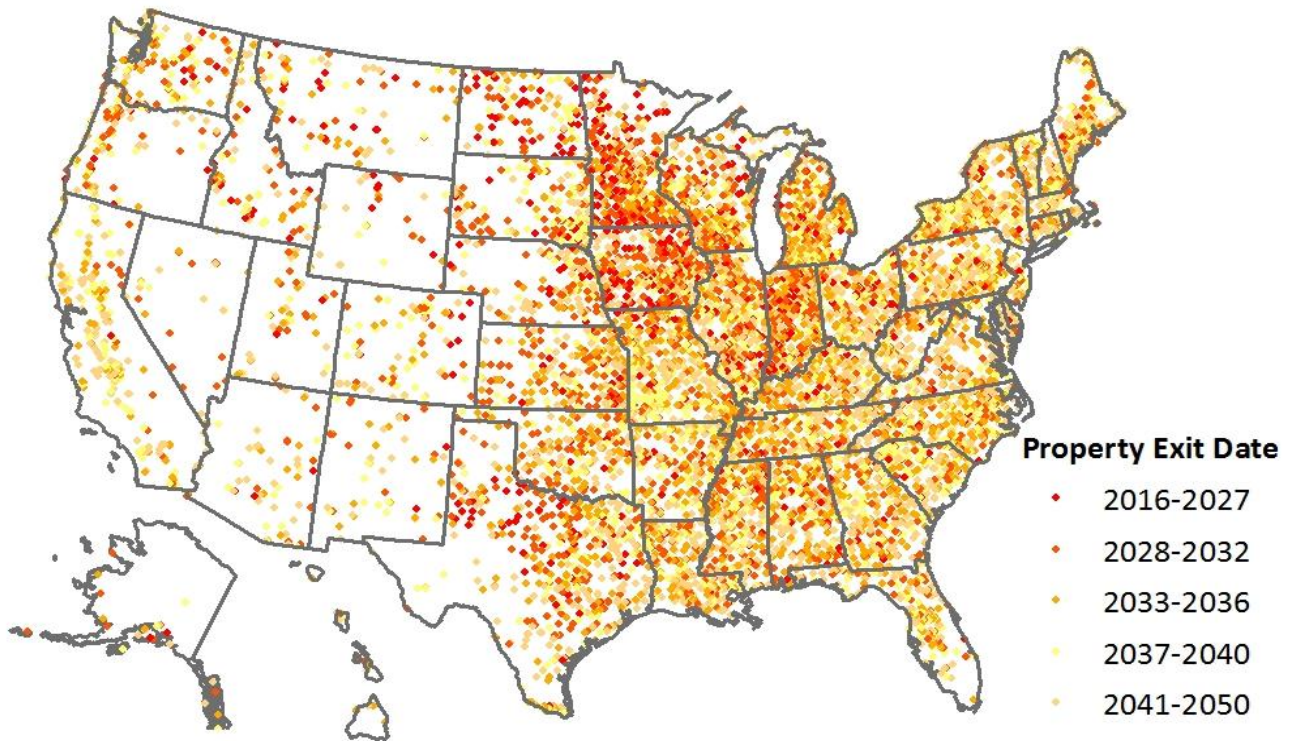
## MATURING OF USDA SECTION 515 RURAL MULTIFAMILY LOANS

Estimated Loss of Properties and Units to Loan Maturity, 2016-2050



## Maturing USDA Rural Rental Housing Loans

Estimated Exit Date of USDA Section 515 Rural Rental Housing Properties



Source: Housing Assistance Council (HAC) Tabulations of USDA Data



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To view an interactive version of this map and estimated exit dates for each property visit: <http://arcg.is/29638UI>

**When the Loan Was Originated Matters** Initially, USDA's Multifamily loans were made with the understanding that the projects financed would be maintained as affordable housing for low- and very low-income tenants as long as the loan was still active. Until 1979, there were no restrictions on when the loan could be paid off.

In 1979, USDA implemented a 20-year restrictive use requirement. This meant that the projects had to be maintained for program eligible tenants for the specified time period even if the loan were paid in full or ownership was transferred. This policy was in effect through December 14, 1989.

Generally, loans approved prior to December 15, 1989, are subject to prepayment regulations. Project owners wishing to prepay the loan must file an application with USDA to request payoff of the loan(s). In turn, USDA must consider whether to offer the owner "incentives" to keep the property in the program.

Tenants living in projects in which the USDA loan was paid off early are eligible for certain tenant protections such as the Section 542 Rural Housing vouchers. This is not the case when the loan fully matures.

Loans made after December 1989 cannot be paid off except by running the course of the loan. In other words, these loans cannot be paid off early (prepaid). These newer loans could be amortized up to 50 years. After 1997, the loans were scheduled for pay off at 30 years (amortized over 50 years with a balloon payment at year 30). Over 62 percent of the properties in the USDA portfolio are not eligible to prepay the loans, therefore they must remain in the portfolio for the entire term of the loan.

## Contact Us

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## FOR MORE INFORMATION ON USDA MULTIFAMILY MATURING MORTGAGES

USDA posts list of maturing multifamily mortgages, November, 2015.  
{update with new USDA announcement}<http://www.ruralhome.org/whats-new/menu-policy/1265-usda-posts-list-of-maturing-multifamily-mortgages>

To view an interactive version of property map and estimated exit dates for each property visit <http://arcg.is/29638UI>

Rural Preservation Bills Introduced in House and Senate, April, 2016.  
<http://www.ruralhome.org/whats-new/menu-policy/1336-rural-preservation-bills-introduced-in-house-and-senate>

Multi-Family Fair Housing Occupancy Reports, (date? There are more recent updates as well) <http://ruralhome.org/sct-information/usda-housing-program-data/usda-historic>

Maturing USDA Multi-Family Housing Loans Will Impact Tenants, October 2014. <http://ruralhome.org/storage/documents/policy-notes/rpn-maturing-usda-mf-loans.pdf>

As Overall Program Funding for USDA Rural Development Shrinks, The Need for Rental Assistance Has Grown, November, 2013.  
<http://www.ruralhome.org/sct-information/mn-hac-research/rrn/825-rrn-rd-rental-assistance>

[rd-rental-assistance](http://www.ruralhome.org/sct-information/mn-hac-research/rrn/825-rrn-rd-rental-assistance)

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Appendix A.

**TABLE 1. USDA Section 515 Loan Portfolio, Estimated Property Exit Year**

<b>Estimated Property Exit Year</b>	<b>Properties</b>	<b>Rental Units</b>
2016	72	1,664
2017	75	2,055
2018	77	2,093
2019	37	966
2020	26	733
2021	45	951
2022	47	865
2023	73	1,477
2024	100	1,902
2025	103	2,377
2026	90	2,049
2027	147	4,320
2028	407	11,632
2029	559	16,760
2030	609	17,602
2031	624	18,602
2032	583	17,223
2033	665	19,317
2034	744	21,290
2035	807	23,404
2036	794	24,325
2037	611	18,861
2038	691	21,178
2039	725	21,598
2040	927	30,831
2041	828	26,658
2042	820	25,768
2043	741	23,251
2044	753	23,552
2045	581	18,694
2046	251	8,088
2047	209	6,095
2048	6	163
2049	1	4
2050	1	48
<b>Total</b>	<b>13,829</b>	<b>416,396</b>

Source: HAC Tabulations of USDA Data