

# **Affordable Housing in Rural New England: What We Need from HUD, USDA Rural Development, and the IRS**

New England Housing Network  
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## **Background**

Rural New England is a region characterized largely by small towns that are often surrounded by a working landscape of family farms, working forest and recreational areas. Much of it lacks public infrastructure including water and sewage systems, public transportation, as well as broadband and telecommunications.

Poverty in rural New England is dispersed, rather than concentrated, and therefore looks different than it does in cities or in other rural areas like Appalachia. Nevertheless, the families we house are just as impoverished even if they live in more heterogeneous communities. Much of our housing stock is older, contributing to high maintenance expenses and lead paint issues. Our long, cold winters result in significant expenses for heat and snow removal. The region's heavy dependence on unregulated sources of heat (e.g., fuel oil, propane and kerosene) combined with the lack of public transportation makes the rural poor especially vulnerable to spikes in the cost of oil. These expenses, juxtaposed with low incomes and high real estate values lead to a large housing affordability gap for households or properties without rental assistance.

Because of these characteristics, programs designed to focus on high poverty census tracts do not necessarily work well for rural New England. Affordable housing entities in rural New England successfully use federal programs that tend to target properties or households as opposed to concentrated neighborhoods. These programs include, but are not limited to, HUD's 202 and 811 programs, project and tenant based rental assistance, block grants such as CDBG and HOME and USDA Rural Development Programs such as 515, 521, 504, 502 and the Multi-Family Rental Preservation Program. We do not compete as successfully for the more metro-focused programs or programs in which scoring favors high concentrations of poverty in a particular neighborhood or geographic area, yet the rising level of rural homelessness attests to the struggles faced by rural New England households.

While we appreciate the new energy and commitment that the Obama administration has brought to HUD, we are concerned that some of the programs that developers and property owners in rural New England have used so successfully are slated for cuts and even elimination and that the new HUD initiatives tend to have a more urban focus or bias. One has the sense that rural America is getting "lost in the shuffle" as the Administration focuses energy and resources on the important and difficult issues in urban neighborhoods. It is critical that federal dollars targeted to low and moderate income households be equally available to low and moderate income citizens throughout the nation. Eligibility can be easily demonstrated for individual households where the threshold of eligibility is not the census tract, just as it is done for the households that we serve in our rental programs.

## **The FY'11 HUD Budget**

The key ingredients that rural New England needs to successfully create and operate affordable housing are: additional capital funds for new developments, public housing and preservation projects, and operating subsidies that are project-based as well as portable rental assistance. Programs that contain these elements including HOME, 811 and 202 are all slated for cuts in the HUD budget as is the Public Housing Capital Fund. In fact, the cuts to the 202 and 811 programs would leave only enough money to fund renewal of operating subsidy contracts, eliminating altogether funds for development of new projects. We recognize that programs such as HUD 811 and 202 can be improved and streamlined and we support these efforts. However, we cannot support reductions or elimination without credible alternatives.

Many of the new HUD initiatives (such as Choice Neighborhoods, Catalytic Investments, and to a certain extent Sustainable Communities) focus on distressed urban neighborhoods and neighborhoods served by public transit – a resource that is scarce in rural New England and the rest of rural America. The recent HUD green retrofit grants program had such a high threshold for minimum number of units that very few rural projects qualified. At the same time a number of rural initiatives have been eliminated, and, although programs such as RHED/Rural Innovation Fund and SHOP were not heavily used in rural New England we are concerned about this further evidence of a trend away from programs targeted to rural needs. Rural America's needs must be addressed and HUD programs need to be designed so that rural areas like those in New England have equal access to HUD dollars in funding competitions. HUD programs must be designed with an understanding of and sensitivity to the differences between rural and urban poverty. Alternatively, we need small state minimums or rural carve-outs.

## **The FY'11 USDA Rural Development Budget**

USDA Rural Development's housing programs are used extensively and play an important role in creating and supporting affordable housing for the poor in rural New England. Under the Bush Administration, many of those programs were deeply cut with resources more heavily invested in programs that serve a higher income level. The Obama Administration's budget for USDA Rural Development is a welcome contrast to the cuts of previous years, although it does not attempt to bring those programs back to where they were a decade or so ago. Nevertheless, we are pleased to see the proposed increase in the 515 program, level funding of the 502 program and only a small decrease in 521 rental assistance.

We were, however, disappointed to see that the Rental Preservation Demonstration (MPR) program is slated to be discontinued. This has been an important program that has significantly benefited existing RD funded multi-family housing throughout rural New England. The RD 538 guarantee program is slated for level funding but the change made to that program a couple of years ago - elimination of the 2.5% interest credit buy-down - has seriously undermined its usefulness. We urge you to reverse that change.

## **Critical Issues for Affordable Housing in Rural New England**

It is critical that:

1. The HUD 202 and Section 811 capital advances and rental assistance for new developments not be eliminated. They are essential and proven funding sources for rural New England. We approve of the Administration's efforts to modernize those programs but want to be sure that the modernization does not create additional barriers for smaller rural projects. If the 202 and 811 programs are to be essentially eliminated they must be replaced by programs providing the same benefits – that is both capital grants and operating assistance - assuming that New England projects can compete on an equal level as we have in the past.
2. Rural New England is neither implicitly nor explicitly precluded from receiving any future Neighborhood Stabilization Program (NSP) funding. Our foreclosures, like our poverty, tend to be dispersed as opposed to concentrated in particular neighborhoods or developments. We hope that if there is a Round 3 it will include a new small state minimum and that the recently instituted flexibility will continue and be expanded to allow rural states to define priorities for solving foreclosure and property abandonment issues in ways that address the needs of their particular communities.
3. Any future funding for the HUD Green Retrofit Program allows for projects smaller than the 80-unit minimum. We suggest a 20-unit minimum.
4. Any proposed changes to the Community Development Block Grant Program allocation formula continue to recognize the age of housing stock and other key characteristics of housing in New England as well as such measures as housing cost burden and housing wage gap.
5. The Tax Credit Exchange Program be continued so smaller deals in more rural locations can obtain LIHTC subsidy even if investors cannot be found.
6. The low-income housing tax credit program address the issue that, with the loss of overall capital, investors currently disfavor smaller deals in more rural markets. To address this, incentives should be provided to LIHTC investors who participate in provide in rural deals. This could be accomplished by accelerating tax benefits or by extending carry-back or carry-forward benefits.
7. The availability of project-based rental assistance be increased including for LIHTC properties. Such rental assistance covers the gap between the operating cost and what rural New England households can afford, as described above.
8. Housing preservation is recognized as an important component throughout HUD and USDA programs. It is crucial that Rural Development's MPR not be eliminated. Adequate funding for expiring use projects and capital improvements for existing dwellings must be provided. Rural New Englanders face limited choices of housing that is both decent and affordable. Often the federally assisted housing in a small town is the

only decent affordable rental housing in that community. Those resources must be preserved. A revision to Rural Development's appraisal standards for 515 properties with rental assistance is essential to such preservation efforts. Appraisal standards must result in property values that provide the financial incentive necessary for an owner to sell his/her property by recognizing the value of the rental subsidy, while at the same time preventing a financial windfall to that owner.

9. As HUD designs new programs and unveils new initiatives, the needs of rural communities are recognized and programs are developed and appropriately scaled to address those needs.
10. Both HUD and Rural Development work with other federal agencies to develop programs or institute changes to existing programs to promote a home centered long-term care system for seniors. A component of this system should include allowing service coordination as an eligible expense in RD 515 operating budgets. Rural households usually have limited or no choices for long term care as assisted living and more intensive long term care facilities are usually non-existent in those communities. We understand that in the House, Chairman Frank's Preservation Bill, HR 4868, may be amended to permit 515 funding for service coordinators, which the Network supports.
11. The RD Section 502 Loan Guarantee Program be extended. Housing Finance Agencies that serve rural areas have had to rely increasingly on this program for loan guarantees as private mortgage insurance has become more difficult to obtain. The program ran out of funding at the end of April and Rural Development has suspended its interim procedure for processing mortgages while awaiting passage of legislation that would increase the maximum annual premium charged to borrowers, from 2% to 4%, thereby funding the program without requiring an additional appropriation. HR 5017 has passed the House, while it's Senate companion bill, SB 3266, remains pending. The Network requests that Congress resolve this issue as soon as possible to facilitate rural mortgage lending and that, until then, RD resume its interim procedure for processing loans.
12. The regional Rural Development offices have more flexibility to manage troubled 502 Direct loans that are in default, including permitting loan modifications, acceptance of a deed in lieu of foreclosure, partial mortgage write-offs, and other measures to minimize losses and re-establish responsible ownership. Owners who act in good faith, are in default, and because of market conditions are forced to sell their property for less than the mortgage amount should be encouraged to transfer their property to avoid foreclosure and should be released from the liability of the remaining debt. Also, in cases in which there are non-profit sponsors of secondary financing there should be a strong emphasis on finding ways to maintain their security interest and participation in affordable homes. The current system for default management is inflexible and gives the regional office little latitude in working with homeowners and community partners.

## **Conclusion**

To a certain extent, the many of issues and problems that we have outlined can be addressed with rural carve outs, pilot programs specifically for the northern New England region and reasonable small state minimums. Without such specific remedies, we have serious concerns about reducing or eliminating programs that are working well for the low-income households whom we assist and are disappointed that replacement programs that work well in rural New England have not been proposed.