

Rural Rental Housing Loans (Section 515)

September 2002

The Rural Housing Service (RHS) is a part of Rural Development (RD) in the U.S. Department of Agriculture (USDA). It operates a broad range of programs that were formerly administered by the Farmers Home Administration to support affordable housing and community development in rural areas. RHS both provides direct loans (made and serviced by USDA staff) and also guarantees loans for mortgages extended and serviced by others.

The RHS National Office is located in Washington, D.C., and is responsible for setting policy, developing regulations, and performing oversight. RHS employs a central collection and servicing center in St. Louis, Mo. and a computerized system called DLOS for Section 502 direct and Section 504 loans. In the field, RHS operations are carried out through the USDA's RD offices. Each RD State Office administers programs in a state or multistate area. The organization of Rural Development offices within a state varies, but typically Area or District Offices supervise Local Offices (also termed county or community development offices) and do the processing and servicing of organizational loans and grants. Local Offices process single family housing applications, assist District Offices with organizational applications and servicing, and provide counseling to applicant families and backup servicing as needed.

PROGRAM BASICS

Rural Rental Housing Loans are direct, competitive mortgage loans made to provide affordable multifamily rental housing for very low-, low-, and moderate-income families, elderly persons, and persons with disabilities. This is primarily a direct housing mortgage program; its funds may also be used to buy and improve land and to provide necessary facilities such as water and waste disposal systems.

ELIGIBLE ACTIVITIES

Ownership: Individuals, partnerships, limited partnerships, for-profit corporations, nonprofit organizations, limited equity cooperatives, Native American tribes, and public agencies are eligible to apply. For-profit borrowers must agree to operate on a limited-profit basis (currently 8 percent on initial investment). Borrowers must be unable to obtain credit elsewhere that will enable them to charge rents affordable to low- and moderate-income tenants.

Tenancy: Very low-, low-, and moderate-income families; elderly persons; and persons with handicaps and disabilities are eligible to live in Section 515-financed housing. Very low income is defined as below 50 percent of the area median income (AMI); low income is between 50 and 80 percent of AMI; moderate income is capped at \$5,500 above the low-income limit. Those living in substandard housing are given first priority for tenancy. When rental assistance is used, top priority is given to very low-income households. As of January 1, 2002, the average income of tenants was \$8,028, or 25.9 percent of AMI. Incomes of tenants receiving rental assistance averaged \$6,458, or 20.8 percent of AMI.

Competitive Applications: Rural Development State Directors use needs criteria to establish a list of targeted communities for which applicants may request loan funds. A list of these communities is published in a Notice of Funding Availability (NOFA). The applications are then rated competitively in order to select recipients. In fiscal year 2002 only \$49 million was available for new loans.

**Rural Housing and
Economic Development Gateway**
1-877-RURAL-26 (1-877-787-2526)
www.hud.gov/ruralgateway/
U.S. Dept of Housing & Urban Development
451 7th Street, S.W., Room 7137
Washington, DC 20410

PROJECT REQUIREMENTS

Loans are for up to 30 years at an effective 1 percent interest rate and are amortized over 50 years. A current rate is used for the promissory note but thereafter is used only to determine maximum rent payments. Tenants pay basic rent or 30 percent of adjusted income, whichever is greater. RHS rental assistance subsidy can be used to limit tenant payments to 30 percent of their income.¹ Loans made through contracts entered into on or after December 15, 1989 cannot be prepaid. Owners may obtain guaranteed equity loans after 20 years as an incentive for participation.

Standards

RHS site standards, CABO Model Energy Code, and voluntary national model building codes apply. When moderate rehabilitation is involved, a separate RHS standard is used. RHS maintains square foot ranges by number of bedrooms to limit unit size. Projects must be designed to have two or more units per building.

Variations

There are four variations of the Section 515 loan program. They are Cooperative Housing,² Downtown Renewal Areas, Congregate Housing or Group Homes for Persons with Disabilities, and the Rural Housing Demonstration Program.

Approval

RD State Directors use needs criteria to establish a list of targeted communities for which applicants may request loan funds. The applications are then rated in order to select recipients. District Directors have the authority to approve loans of up to \$500,000. Loans of up to \$1,500,000 must be approved by State Directors. All requests for loans above \$1,500,000 must be reviewed by the RHS National Office.

Basic Instruction

Instructions 1944-E and 1930-C. RHS is developing a proposed rule that will “reinvent” these instructions.

FOR MORE INFORMATION

For additional information on Section 502 self-help and RHS, contact the RHS National Office, 1400 Independence Avenue, S.W., Room 5037S, Washington, D.C. 20250; 202-720-4323. Contact your Rural Development State Office to find out the location of the Local Office closest to you, or visit www.rurdev.usda.gov/recd_map.html. Copies of RHS regulations are available online at <http://rdinit.usda.gov/regs>.

¹ For more information, see the HAC Information Sheet on the Rural Rental Assistance Program.

² For more information, see the HAC Information Sheet on the Rural Cooperative Housing Loan Program.