NEW ENGLAND HOUSING NETWORK

December 14, 2011

Mr. Dallas Tonsager
Undersecretary, USDA Rural Development
Room 205-W
Mail Stop 0107
1400 Independence Avenue, SW
Washington, DC 20250-9410

Via Email

Subject: Follow-up to Meeting at the New England Housing Network Annual Housing Conference

Dear Mr. Undersecretary:

Thank you for returning to New England to participate in the New England Housing Network Annual Housing Conference. Your insights as a senior USDA official helped us better understand the challenges we all are facing.

We also appreciated the opportunity for a small group of us to meet with you and the three New England state directors in advance of the conference. As strong supporters of Rural Development's critical housing mission and regular participants in your housing programs, we welcomed the chance to discuss a range of issues with you. This letter briefly summarizes our comments and requests.

Knowing the effectiveness of Rural Development's programs, we were deeply disappointed by the funding cuts the President called for in his FY 2012 budget. We were further troubled by the Statement of Administration Policy on H.R. 2112. The successes of Rural Development's housing programs coupled with the strength of your delivery system argue persuasively against the transfer of the Rural Housing Service to another agency. Going forward, we offer our sincere hope that the Administration's proposals for FY 2013 recognize the importance of RD programs for rural America.

Join with HUD, Treasury and Other Federal Agencies to Coordinate and Streamline Policies and Practices

Several of us have participated in meetings of the task force on Harmonizing and Streamlining Federal Affordable Rental Housing Programs that have been convened by the White House Domestic Policy Council, HUD, USDA and Treasury. We view this effort as an important element of the Administration's larger commitment to improving the performance of multifamily housing programs and would like to hear more about USDA's views on the process.

In times of leaner budgets and smaller staffs coupled with Congressional gridlock, it's important and valuable to look for measures that can be done administratively and without new funding. That can't solve all of our multifamily housing issues, but it is a prerequisite, especially since it is imperative that we clearly demonstrate the program's basic integrity.

In particular, what is being learned so far in the pilots that have been launched to test administrative alignments in the areas of physical inspections and subsidy layering reviews? We recommend making a strong commitment to this overall DPC effort which can provide immediate benefits and enhance communication with the industry.

Increase Flexibility to Minimize Losses in Section 502 Defaults

The state Rural Development offices should 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. This would also preserve the state and federal resources which have been invested alongside the Section 502 loans. The current system for default management is inflexible and gives the regional office little latitude in working with homeowners and community partners. Finally, increased state office flexibility to address defaults would result in more timely processing that would decrease the accrued foreclosure costs.

Ease Very Low-Income Targeting in Section 502 Single Family Direct Program

Many low and very-low income households rely on this key federal resource as the only way to become home owners. In the past three years alone, the 502 program has enabled nearly 500 New England families to achieve the security that homeownership brings. However, the requirement that 30 percent of funds be dedicated to very low-income homeowners (below 50 percent of area median income) has caused numerous challenges for Rural Development offices in states where housing prices and property taxes are high.

In many markets, it is very difficult for a very low income (VLI) family to satisfy underwriting requirements without the help of other resources, such as a Section 8 homeownership voucher. Deep cutbacks in many federal and state programs make it all the more difficult to secure such additional resources. As a result, the 502 VLI targeting requirement can result in riskier loans being made at a time when the nation is still struggling to overcome the mortgage lending crisis of the last several years. Further, RD offices are frequently unable to make loans to eligible low-income borrowers because they have not met their very low-income targeting requirement. This has resulted in approved borrowers being placed on waiting lists until VLI quotas are met, causing frustration and the potential for negative public perception of an extremely successful federal program. In addition VLI targeting requires deeper subsidies to fill the gap between the cost of homeownership and what a family below 50 percent of median can responsibly afford, adding to program cost. Finding eligible VLI borrowers and helping to make homeownership work for them also places an additional administrative burden on RD at a time when the agency is losing 10 percent of its staff nationwide, including hundreds of its most experienced, senior administrators.

While the Network fully supports assistance to our lowest income, most vulnerable citizens as the highest priority for federal housing funds, we understand that homeownership is not for everyone. We request that RD initiate (1) a statutory change to reduce the VLI targeting requirement to 20 percent, and (2) an administrative change to stop holding back low-income funds until state offices have met their very low-income targeting requirement.

Don't Implement Energy Star Version 3 Moisture Reduction Requirements for Section 515 Rehabilitation Projects

The Environmental Protection Agency plans to implement Energy Star Version 3 early in 2013. The non-energy related moisture reduction requirements of that standard will be virtually impossible to meet in buildings undergoing rehabilitation as opposed to new construction. For example, the requirement of a capillary break beneath all slabs would necessitate the removal of and reinstallation of the slab under an existing building. We urge Rural Development to discuss this issue with EPA. If EPA is unwilling to modify the standard for rehabilitation and RD decides to require or give extra points for compliance with Energy Star 3, we suggest that the RD requirement be limited to the energy components and not the moisture-related elements of Energy Star Version.

Accept Security Value in Establishing Sales Price for Section 515 Property Transfers

Rural Development directs appraisers to return an opinion of value on the proposed transfer property that ignores all favorable financing, all RA subsidy and all affordable rent restrictions. This "as-is" value is typically significantly lower than the security value used by lenders to underwrite their loans. As a result, the sales price is based on the reduced as-is value which dramatically lowers the sales price paid to the owner. This hurts preservation efforts by creating a large disincentive for owners to transfer Section 515 properties to non-profits (or any buyers for that matter). Utilizing the security value (which assumes continuation of USDA involvement, additional years of affordability restrictions and the value of the RA subsidy) works fine for banks and other lenders because they understand that all those ingredients will be in place after the sale. Rural Development should recognize this security value (as HUD does) as part of the basis for final deal structure. This will greatly facilitate the efforts of non-profit buyers to preserve Section 515 properties.

Allow Service Coordination as an Eligible Expense for Section 515 Properties

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 Section 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.

Please understand that we offer these suggestions not because we are trying to re-invent rural housing programs, but because Rural Development's housing programs are essential to creating and preserving affordable housing opportunities for renters and homeowners in rural New England. The value of these effective programs would be diminished if they were to be transferred to another federal agency. Also lost would be the intrinsic connections among healthy housing markets, strong rural economies and viable community facilities and infrastructure.

Again, we genuinely appreciate the opportunity to meet with you and the state directors to discuss Rural Development's housing programs and to advocate for increased Rural Development funding within USDA.

Sincerely yours,

Laura Buxbaum, Coastal Enterprises, Inc.
Brenda Clement, Housing Action - Rhode Island
Aaron Gornstein, CHAPA
Erhard Mahnke, Vermont Affordable Housing Coalition
Elissa Margolin, Housing Action New Hampshire
Polly Nichol, Vermont Housing and Conservation Board
Vincent O'Donnell, LISC
Kenn Sassorossi, Housing Vermont
Gus Seelig, Vermont Housing and Conservation Board
Amy Wright, Cathedral Square Corporation

Cc: Molly Lambert, RD State Director, Vermont and New Hampshire
Jay Healy, RD State Director, Massachusetts, Connecticut and Rhode Island
Virginia Manuel, RD State Director, Maine