

# **THE SECTION 515 PROGRAM AND THE CHALLENGE OF PRESERVING AFFORDABLE HOUSING IN RURAL MINNESOTA**

Based on research by Ryan Allen, Susan Bergmann and Max Geitz

January 2023



# Areas of Focus

Research | Policy | Community Development

MHP advocates for equitable housing policy, conducts research to inform solutions, and delivers community development services throughout the country.



## Community Development

Technical assistance and capacity-building from coast to coast, specializing in rural and Native communities.



## Research and Publications

Using a data-driven approach to research housing need, disparities, and solutions for lasting impact.

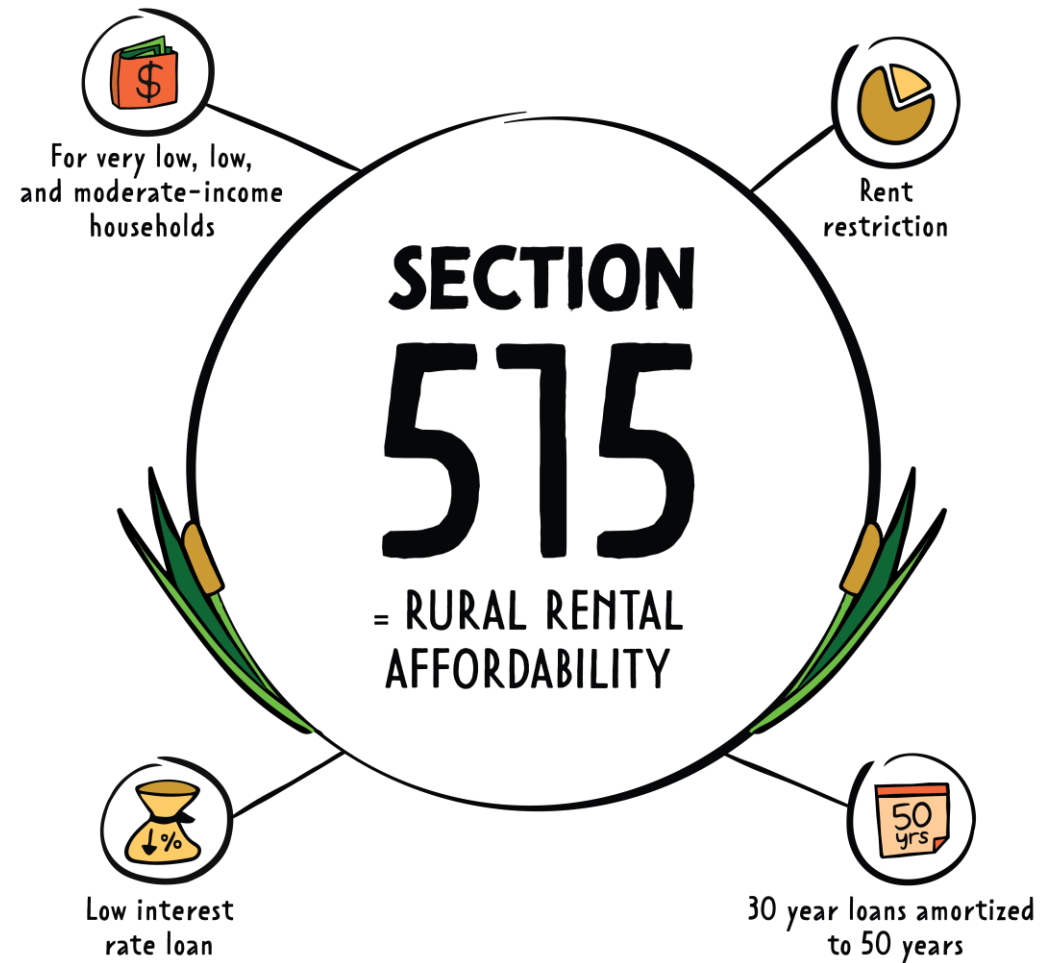


## Public Policy

Advocating for housing investment and equitable allocation of resources at the federal, state, and local levels.

# What is the Section 515 program?

- **Senior Citizen Housing Act of 1962** authorizes USDA to make loans for rental housing in rural areas, amended in 1966 to expand program
- **550,000 units** of subsidized housing created since inception.



# Research approach ...

- Profile of 515 properties and residents
- Examine what works well and areas of improvement
- Examine motivations of owners
- Data from USDA RD and 30 interviews

## THE USDA SECTION 515 PROGRAM AND THE CHALLENGE OF PRESERVING AFFORDABLE HOUSING IN GREATER MINNESOTA

### EXECUTIVE SUMMARY

Authors

Ryan Allen, Susan Bergmann and Max Geitz



Center for Urban and  
Regional Affairs | **cura**  
UNIVERSITY OF MINNESOTA

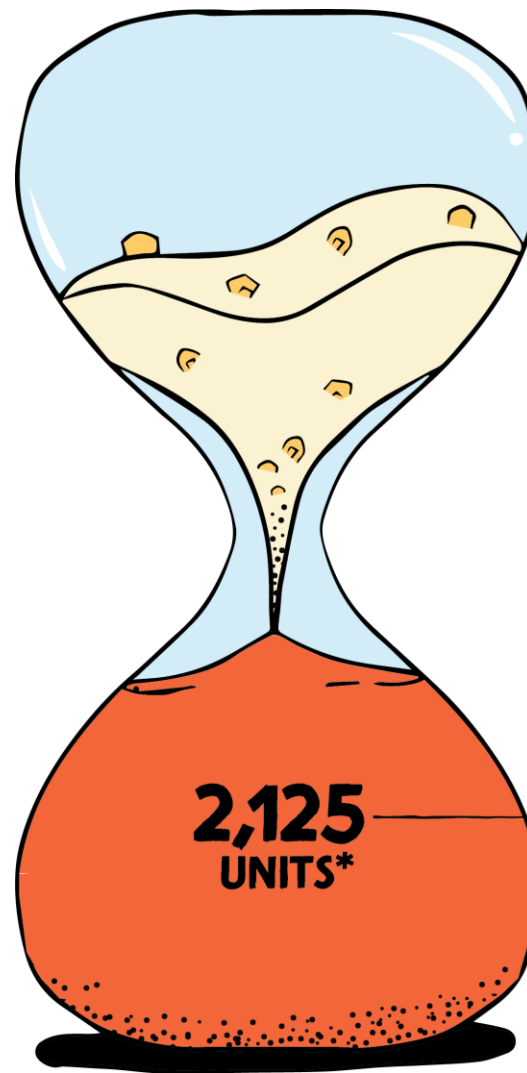
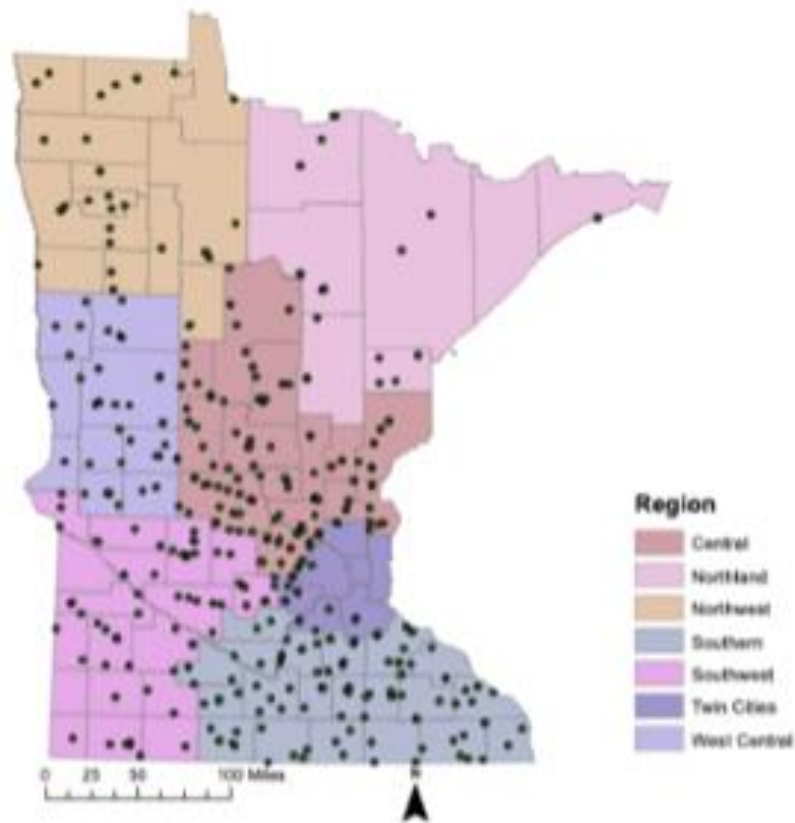
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Map 1: Section 515 Properties - Minnesota

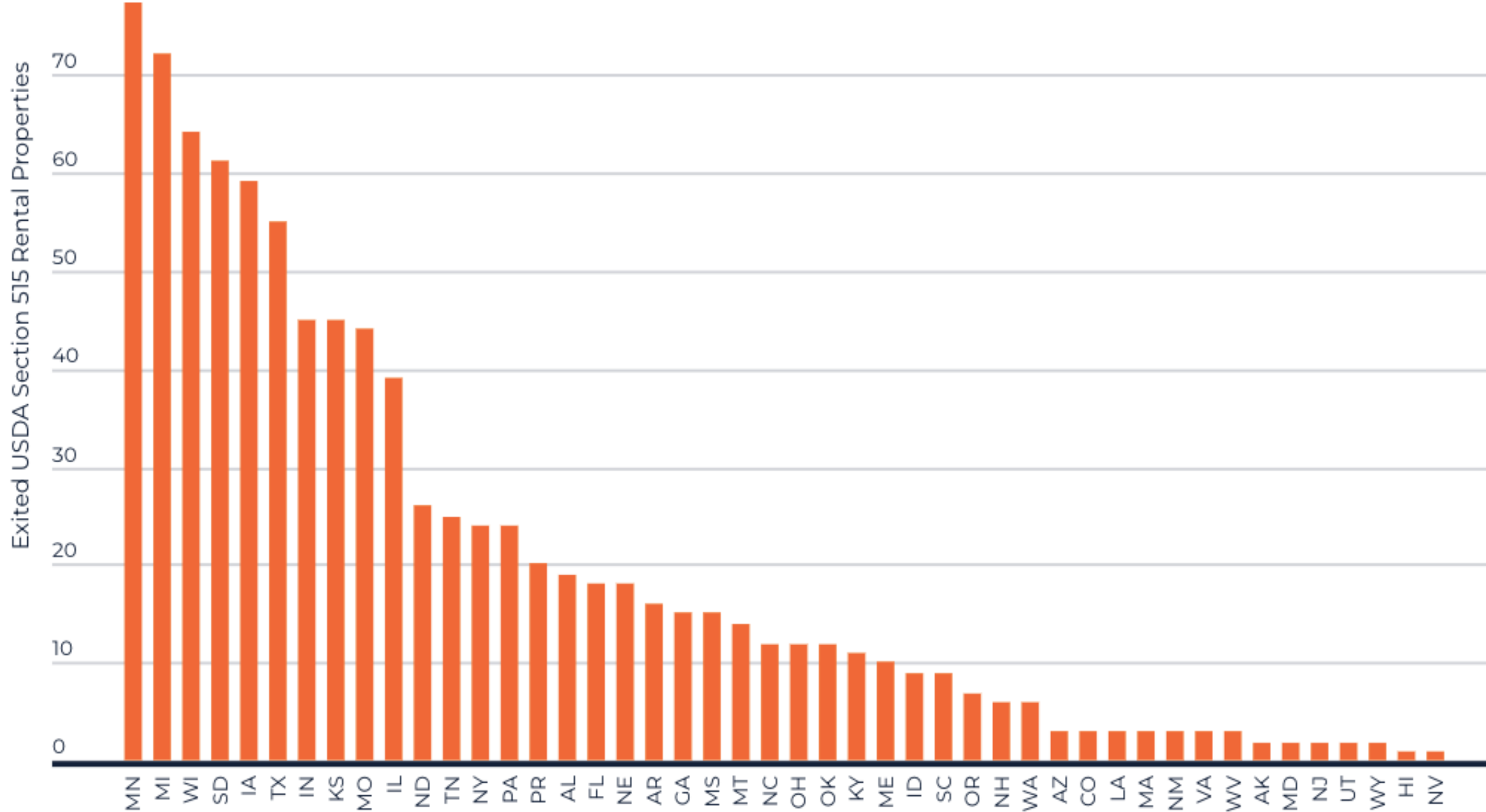


**IN MN  
2,125 UNITS  
MAY LEAVE THE  
SECTION 515  
PROGRAM BY 2030**

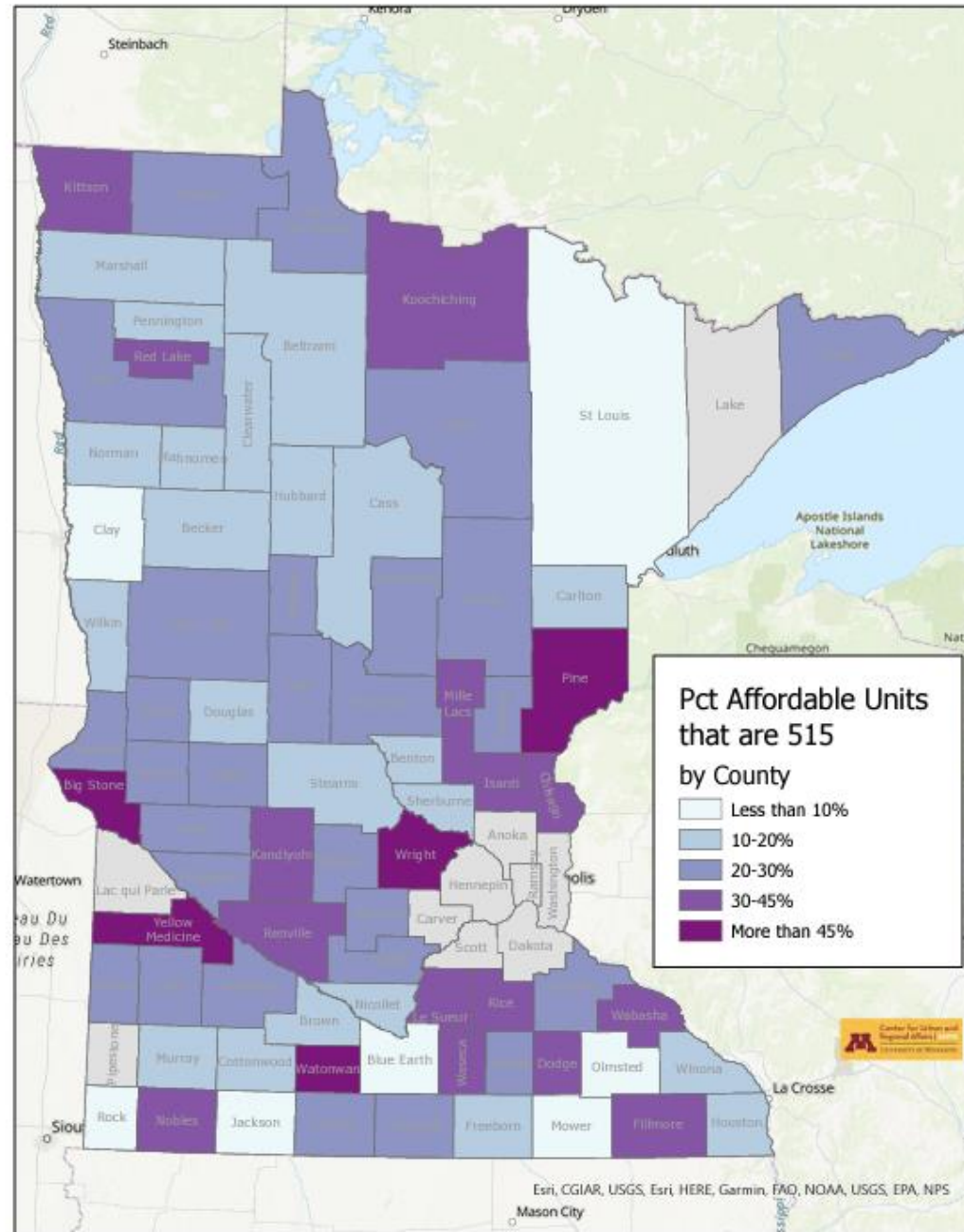
**MN SECTION 515 UNITS  
WITH MORTGAGES MATURING  
BETWEEN 2020 & 2030**

\*equivalent to **22%** of MN Section 515 units in the program as of 2020


# USDA Section 515 Property Exits by State 2016-21



# Percentage of Affordable Units in 515 Program



# Motivations for Investors



[You] need to do it [invest in the program] more as a mission than...[because] it's a great investment, because it's not a great investment. (Nonprofit stakeholder)

## Split perspective from for-profit and non-profit owners:

- Reasonable rate of return and building a retirement portfolio vs. preserving a critical need for affordable housing in the community
- All acknowledge the importance of affordable decent housing for residents underserved by the market



# Strategic Importance of 515 Housing

The rural development properties are very, very good at helping rural communities with very, very low-income people. It keeps people in the communities that they live in and gives them an option to live there at an affordable rate.  
(Mission-driven owner)

“If you have some of these small communities where there's only a couple multifamily properties and one [Section 515 property]... exits the program and converts to market rate, it's a concern.”

-Section 515 Housing Consultant



# Perceived Problems with 515 Stock

- Lack of maintenance related to insufficient capital reserves required in Section 515 program
- Concern that lack of maintenance combined with property age and poor building materials has resulted in obsolescence

[Obsolescence] is to a considerable extent a function of the age of the housing ... Minnesota was a leader in building the first 515 housing projects so it's got some of the oldest in the country. (Section 515 advocate)

“We're just going into this assuming that the properties are old and that they need... pretty significant repairs.”

-Government Official



# USDA Bureaucracy

“[T]hey have these crazy rules...specifically around the transfer process...and people don't understand it until they are knee deep into it and realize... holy crap, this is two and a half years and we still haven't closed.”

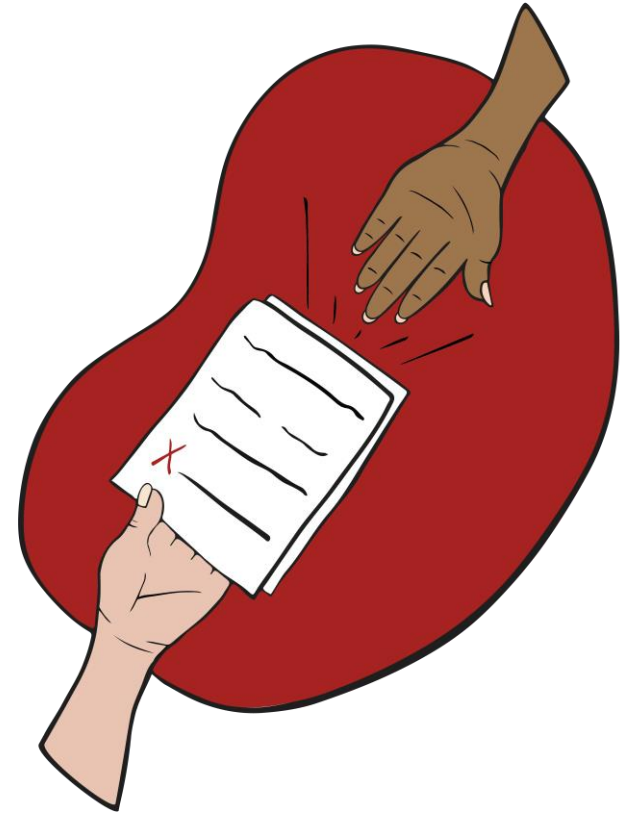
—Section 515 Housing Consultant



- **Property transfers** perceived as complicated, cumbersome and time consuming
- Concern about **potential loss of RD rental assistance** after mortgage prepayment or mortgage maturation

# This is a solvable problem: NOW is the time to act

- **Modify rules for providing vouchers:**
  - Decouple rental assistance from Rural Housing Service mortgages, with conditions (pilot authorized)
- **Nonprofit transfer technical assistance**
- **Streamline the transfer process** (improvements include the Simple Transfer Pilot Program)
- **Support preservation of Section 515 homes with promising state programs and RD funding for rehabilitation**
  
- **Rural Housing Service Reform Act of 2023 (H.R. 6785 / S. 2790)**



# This is a solvable problem: NOW is the time to act

**Table 1: MN Counties Potentially Losing Most 515 Units By 2030**

<b>RANK</b>	<b>COUNTY</b>	<b>TOTAL UNITS IN PROPERTIES WITH MORTGAGES MATURING BY 2030</b>
1	Wright	153
2	Stearns	130
3	Douglas	74
4	Renville	72
5	Isanti	70
6	Todd	68
7	Carver	61
8	Martin	60
9	Kandiyohi	56
10	Blue Earth	52

## Prioritize preservation based on location and timing of expiration considerations

- Some counties with large numbers of 515 properties, on cusp of exit
- Counties with growing/declining economic conditions - hot and cold markets



# Technical Assistance Supports Preservation of 515's

Through a USDA grant, MHP provides technical assistance to assist with the transfer process of a Section 515 property from current owner to a nonprofit or public housing authority

## Finding 515 Properties

[https://rdmfhrentals.sc.egov.usda.gov/RD/MFHRentals/select\\_county.jsp?st=MN&state\\_name=Minnesota&st\\_cd=27](https://rdmfhrentals.sc.egov.usda.gov/RD/MFHRentals/select_county.jsp?st=MN&state_name=Minnesota&st_cd=27)



**Property:** GraMar Courts, Kerkhoven, MN, population 772  
**16 Units:** 4 1-Bedroom units and 12 2-Bedroom Units  
**Built in 1978, 50% (8) of units have RA**

Owners were eligible for Prepayment, allowing them to sell at the full appraised value

# Support Preservation with State Programs: MN Examples

- **Tax Credit set-aside for Rural Development / USDA RD**
  - Increased to \$500,000, funds for 1-2 projects
- **Rural Rental Deferred Loan**
  - For smaller affordable rental projects in Greater Minnesota, prioritized for preserving Section 515 properties
- **Preservation Affordable Rental Investment Fund**
  - Preserve federally assisted permanent rental housing, where federal subsidies are at risk of being lost. Can be flexibly structured to work with RD products (i.e. amortizing debt, 0% loans).
- **Project Based Rental Assistance**
  - Directed by local or state agency to RD properties
- **State Discretionary Funding Programs**
  - State match for local housing trust fund programs
  - Formula funds for housing to cities and counties

# Questions?

Elizabeth Glidden, MHP

[elizabeth.glidden@mhponline.org](mailto:elizabeth.glidden@mhponline.org)

