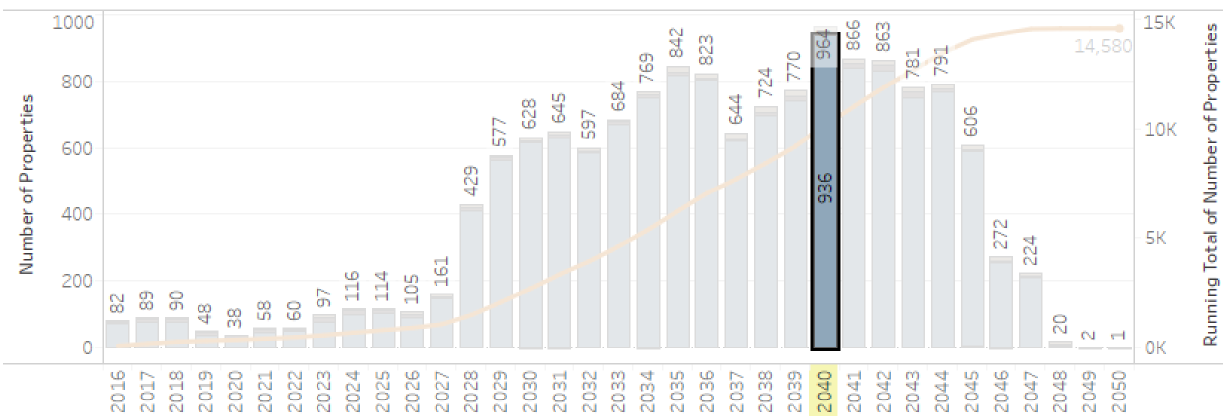
Section 515 Maturing Mortgages: Crunching the Numbers

By Dave Layfield, CEO, ApartmentSmart.com, Inc.

For the last couple of years, one area of concern for many rural housing advocates and policymakers has been the eventual exit from the Section 515 program of many properties when their mortgages mature and leave the program. Eventually, every Section 515 loan will mature and if no preservation action is taken by Rural Housing Service, those properties will leave the program and may no longer be affordable.

One of the more problematic aspects of this exodus is when a mortgage matures and a property leaves the program, any Section 521 Rental Assistance (RA) subsidizing residents' rents also goes away. See, Section 521 RA is attached to the mortgage. Without a Section 515 mortgage, there can be no RA. As of this writing, there are 287,047 renter households across America that receive RA, 9,080 of which are in Wisconsin.

In 2017, across the country, 89 properties containing 2,239 units, 995 of which receive RA, will have matured. In Wisconsin, in 2017, 3 properties containing 54 units, of which 28 receive RA, will mature. That number will trend upward in the coming years until nearing its peak in 2029 with 623 units in 29 properties in one year exiting the program.



Source: RHS Tableau Public Site

The year 2029 seems a long way off, but don't let the "peak" fool you. By 2020, nationwide, the portfolio will have lost more than 8,000 units, including 3,200 units with RA. In the subsequent 10 years from 2020 to 2030, the Wisconsin portfolio is expected to lose more than 2,000 units.

These numbers have gotten the attention of everyone who cares about rural housing. One such person who is very concerned about this eventuality is Senator Jeff Merkley of Oregon. Senator Merkley is the Ranking Member of the Senate Agriculture, Rural Development Appropriations Subcommittee as well as being a member of the Senate Committee on Banking, Housing and Urban Affairs. In a recent meeting with CARH members, Senator Merkley expressed his concern for this risk to rural affordable housing while voicing frustration with Rural Development's grasp of the problem.

Senator Merkley along with his colleague Senator Jerry Moran (R-KS), former Chairman of the Agriculture Appropriations Subcommittee, are so concerned that this crisis in the making is not getting adequate attention by the Agency that the Committee requested the Government Accountability Office (GAO) to conduct an analysis and then issue a report on the problem. According to the GAO, "(a) to what extent does RHS have systems in place to identify properties with maturing Section 514 and 515 mortgages that could exit RHS' portfolio, and (b) to what extent does RHS have tools and strategies in place to address the potential exit of Section 514 and 515 properties from its portfolio."

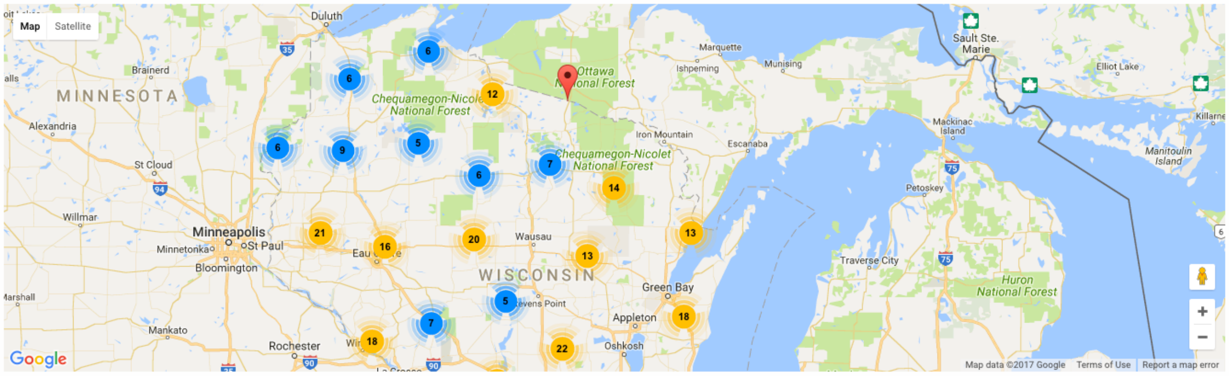
The GAO study is underway and analysts have conducted interviews and made field visits and expect to issue a final report to Congress in the fall of 2017.

The GAO's first question about what systems RHS has in place to "identify properties with maturing Section 515 and 514 mortgages" will be the subject of this article. We'll dig into the GAO's second question about the tools and strategies RHS has deployed and made available to owners and developers in another article.

So, to the GAO's question. Has RHS identified the properties in its portfolio that are at risk as a result of mortgage maturity? It took well over a year, but, yes, RHS has now released a dataset that they believe is accurate. That dataset was released to the public in September via a raw Excel spreadsheet. In late October, RHS published a more polished version of the dataset in the form of a Tableau Public web app reachable through a standard web browser. Using the web app, users can view the number of maturities each year and drill down into limited details for each property. However, RHS's web application can be slow and the interface is a little clunky and it can be difficult to get the data in a useful way.

In coordination with CARH, Affordable Housing Online built a web application (https://affordablehousingonline.com/rd-maturing-mortgages/) using RHS's most recent data release that breaks the numbers down into simple annual summaries as well as state summaries (Wisconsin's summary is here) that includes a Google Maps application with all of the properties mapped out. We've also broken out the number of RA units that are at risk each year as well as the number of senior and family projects.

Let's take a look at the data for Wisconsin.



Maturing Mortgage Projections By City

Search:

State	Projects	Units	RA Units	Eldery Units	Family Units
Abbotsford	1	40	0	0	40
Adams	3	123	94	0	123
Adell	1	8	7	8	0
Algoma	2	20	18	0	20
Alma Center	1	6	6	6	0
Amery	3	72	44	60	12
Amherst	2	31	21	30	1
Antigo	5	144	83	80	64

The yellow colored circles containing numbers denotes a cluster of properties. Click on the circle to zoom the map to the individual properties. The table below the map lists every property in the state by city with the number of total units, RA units and family type.

I've analyzed the Section 515 program for Wisconsin and here are a few of my key observations:

- By 2022, nearly 3% of all units in Wisconsin will be lost
- By 2028, 10% of all units in Wisconsin will be lost
- By 2022, Wisconsin's annual loss will be in the hundreds of units
- Nearly 50% of the Wisconsin portfolio will be lost by 2034
- In 2029, portfolio losses will nearly peak at more than 600 units annually

Assuming the underlying RHS data is correct, the crisis began this year and by the end of 2017, the Agency will need to figure out how to preserve 4,000 units nationally. That's far more units than have ever been preserved in one year using RHS's current tool chest. The problem grows increasingly more unmanageable every year and by 2022, it will be a full blown crisis with more than 10,000+ additional families being impacted each year across the country.

It is important to note that the mortgage maturity projections contained in this data have not been adjusted for possible preservation efforts in the future. Since many properties each year are recapitalized through various preservation efforts, these projections should be adjusted. The Agency has yet to make such an adjustment in the data they have provided to the public.

RHS has started talking about possible solutions and offered up a few tools but the Agency is just now beginning to understand the scope of the problem. With ongoing Congressional oversight from Ag Approps and the GAO, we hope that in the coming year, RHS will have fully digested this data, already started saving properties and have tendered a plan to stem the coming tsunami of rental housing losses in rural America and right here in Wisconsin.

In my next two articles, we'll look at the various tools RHS has either provided or indicated they may provide and offer up a few solutions of our own.