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May 2018

RURAL HOUSING SERVICE

Better Data Controls, Planning, and Additional Options Could Help Preserve Affordable Rental Units

Accessible Version

GAO-18-285

GAO Highlights

Highlights of GAO-18-285, a report to the Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies, Committee on Appropriations, U.S. Senate.

Why GAO Did This Study

Under its rural housing program, RHS provides mortgages and rental assistance to support affordable rental units for low-income tenants (see figure). When these mortgages reach the end of their terms (mature), property owners may exit the program; current law does not allow RHS to continue providing rental assistance when such exiting occurs. As a result, tenants in properties with mortgages that are maturing may face rent increases or lose their housing altogether.

GAO was asked to examine how RHS is addressing the risks posed by maturing mortgages. This report examines RHS's efforts to (1) estimate rural housing property exit dates and (2) preserve the affordability of rural rental properties with maturing mortgages. GAO reviewed RHS mortgage loan data and preservation documents, and interviewed RHS officials and industry stakeholders.

What GAO Recommends

Congress should consider granting RHS authority to continue providing rental assistance to tenants in properties with maturing mortgages. GAO is also making five recommendations, including that RHS improve data quality and take steps to comprehensively plan for preserving properties with maturing mortgages. We provided a draft of this report for review and comment to RHS and HUD. RHS agreed with all five of GAO's recommendations.

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May 2018

Rural Housing Service

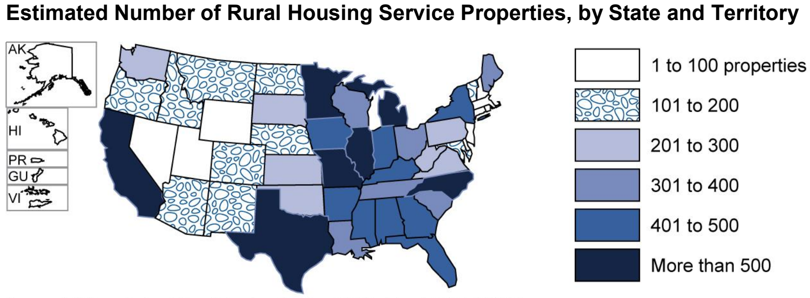
Better Data Controls, Planning, and Additional Options Could Help Preserve Affordable Rental Units

What GAO Found

The U.S. Department of Agriculture's Rural Housing Service (RHS) implemented an automated tool to estimate when properties could exit the rural rental housing program, but RHS lacked sufficient controls to ensure the accuracy, completeness, and timeliness of those estimates. In 2016, RHS developed its Multi-Family Housing Property Preservation Tool to replace a manual process of estimating exit dates. RHS data suggest that a smaller number of properties could exit RHS's program in the near term, but between 2028 and 2050, over 90 percent of RHS's properties and units could exit the program (about 13,000 properties with 407,000 units). However, RHS lacked controls that would better ensure the accuracy and completeness of these estimated exit dates, such as the verification of key data input at mortgage origination. In addition, RHS had not established a regular process to update the preservation tool's underlying data due to staff turnover and data system challenges. Without these controls, RHS may lack assurance that is has reliable data for calculating exit dates and initiating preservation efforts.

While RHS has taken actions to address properties with maturing mortgages, such as offering property owners options designed to prevent property exits, about 60 percent of properties with maturing mortgages exited the program between 2014 through 2017. The agency's planning efforts lacked key steps such as (1) establishing preservation goals, (2) developing metrics for evaluating preservation efforts, and (3) analyzing and responding to risks facing its portfolio such as resource limits and growing capital rehabilitation needs. Without taking these actions, RHS is not well positioned to preserve affordable housing in the near term or when much larger numbers of properties and units could exit the program starting in 2028. Although taking the steps above would help RHS's preservation efforts, some tenants may still be at risk of losing rental assistance when mortgages mature. Accordingly, allowing RHS to renew rental assistance after mortgage maturity could protect assisted low-income tenants from increased rents or displacement from their units. When the Department of Housing and Urban Development (HUD) faced a similar loss of affordable housing subsidies, Congress authorized the department in 2011 to continue providing rental assistance at properties after contracts expired.

Estimated Number of Rural Housing Service Properties, by State and Territory



Source: GAO analysis of Rural Housing Service (RHS) data. | GAO-18-285

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Abbreviations

AMAS	Automated Multi-Family Housing Accounting System
HUD	U.S. Department of Housing and Urban Development
MFIS	Multi-Family Information System
Preservation Tool	Multi-Family Housing Property Preservation Tool
RAD	Rental Assistance Demonstration
RHS	Rural Housing Service
USDA	U.S. Department of Agriculture

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May 17, 2018

The Honorable John Hoeven
Chairman
The Honorable Jeff Merkley
Ranking Member
Subcommittee on Agriculture, Rural
Development, Food and Drug
Administration, and Related Agencies
Committee on Appropriations
United States Senate

The U.S. Department of Agriculture's (USDA) rural rental housing program was created in the 1960s and 1970s to help provide funding for the development of affordable multifamily rental properties.[1] Through the department's Rural Housing Service (RHS), USDA has provided mortgage loans (mortgages), interest subsidies, and rental assistance for more than 14,000 properties with 400,000 units of affordable rental housing for low- and very-low income rural tenants, including vulnerable residents such as the elderly and people with disabilities.

Some of RHS's oldest rural rental mortgages have begun to mature—that is, reach the end of their repayment schedules, at which point they could exit the affordable housing program. Property owners whose RHS mortgages have matured are no longer required to provide housing to low-income tenants and no longer receive RHS rental assistance, which covers the difference between the tenant's contribution and the unit's rent. As a result, tenants in properties whose mortgages have matured may no longer be able to afford their rents. RHS has therefore identified

[1]USDA's rural rental housing program consists of its Section 514 Farm Labor Direct Loans program (including both off-farm and on-farm farm labor housing), Section 515 Multi-Family Housing Direct Loans program, and Section 521 Rental Assistance Program. The Housing Act of 1961 added Section 514 to the Housing Act of 1949 (42 U.S.C. §1484). For off-farm labor housing, a Section 514 loan can be combined with a grant authorized under Section 516 of the Housing Act of 1949 (42 U.S.C. §1486). The Senior Citizens Housing Act of 1962 amended the Housing Act of 1949 by adding Section 515 (42 U.S.C. §1485). In 1974, Section 521 of the Housing Act of 1949 was amended to authorize rental assistance (42 U.S.C. § 1490a).

ways to preserve affordable housing for tenants in properties with maturing mortgages.[2]

You asked us to examine what information RHS has on rural rental housing maturing mortgages and the extent to which RHS has tools and strategies to preserve those properties. This report examines RHS's efforts to (1) estimate the dates that properties may exit the rural rental housing program due to mortgage maturity and (2) preserve the affordability of rural rental properties with maturing mortgages.

To examine RHS's efforts to estimate property exit dates, we analyzed RHS documentation and interviewed RHS officials about the data the agency uses to identify and preserve properties with maturing mortgages. To assess the accuracy and completeness of data used to determine property exit dates, we reviewed and analyzed two different types of data. First, we analyzed a stratified random sample of RHS mortgage loan documents in five selected states—California, Illinois, Minnesota, Pennsylvania, and Virginia. We selected these states based on their geographic diversity and number of rural rental properties, and because they had a high number of mortgages nearing maturity. Second, we reviewed and assessed the underlying data the agency uses to estimate property exit dates. To assess the reliability of these data, we reviewed RHS documentation, tested the data for missing or erroneous values, and interviewed RHS officials. As discussed later in this report, we identified a selected number of errors in the data for the sample of RHS mortgage documents and underlying data that we reviewed. However, we determined the data we used were sufficiently reliable for purposes of estimating the number of properties, units, and units with rental assistance that could exit the rural rental housing program between 2017 and 2050, and for properties that are eligible to prepay their mortgages.

To examine steps RHS has taken to preserve properties with maturing mortgages, we reviewed RHS guidance and documentation on the agency's options for preventing properties from exiting the program. In addition, we interviewed RHS national and state officials about what tools, resources, and plans were in place for addressing maturing mortgages and rehabilitating properties. We also interviewed officials from a judgmental sample of rural housing industry organizations that we

[2]For the purposes of this report, preservation refers to steps RHS has taken to keep rural rental housing affordable for low-income tenants.

selected by identifying stakeholders that represented a diverse range of roles in the rural housing industry including: developers, borrower and tenant advocacy organizations, and organizations advocating for the retention or expansion of affordable housing. To determine how other agencies approached expiring rental assistance contracts and low-income housing preservation, we reviewed past GAO reports and interviewed officials from the Department of Housing and Urban Development. Appendix I describes our objectives, scope, and methodology in greater detail.

We conducted this performance audit from May 2016 to May 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Mortgages under RHS's program can be used to build, acquire, and rehabilitate rental housing in rural areas and are generally 30-year loans with 50-year amortization periods and include subsidized interest rates as low as 1 percent.[3] To help finance housing projects and keep rents affordable to low-income tenants, RHS offers rental assistance subsidies to some property owners, which cover the difference between the tenant's contribution and a unit's rent.[4]

The rental assistance program, authorized in 1974, provides the rental subsidies through agreements with property owners for an amount

[3]According to RHS officials, Section 515 loan terms were 40 to 50 years until 1997, at which time the term was changed to 30 years with loan amortization extending to 50 years in order to reduce the monthly loan payment for borrowers. At the end of the 30-year term, owners may need to pay a balloon payment to cover the remaining balance of the loan or reamortize the loan. Unlike Section 515 direct loans, Section 514 direct loans have repayment terms of 33 years.

[4]The rental assistance program is authorized by Section 521 of the Housing Act of 1949, as amended (42 U.S.C.1490a). See GAO, *Rural Housing Service: Additional Actions Would Help Ensure Reasonableness of Rental Assistance Estimates*, GAO-17-725 (Washington, D.C.: Sept. 13, 2017) for additional information on RHS's rental assistance program.

estimated to last for 1 year as required under the program's appropriations acts.[5] Eligible tenants pay no more than 30 percent of their income toward the rent, and RHS pays the balance to the property owner. Tenants must be low-income (incomes above 50 percent of area median income but not more than 80 percent of area median income) or very-low-income (with incomes not more than 50 percent of area median income) to be eligible for rental assistance. The agreements with the owners expire when the original dollar amount obligated is fully expended. Agreements specify that owners will receive payments on behalf of tenants in a designated number of units at the property. In addition, property owners must certify tenants' incomes annually or when a tenant experiences a substantial change in income. Statutorily, rental assistance is tied to RHS loans for rural rental housing and is no longer provided to property owners once mortgages mature.

The program supports five general types of rural rental housing projects—family; elderly (units may be occupied by an income-eligible household that includes a tenant or co-tenant who has a disability or is age 62 or older, or both); mixed (project has both family and elderly units); congregate housing (project may be occupied by income-eligible elderly households that need meals or other services); and group homes (may be occupied by income-eligible elderly persons or individuals with disabilities who share living space within a rental unit).

Properties with RHS rental housing mortgages can exit the program in three ways—foreclosure, prepayment, and natural maturity of the mortgage. When an owner defaults on loan payments and the property is foreclosed, it may exit RHS's program.[6] Properties can also exit the program when loans mature naturally, meaning the loan is paid off as scheduled by the original loan term. Loans can also be prepaid, meaning payments are made ahead of schedule, which ends the loan term early. Only those loans made on or after December 15, 1989, are ineligible to prepay. As previously noted, once a property exits RHS's program,

[5]The length of agreements has changed over time. According to RHS officials, RHS issued 20-year agreements from the program's inception through fiscal year 1982, 5-year agreements during fiscal years 1983–2003, 4-year agreements in fiscal years 2004–2006, and a combination of 1- and 2-year agreements in fiscal year 2007. Officials said RHS has issued 1-year agreements since fiscal year 2008.

[6]If a project that is subject to restrictive use provisions is sold to a purchaser who will not operate the property as a Section 515 or Section 514 property, the agency has no means to continue to enforce the restrictive use provisions after the sale is finalized.

owners are generally no longer required to provide housing for low-income tenants and properties are no longer eligible to receive rental assistance that is used to keep rents affordable for tenants.

Some owners that are reaching the end of their RHS mortgage terms may wish to exit the program. Other owners may wish to remain in the program and continue renting to low-income tenants. RHS has offered tools and incentives to help owners stay in the program and preserve the affordability of rural rental housing. Some of these tools involve extending mortgage terms, which extends the availability of rental assistance to properties.

RHS's June 2017 data showed that the program had approximately 14,000 properties containing 427,000 rental units. Of these, approximately 12,000 properties (85 percent) and 282,000 units (66 percent) received rental assistance.[7] According to RHS, the agency has not financed any new rental housing properties since 2011. Instead, RHS has generally used program funding to repair and rehabilitate existing program properties.

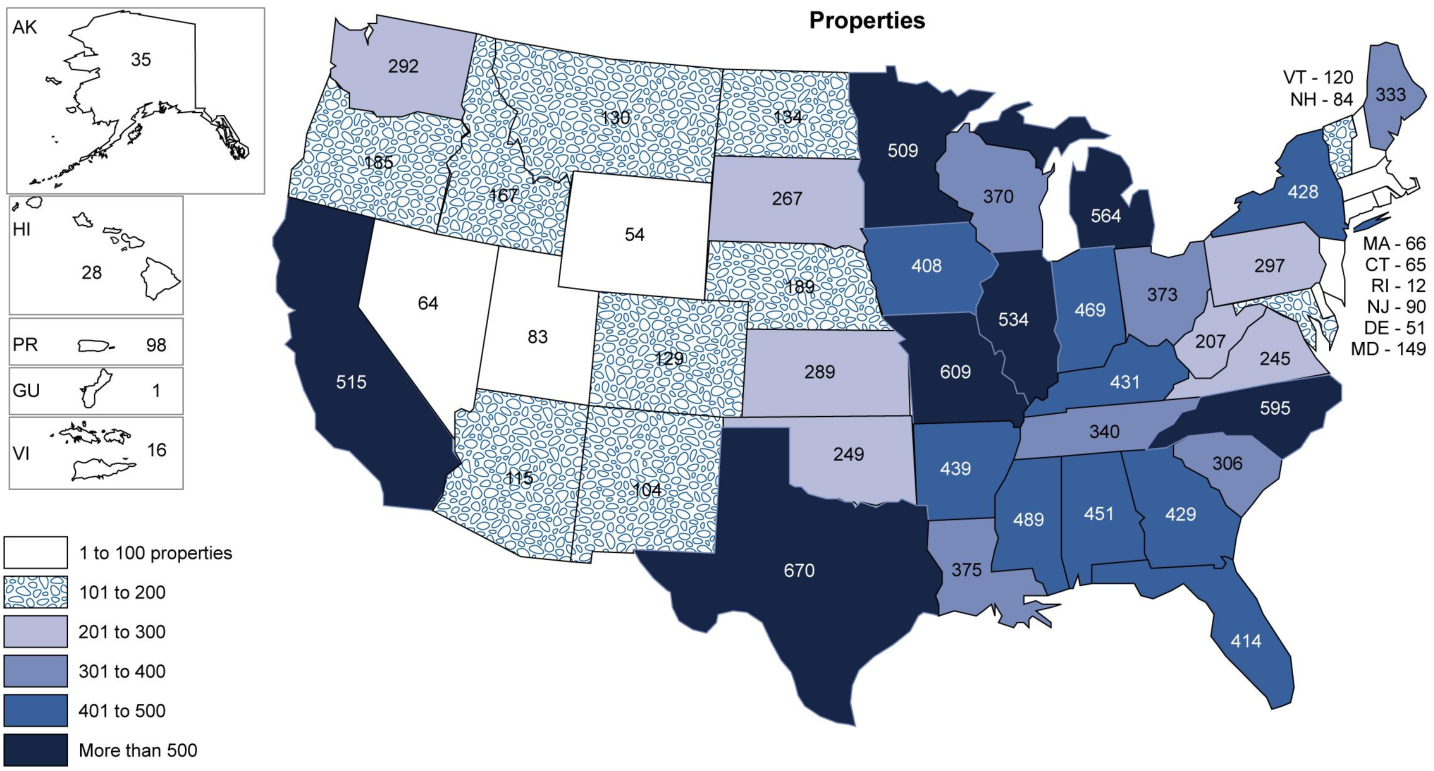
RHS properties are geographically dispersed, but one-quarter of the RHS program, or about 3,500 properties, was concentrated in six states as of June 2017: Texas (670 properties); Missouri (609); North Carolina (595); Michigan (564); Illinois (534); and Minnesota (509) (see fig. 1). Appendix II provides data in table form for RHS properties, units, and units with rental assistance.

[7]As of April 2018, RHS's most recent data on properties with maturing mortgages were data from June 2017.

Figure 1: Estimated Number of Rural Housing Service Rental Properties, Total Units, and Units with Rental Assistance, by State

Interactive Graphic
Hover over states for details. Click menu to the right for different maps.

Properties map | **Housing units map** | **Housing units with rental assistance map**



Sources: GAO analysis of Rural Housing Service data. | GAO-18-285

RHS's Multi-Family Housing Portfolio Management Division and the Multi-Family Preservation-Direct Loan Division administer USDA's rural rental housing loan program.[8] RHS's national office also maintains the Automated Multi-Family Housing Accounting System (AMAS) and Multi-Family Information System (MFIS) databases, develops program policy, and oversees management of the program. RHS state offices administer the day-to-day operations of the rural rental housing program, including entering key mortgage and project information contained in hard copy mortgage closing documents into the AMAS and MFIS databases.[9]

RHS Developed a Tool That Estimates That Large Numbers of Mortgages Will Mature Starting in 2028, and Better Controls Could Improve Data Accuracy

RHS Developed a Tool to Estimate Property Exit Dates

In March 2016, RHS developed the Multi-Family Housing Property Preservation Tool (preservation tool), an electronic system designed to use data from AMAS and MFIS to estimate mortgage maturity and property exit dates and to calculate new dates that may result from RHS's preservation efforts. Before introducing the preservation tool in 2016, RHS officials manually calculated exit dates for rural rental properties, a process that was subject to errors and inconsistencies due to properties with multiple mortgages and mortgages that could be prepaid. AMAS and MFIS track loan closing dates; loan amounts; interest rates; and property location, among other information, but were not designed to estimate property exit dates.

[8]According to RHS officials, the Multi-Family Preservation-Direct Loan Division is tasked with providing underwriters for loans and leads the agency's preservation efforts. The division also manages loan prepayment requests.

[9]AMAS, which is the system of record implemented in 1985 that is used to record loan level data, contains housing and financial data on RHS properties. MFIS tracks property and tenant information and, for the purpose of managing properties with maturing mortgages, includes information on property location. If RHS is able to preserve the affordability of rural rental housing properties through extending loan terms, for example, these systems would help track the extensions and RHS would calculate new mortgage maturity and property exit dates.

According to RHS officials, the preservation tool and the underlying data it uses are publicly accessible via the Internet and are intended to improve program transparency and help support the agency's preservation efforts.[10] Users can search for the date a property began operating; total number of units; units receiving RHS rental assistance; mortgage amount and interest rate; mortgage prepayment eligibility; and property exit date estimates, among other information. The preservation tool enables RHS to look at trends in property exits across years and help determine when RHS will need to take preservation actions. As of April 2018, RHS had estimated property exit data available from 2017 to 2050, but not information on properties whose mortgages may mature in 2051 or beyond. RHS officials said that data will be released publically on its website when available.

RHS Data Show a Significant Increase in Maturing Mortgages after 2027

Our analysis of data used by the preservation tool showed that approximately 900 properties (6 percent of the program's portfolio), including 20,000 units (5 percent), will have maturing mortgages and could exit the program between 2017 and 2027. Industry stakeholders said that low-income tenants living in these properties could face escalating rents or lose their housing altogether. In addition, over 13,000 properties (94 percent) and about 407,000 units (95 percent) are estimated to have mortgages that will mature between 2028 and 2050 (see fig. 2).[11]

[10]See https://public.tableau.com/profile/greg.steck7461#!/vizhome/USDARuralDevelopmentMulti-FamilyHousing/Overview for the preservation tool and link to the underlying data download. Rural Housing Service, Preservation Tool underlying data link, accessed February 5, 2018, https://www.rd.usda.gov/files/MFH_Property_Public_No_PII.xlsx.

[11]We analyzed RHS's publicly-available website data by sorting and counting the number of properties estimated to exit in each year between 2017 and 2050 and where they are located based on the state included in each property's address information.

Figure 2: Estimated Number of Rural Housing Service Rental Properties and Units That Could Exit RHS's Program between 2017 and 2050, by Year

Year mortgage matures	Properties	Units
2017	69	1,944
2018	74	1,909
2019	41	985
2020	36	774
2021	53	937
2022	61	1,135
2023	95	1,722
2024	102	1,942
2025	110	2,318
2026	94	2,161
2027	163	4,420
2028	450	13,225
2029	561	16,581
2030	623	18,213
2031	610	17,593
2032	554	16,282
2033	648	18,824
2034	712	20,399
2035	791	23,370
2036	806	24,900
2037	640	20,325
2038	680	20,847
2039	725	21,300
2040	925	30,955
2041	835	27,286
2042	832	26,231
2043	744	23,293
2044	729	22,564
2045	590	19,821
2046	458	16,509
2047	253	7,622
2048	4	411
2049	4	271
2050	3	357

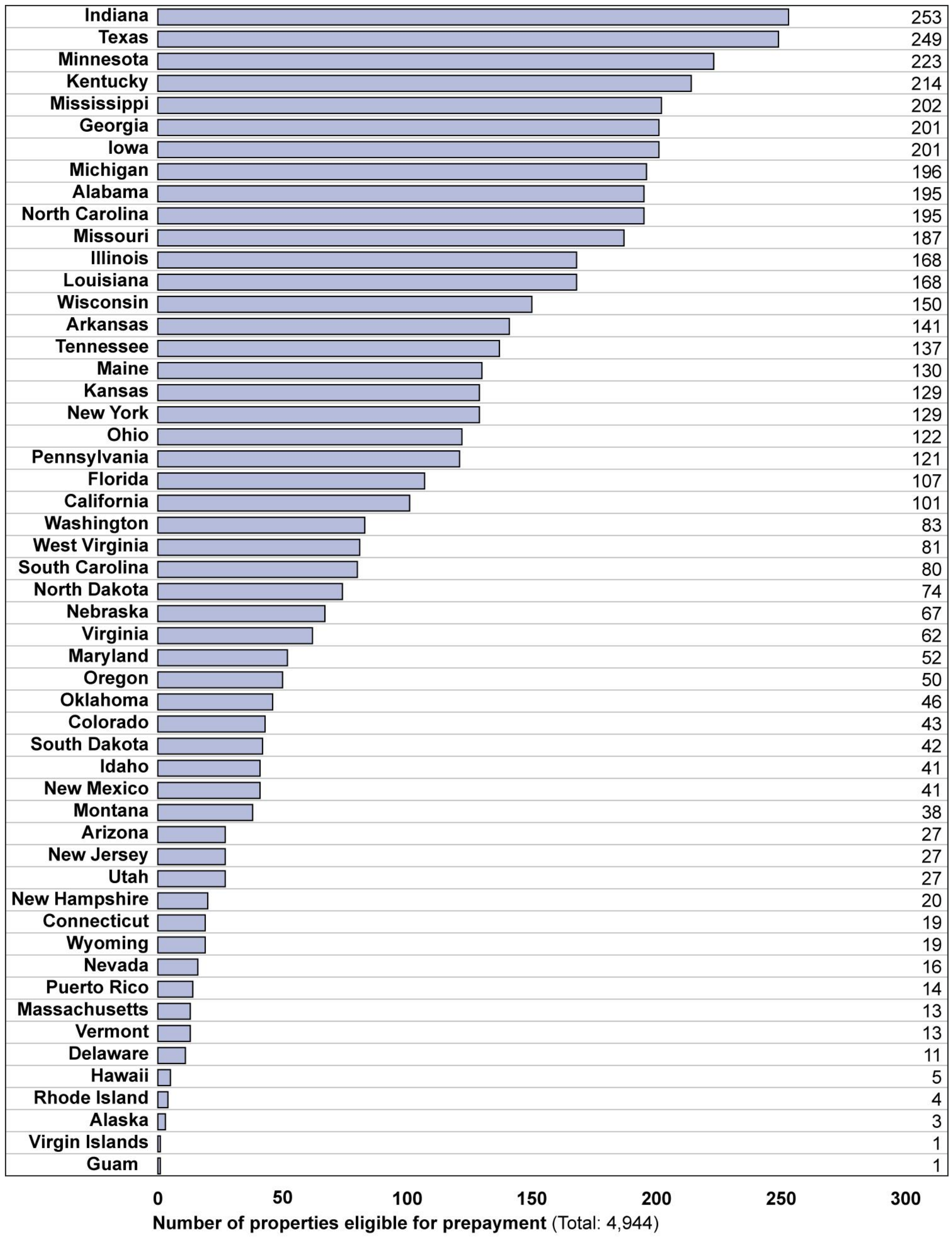
Source: GAO analysis of Rural Housing Service (RHS) data. | GAO-18-285

Our analysis of RHS's June 2017 data, the most recent data available, also showed that 35 percent of RHS's rural rental properties (4,944 out of 14,075 properties) have mortgages that are eligible for prepayment and could exit the RHS program ahead of their original mortgage maturity date. This earlier exit could cause tenants to face rent increases or search for alternative affordable housing earlier than expected (see fig. 3). According to RHS, if an owner prepays and a property exits the RHS program, rental assistance is no longer available to assist that property's tenants. Concerns about the loss of affordable units led Congress to enact legislation that precluded prepayment for loans made on or after

December 15, 1989.[12] For those properties that are eligible for prepayment, RHS officials said they cannot predict which owners might make this choice and the agency has not been collecting data on borrower's prepayment choices. As a result, outreach to these owners is particularly important for possible preservation of affordable housing.

[12] Pub. L. No. 101-235, § 206, 103 Stat. 1987, 2041 (1989), codified, as amended, at 42 U.S.C. § 1472(c)(1)(B).

Figure 3: Estimated Number of Rural Housing Service Rental Properties with Mortgages Eligible for Prepayment between 2017 and 2050, by State



Source: GAO analysis of Rural Housing Service data. | GAO-18-285

Better Controls Could Improve the Accuracy and Utility of Maturing Mortgage Data

Our review identified three internal control shortcomings that could impact the accuracy, completeness, and timeliness of RHS's data on properties with maturing mortgages.

First, RHS lacks sufficient controls to help ensure the accuracy of all loan information for each mortgage at the time of initial data entry because it only retroactively reviews a sample of loan document information entered into AMAS and MFIS. Although RHS staff reviews some loan information through the agency's State Internal Review process, officials noted that the review of mortgage data entered into AMAS and MFIS only occurs for each field office at least once every 5 years and includes a step for staff to review and reconcile AMAS information with loan documents to help ensure the accuracy of RHS debt instruments.[13] RHS officials added that they improved the guidance in October 2017 by adding specific data checks intended to help ensure that loan amount, interest rate, and amortization period information were correct. In addition, during our review of RHS's rural rental housing loan documents, we identified mismatches between loan document information and the data in AMAS and MFIS used by the preservation tool. We found errors in the data on mortgage amounts, closing dates, and repayment periods in an estimated 3 percent to 5 percent of the properties in five states we examined.[14] While the data we reviewed had limited errors, without appropriate internal controls, RHS cannot be assured that the data that is used by the

[13]According to Rural Development Instruction 2000-M (05-19-04), State Internal Reviews are comprehensive evaluation reviews of the delivery of programs and administrative functions in field offices and centralized program functions within the state. According to RHS officials, the state director has discretion to conduct more frequent reviews if staff suspects data weaknesses, changes in personnel occur, or loan information discrepancies occur in the initial sample of loans chosen for review.

[14]RHS staff enters information from loan documents for RHS's rural rental housing into AMAS and MFIS. The preservation tool draws information from AMAS and MFIS to estimate when mortgages will mature and when properties could exit the RHS program. Our review of loan documents included selecting a stratified random sample of 100 properties in California; Illinois; Minnesota; Pennsylvania; and Virginia. Our results are limited to the states we inspected and cannot be generalized to other states, which may have different error rates. The estimated percentages are projections (generalizations) to all properties in the five states we included in our review. Estimated data entry error rates are based on the results of our review of loan documents from a stratified random sample of 100 properties selected from the 2,151 properties in the five states. The upper bounds of the 95 percent confidence intervals for these estimates do not exceed 12 percent.

preservation tool will be reliable in the future, and the mismatches suggest that RHS could improve how data are entered into AMAS and MFIS.

According to RHS officials, these systems were not designed to estimate the expected maturity of rural rental housing mortgages. At the time of the systems' development, officials said that it was not a priority to build in controls to ensure the accuracy of such estimates. RHS officials said that rural rental housing mortgages would not mature for many years after they were originated. As a result, RHS did not create controls intended to ensure the accuracy of data related to mortgage maturity and did not prioritize establishing a process to check that data.

Federal internal control standards state that management is responsible for designing control activities for information systems and information processing objectives to support the completeness, accuracy, and validity of information processing.[15] Without these controls, mortgage information used by the preservation tool to estimate property exit dates may be inaccurate and could affect the reliability of exit date estimates needed to identify properties for possible preservation.

Second, RHS lacked controls to check the accuracy and completeness of underlying data used by the preservation tool. When we examined the underlying data the preservation tool uses to estimate property exit dates, we observed missing (blank) values for some property address; property state; borrower address; and management company name information. For example, borrower address and property address were missing for 588 and 141, respectively, of the roughly 14,000 properties. In addition, some properties in RHS's data included estimated property exit dates but contained incomplete information ("N/A" designations) for key variables such as property name; property address; property state; number of units; and type of housing.

Although RHS has been developing and implementing the preservation tool since 2016 and has made the preservation tool's exit date estimates available on its website, the agency has not yet developed a control process to identify potential issues with its underlying data. As noted above, federal internal control standards require activities to help ensure

[15]GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: Sept. 10, 2014).

the completeness, accuracy, and validity of program information. Without information that has been checked for accuracy, RHS might not be assembling the most complete and accurate information with which to estimate exit dates and begin possible preservation of rural rental housing for low-income tenants. In addition, RHS is missing an opportunity to improve data on properties with maturing mortgages and be better positioned to address those properties to protect low-income tenants.

Third, the agency has not developed a regular, timely process for updating the preservation tool's underlying data and exit date information. Since RHS developed the tool in March 2016, RHS updated the underlying data for September and December 2016 and June 2017 but not for 2018. RHS staff said the data were intended to be updated quarterly because information that affects exit date calculations changes as RHS preserves rural rental housing or properties exit the RHS program. However, RHS officials said that they have been unable to update the preservation tool quarterly due to staff attrition and competing program demands across RHS.

Federal internal control standards require activities to help ensure the accuracy and validity of program information. For RHS's information to be accurate and valid, it needs to be as current as possible for program management purposes. Since the mortgage maturity dates of properties are affected by RHS's preservation options and the exit dates of properties can change over time as mortgages mature, it is critical for RHS to have accurate, complete, and timely rural rental housing information.

Without controls to help ensure that RHS, industry stakeholders, and the public have the most recent data available, they might not have the most current information that could be used for estimating property exit dates and starting preservation.

RHS Has Taken Steps to Address Properties with Maturing Mortgages, but Lacked Comprehensive Planning and Faces Statutory Constraints That Limit Preservation

While RHS has taken steps to address properties with maturing mortgages, such as identifying various options and incentives intended to preserve the affordability of properties for low-income tenants, a majority of properties with maturing mortgages from 2014 to 2017 have exited RHS's rural rental housing program. Moreover, RHS has not taken important steps to comprehensively plan and prepare for the much larger number of potential property exits in future years, such as developing goals and metrics to assess the effectiveness of its preservation efforts and analyzing risks to its ability to preserve properties. While taking these steps would help RHS's preservation efforts, some tenants may still be at risk of losing rental assistance when mortgages mature because RHS cannot continue to provide rental assistance. RHS also cannot provide vouchers to tenants residing in properties whose mortgages have matured.

RHS has Taken Steps to Preserve Properties with Maturing Mortgages with Limited Success to Date

In addition to developing the preservation tool as a first step in preserving properties with maturing mortgages, RHS officials said they commissioned two studies on the impacts of maturing mortgages to advance the agency's understanding of key issues. Officials said they hoped the two studies would help the agency prepare for maturing mortgages. In September 2016, the Housing Assistance Council completed its first study for RHS, which identified the characteristics of RHS's rural housing program and the impact that maturing mortgages may have on tenants and geographic regions.[16] The report noted that understanding these characteristics and effects is important for planning and implementing strategies to preserve the properties. According to officials, the second study, which was under review by the agency as of December 2017, was intended to outline issues facing RHS's multifamily housing program, such as the estimated $5.6 billion needed to rehabilitate properties program-wide, and possible policy solutions for addressing potential property exits.[17]

[16]Housing Assistance Council, *USDA Rural Rental Housing Portfolio: The Early Implications of Maturing Mortgages* (Washington, D.C.: September 2016). The Housing Assistance Council is a national nonprofit organization based in Washington, D.C., that provides technical housing services; financial products; housing program and policy assistance; research; and training and information services to public, nonprofit, and private organizations focusing on providing affordable housing to low-income rural families.

[17]CoreLogic and RSM US LLP, *USDA Rural Development Multi-Family Housing Comprehensive Property Assessment* (McLean, VA., and Irvine, Calif.: Mar. 1, 2016).

RHS has offered property owners several options to prevent property exits and preserve the access to and affordability of housing for low-income tenants (see fig. 4).

- Reamortization: Loan reamortization and a shortened reamortization process (known as "Re-Am Lite") allow borrowers to repay outstanding loan balances over new, longer repayment periods. By extending the term of the loan, officials said that the agency can continue providing rental assistance to that property. Re-Am Lite does not require borrowers to have their properties appraised, which officials said can shorten the reamortization application process by 60 to 90 days.
- Deferral: Borrowers can defer repayment of direct loans for up to 20 years. This prevents property exits and preserves affordability for low-income tenants by continuing the payment of rental assistance to property owners.[18] Loan deferrals can be offered under the Multi-Family Housing Preservation and Revitalization program. This 12-year-old demonstration program offers a combination of property rehabilitation funding and the opportunity for owners to reamortize or defer loan payments to help keep rents affordable.[19] Officials said the program can also be used to attract new owners who wish to stay in the affordable housing program by offering a funding source for property rehabilitation.[20]

[18]Loan payment deferral is typically allowed under the Multi-Family Housing Preservation and Revitalization demonstration, which is described in more detail below. The demonstration caps payment deferral at 20 years.

[19]The Multi-Family Housing Preservation and Revitalization demonstration was initially authorized by the fiscal year 2006 Agriculture Appropriations Act, Pub. L. No. 109-97, 119 Stat. 2120, 2138 (2005), and has since been reauthorized through annual appropriations acts. See, e.g., Pub. L. No. 115-31, 131 Stat. 135, 153 (2017). At the start of the program, the average age of a project with a Section 515 loan was 28 years and much of the RHS program needed revitalization. The purpose of the MPR demonstration is to ensure that existing rental projects provide decent affordable rental housing over the remaining term of any RHS loan or the remaining term of any existing restrictive use provisions, whichever ends later.

[20]Funding for the Multi-Family Housing Preservation and Revitalization program is appropriated annually, but remains "available until expended," that is, does not need to be obligated by the agency during the same funding year. RHS can hold funding in reserve in order to fund projects larger than the agency's annual appropriation for the program. RHS received the following fiscal year appropriations for its Multi-Family Housing Preservation and Revitalization demonstration: about $18 million in 2013; $20 million in 2014; $17 million in 2015; $22 million in 2016; and $22 million in 2017.

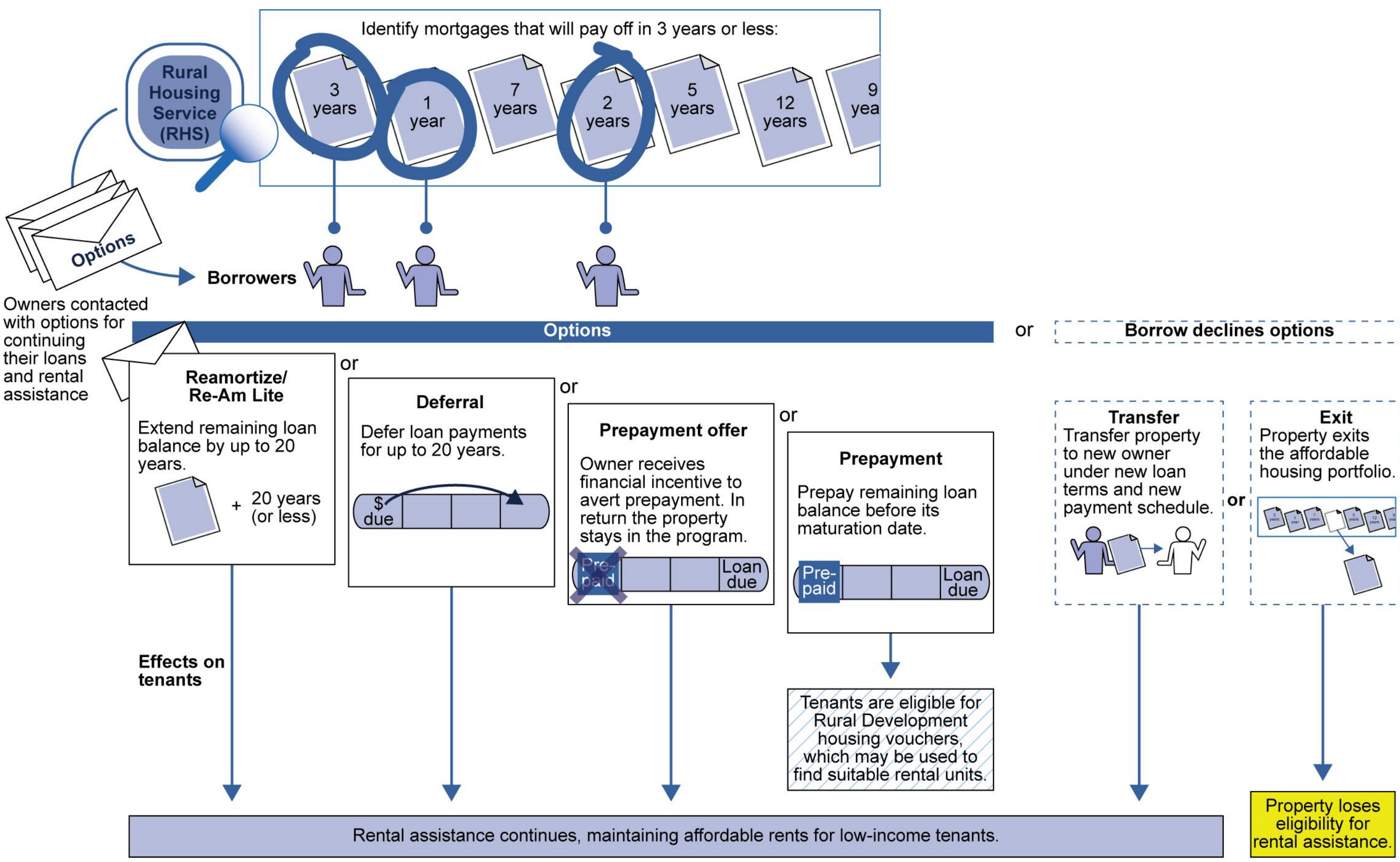
- Prepayment Offer: If borrowers decline RHS's options that extend loan terms (reamortization, Re-Am Lite, and deferral), but wish to remain in the RHS portfolio, the agency encourages property owners to submit a request to prepay their mortgage, if eligible to do so and if their mortgages are 12 or more months from maturity. After an owner submits a prepayment request, RHS is authorized to offer owners incentives to avert prepayment. These incentives include increased returns on investment to for-profit owners, additional rental assistance units, and equity loans.[21]
- Prepayment: If borrowers decline RHS's options, the agency encourages property owners to prepay their loans. While owners who prepay would no longer have rural rental housing loans with RHS or be eligible to receive rental assistance from the agency, prepayment of a loan allows RHS to provide vouchers to tenants affected by the loss of affordable housing. According to RHS data, only about 5,000 of the 14,000 properties within RHS's multifamily housing program are eligible to prepay loans.
- Transfer: RHS has taken steps to facilitate the sale (transfer) of properties to new owners to prevent property exits. Officials described this as a key preservation tool because new RHS mortgage terms typically accompany the sale and allow for rental assistance to continue at properties where applicable.[22] First, the agency established a more centralized and standardized transfer process based on input from developers, owners, and other stakeholders, which officials say reduced the average property transfer time from 156 to 112 days. Second, RHS maintains a spreadsheet available on the agency's website, called the Preliminary Assessment Tool, which officials said streamlines and provides greater transparency to the property transfer process for potential buyers and sellers. The agency also hosted three conferences in 2016 designed to help find new buyers for RHS properties whose owners were seeking to sell their

[21]RHS can offer for-profit owners increased returns on investment in exchange for continuing their mortgage and remaining within RHS's program. RHS officials described this as an incentive for properties to stay in the program and keep properties affordable instead of leaving it for potentially higher profits in the private market. Providing additional rental assistance for a property owner's units is another incentive. Additional rental assistance can increase occupancy rates at a property by making it affordable to more low-income residents. RHS may also offer equity loans directly to property owners as an incentive to prevent property exits. These loans can be used at the discretion of the property owners and are therefore attractive to owners whose properties may face revitalization or other needs.

[22]Some RHS properties do not have rental assistance contracts.

properties.[23] Finally, in September 2016, RHS announced a 2-year pilot program to encourage nonprofit organizations to purchase rural rental properties with maturing mortgages, which could create new loan terms that would extend the repayment period and continue the properties' affordability. Prior to the pilot, nonprofit owners were not required to make an initial equity contribution to projects and therefore could not earn any return on investment. Under the pilot, loan transfers to nonprofits would allow nonprofits to earn returns on their own resources initially invested in the property.

Figure 4: Overview of Rural Housing Service's Options to Preserve the Access to and Affordability of Properties for Low-Income Tenants



Source: GAO analysis. | GAO-18-285

[23]The conferences were held in French Lick, Indiana; Charlotte, North Carolina; and Des Moines, Iowa.

Despite the preservation options and incentives identified by RHS, 61 percent (148 of 244) of the properties with mortgages that matured between January 2014 and December 2017 exited the agency's rural rental housing program (see table 1). Some industry stakeholders said that options and incentives did not adequately or broadly appeal to property owners. They added that existing options and incentives would be used primarily by owners who have no other choice but to stay in the program. Stakeholders explained that owner choice might be limited because of the condition of their property or because their property is located in a market that would not accommodate the sale of a property or rent increases to market levels. Some stakeholders also said options that extend loan terms only offer a short-term solution to preservation challenges because mortgages cannot be extended indefinitely.

Table 1: Rural Housing Service Rental Properties That Exited the Program between 2014 and 2017

Calendar year	Properties with maturing mortgages	Properties that have exited due to mortgage maturity	
	Total	**Total**	**Percent**
2014	14	10	71
2015	62	39	63
2016	80	46	58
2017	88	53	60
Total	**244**	**148**	**61**

Source: GAO analysis of RHS data. GAO-18-285.

RHS Has Not Comprehensively Planned to Preserve Properties with Maturing Mortgages

RHS's efforts lacked a number of important steps that would better position the agency to preserve properties. First, RHS lacked documented goals for preserving its program and has not created measures for tracking progress toward those goals. In the absence of documented goals, RHS national officials stated that the agency's goal is to preserve all properties within its program that are needed to ensure sufficient affordable housing, though they acknowledged that current resource levels would preclude that possibility and that some owners may leave the program regardless of the options the agency offers.

Second, RHS is not monitoring and assessing options and incentives it is providing in a way that would inform or improve the use of these options.

While the agency can track preservation status—meaning whether a property is still within the program or not—through its preservation tool discussed above, it is not actively tracking preservation outcomes. RHS is also not systematically collecting data for monitoring purposes. RHS officials said agency databases contain variables that would show which options owners choose to use, but added that this information is not available in a single source. RHS is also not collecting information that would help them assess options. For example, the agency is not collecting information from property owners on what options and incentives appeal to them. This information would help the agency assess preservation options on how well they are being received by borrowers. Similarly, RHS is not monitoring the results of efforts to preserve properties, including information on how many properties were transferred as a result of its three buyers-sellers conferences.

Finally, RHS has not fully analyzed or responded to the risks facing its rural rental housing program, such as the following:

- Owner behavior—RHS officials told us a key risk to preserving its rural rental housing program is that the agency cannot predict whether owners will choose to leave the program or stay. To help respond to this risk, the agency directed staff to notify owners 3 years in advance that their loan is maturing and that options are available for preserving the property within the program. While this window could provide RHS with the time to plan for property exits, RHS is not collecting information from owners on why they may choose to exit rather than stay in the affordable housing portfolio. The agency's effort to predict owner behavior would be aided by collecting and analyzing data on how many owners choose to leave the program and why.
- Resource constraints—During a May 2017 conference, a senior RHS official highlighted the issue of agency resource constraints for addressing maturing mortgages, saying that the agency does not have the ability or the financial resources to preserve all of the properties that could leave the program once the loans mature. RHS has also acknowledged that, even at lower levels of about 80 maturing mortgages each year, the agency does not have the resources to provide all preservation options to every owner who wishes to use them. RHS has also not analyzed or planned for how it would prioritize the use of limited resources. RHS national office officials said there is some guidance that could be used by state offices to prioritize the use of resources, but this guidance was not specific to addressing maturing mortgages and was in the process of being updated to include information that could be used to help

prioritize limited resources for preserving properties. That update is expected by January 2019.

- Management of maturing mortgages—RHS has not analyzed or responded to risks involving staff management of maturing mortgages. For example, the agency's national office said that staff attrition and turnover in the national, state, and field offices that manage mortgages have resulted in fewer staff managing its program in general and that they were not sure what the effect of maturing mortgages would have on staff workloads. RHS staff in some of the states we visited expressed concern that workloads are already heavy and that any increase caused by maturing mortgages, including smaller numbers occurring now, might affect their ability to be responsive to program needs. Similarly, some state office staff expressed concerns that they were not trained for managing and responding to properties with maturing mortgages and needed additional guidance from the national office. RHS national office officials said that while the agency does not provide training specific to maturing mortgages, it does provide training on loan servicing, which includes the use of preservation options, and the national office conducts monthly conference calls that all state offices participate in, which have included maturing mortgages as a topic and which can be used to answer staff questions about maturing mortgages.
- Rehabilitation Costs—RHS has commissioned two studies on the risks that program-wide rehabilitation costs pose to its ability to preserve its program, but has not analyzed or planned for how it would address the estimated $5.6 billion needed to rehabilitate its aging portfolio of properties. Officials said that they have met with industry stakeholders and Congress about capital needs estimates, but no additional steps such as requesting additional funding were taken. Officials added that federal budget uncertainties caused by years of continuing resolutions and a sequestration have made planning for maturing mortgages and program-wide rehabilitation more difficult. However, RHS has been aware of growing rehabilitation needs since at least 2004, when the agency released a commissioned study that said capital needs program-wide would continue to increase and cost more if not addressed.[24]

[24]The two studies commissioned by RHS are the CoreLogic and RSM US LLP report previously sited, and ICF Consulting, *Rural Rental Housing: Comprehensive Assessment and Portfolio Analysis* (Fairfax, VA.: November 2004).

Federal internal control standards call for agencies to define objectives in specific and measurable terms to enable management to identify, analyze, and respond to risks related to achieving those objectives. Specifically, these standards call for agencies to establish goals and performance measures for tracking progress toward achieving goals; establish activities that monitor performance and assess results so that appropriate action is taken; and identify, analyze, and respond to risks related to achieving their goals.

RHS officials said that, as of December 2017, they had not taken steps to develop goals and measures, perform key monitoring and assessments, and analyze and respond to risks because the larger number of potential property exits is not expected to begin for another 10 years (2028). RHS officials said that they were using this time to see how their existing options and resources perform, and that the agency would make resource and other adjustments over time as they gained experience with preservation. However, as discussed above, mortgages have already begun to mature and the majority of properties with maturing mortgages between 2014 and 2017 exited the agency’s rural rental housing program. Some property owners may have chosen to exit the program regardless of additional actions or incentives. For example RHS officials noted that many of the property owners whose mortgages are currently maturing are nearing retirement or prefer market returns to RHS’s options and incentives. However, the percentage of exits (61 percent) suggests that RHS’s current planning efforts have not proven sufficient to prevent the majority of properties with mortgages that have matured from exiting its rural housing program.

By not having taken the planning steps identified above, RHS is not well positioned to respond to properties that currently have maturing mortgages and require action, nor is the agency prepared for the future larger number of potential property exits that starts in 2028. In particular, without developing goals and measures, conducting sound monitoring and assessments of rural rental housing program developments, and analyzing and responding to risks, RHS may not have the key information, staff, tools, and resources in place to effectively preserve properties and prevent the financial hardship that increasing housing costs could cause rural low-income tenants or the loss of their housing altogether.

Law Limits RHS's Ability to Offer Rental Assistance and Vouchers to Low-income Tenants

RHS has options to extend loan terms in order to continue rental assistance at properties but cannot continue providing rental assistance to tenants once the loan is paid off and the property exits RHS's affordable housing program.[25] Some owners of properties with maturing mortgages may be open to continue offering rental assistance and agree to restrict the units to eligible low-income tenants after mortgage maturity. Further, some industry stakeholders cited that having the ability to extend existing rental assistance contracts after mortgage maturity would be useful in protecting tenants from rent increases or displacement.

However, in some cases, property owners may not want to extend rental assistance contracts after mortgage maturity. Tenants living in these properties could be subject to rent increases or the risk of displacement. RHS lacks the authority to provide vouchers to tenants in these situations. Voucher assistance would allow RHS to provide assistance to the tenants to help pay for rent in their existing unit or at other rental housing in the private market without requiring the owner to serve low-income tenants exclusively.

In 2016, legislation was introduced that would have allowed RHS to continue providing rental assistance to properties through new contracts with owners after their loans matured or to provide vouchers to tenants under different circumstances, including mortgage maturity.[26] In exchange for accepting rental assistance payments on behalf of eligible tenants, the legislation would have required the property owners to enter into an agreement with RHS to ensure that the property remained subject to low-income use restrictions for an additional period of time. In cases where a new rental assistance contract is not possible, RHS would offer vouchers to tenants after mortgage maturity. The proposed legislation was introduced on April 12, 2016, but no further action on the bill was taken.[27]

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[25]See 42 U.S.C. § 1490a(a)(2).

[26] H.R. 4908 (114th Congress), Rural Housing Preservation Act of 2016, April 12, 2016.

[27]An identical bill, S. 2783 (114th Cong.), was introduced in the Senate at the same time. As with H. R. 4908, no action was taken on S. 2783.

In the past, Congress has taken legislative action to continue rental assistance to low-income tenants and protect them from the impact of terminated assistance. For example, beginning in fiscal year 2006, Congress has authorized RHS to provide vouchers to tenants affected by loan prepayments, which leads to the property owners' exit of the RHS's housing program.[28] Tenants receiving vouchers after the prepayment of a loan could use them to remain in the property after it exits RHS's program or to find other suitable housing in the private market. Congress has limited the amount that RHS paid in subsidies. The amount of a voucher is limited to the difference between the comparable fair market rent for the housing unit occupied by a tenant and the rent paid by the tenant on the date of prepayment or foreclosure.

In addition, when the Department of Housing and Urban Development (HUD) faced a similar loss of affordable housing, Congress gave the department authority in 2011 to further protect tenants through the creation of the Rental Assistance Demonstration (RAD).[29] Before the RAD program, HUD had limited authority to extend rental assistance at these properties when contracts expired or owners terminated contracts.[30] However, this demonstration, among other things, allowed HUD to continue providing rental assistance to property owners after the original

[28]Section 542 of the Housing Act of 1949, as amended, authorizes the U.S. Department of Agriculture (USDA) to make vouchers available to assist very-low income families to reside in rental housing in rural areas. 42 USC 1490r Appropriations legislation has limited the use of vouchers to low-income families living in Section 515 properties whose mortgages are prepaid after September 30, 2005. *See*, e.g., Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2006, Pub. L. No. 109-97, 119 Stat. 2120, 2139 (2006); Consolidated and Further Appropriations Act, 2013, Pub. L. No.113-6, 127 Stat. 198, 213 (2013); Consolidated Appropriations Act, 2017, Pub. L. No. 115-31, 131 Stat. 135, 153 (2017). A loan can be prepaid through either prepayment or foreclosure action. See e.g., 82 Fed. Reg. 21972 (May 11, 2017).

[29]In GAO, *HUD Rental Assistance Demonstration: Information on Initial Conversions to Project-Based Vouchers*, GAO-14-402 (Washington, D.C.: Apr. 24, 2014), we noted that in 2014 rental assistance contracts for about 38,000 affordable housing units currently subsidized by HUD were expected to expire over the next several years.

[30]Rental assistance contracts under these programs were entered into the 1960s, 1970s, and 1980s, and typically had agreement terms of 15, 20, and 40 years. Contracts were either not eligible for renewal or had limited contract renewal provisions and new contracts were not authorized.

contracts expired.[31] In 2014, we reported that the conversion of rental assistance should not have an effect on voucher program costs because HUD uses the same calculation for providing budget authority for the project-based vouchers converted under RAD as it does for calculating budget authority for tenant-protection vouchers.[32]

Without the authority to continue providing rental assistance or to provide vouchers to tenants at existing properties whose mortgages have matured, RHS is not well positioned to protect tenants from potential increased rents or displacement from their units. The agency could lose important sources of low-income housing, which for some communities may be the only source of affordable housing. Further, without the authority to offer vouchers to tenants living in units that received rental assistance at mortgage maturity, tenants may also face rent increases and not be able to afford their rents in properties where the owners choose not to extend their rental assistance contracts. Continued provision of rental assistance could be limited to units or tenants that were receiving rental assistance at mortgage maturity and would not represent an expansion of the number of units or tenants assisted. Furthermore, Congress could structure this to have no or limited budgetary impact, similar to what was done under HUD's RAD program. For example, subsidies could be kept at a level that is similar to what was provided at mortgage maturity.

Conclusions

RHS's preservation tool is a positive first step to help the agency estimate property exit dates, alert stakeholders to properties with maturing mortgages, and begin to preserve their affordability. However, the lack of data controls for information on RHS rural rental properties raises concerns about data used by the preservation tool, especially as RHS applies preservation options that extend mortgages and result in new exit dates. The lack of controls for underlying data used by the preservation tool, and missing information on some properties, demonstrate that RHS

[31]The three HUD programs are the Rent Supplement, Rental Assistance Payment, and Moderate Rehabilitation programs. The Rental Assistance Demonstration program was authorized by Congress in November 2011 under the Consolidated and Further Continuing Appropriations Act of 2012. Pub. L. No. 112-55 125 Stat. 553, 673-675 (2011).

[32]GAO, *HUD Rental Assistance Demonstration: Information on Initial Conversions to Project-Based Vouchers*, GAO-14-402 (Washington, D.C.: Apr. 24, 2014).

has opportunities to improve rural housing program data as properties continue to have maturing mortgages. RHS has not been able to update the preservation tool's data on a regular basis. Developing controls with clear guidance on the frequency and process for routinely updating data on RHS's website could help ensure that preservation efforts are based on the most current information available. Regular updated information would also help ensure that industry and other stakeholders have the most recent information available on RHS's rural rental housing program.

While RHS has taken steps to better understand maturing mortgage challenges and preserve properties, RHS's strategy to use the next several years to plan for the larger number of expected future maturations and test available preservation options does not address the significant number of mortgages that will mature before then. The agency has also not taken important planning steps required by federal internal control standards to establish goals and performance measures for tracking progress toward achieving goals; establish activities that monitor performance and assess results so that appropriate action is taken; and identify, analyze, and respond to risks related to achieving their goals. Actions to enhance the agency's data and controls, and strengthen its comprehensive planning and program evaluation processes, would better position RHS to respond to maturing mortgages, preserve its rural rental housing program, and maintain affordable housing for low-income tenants.

Further, the agency lacks the authority to continue rental assistance to properties with matured mortgages and is limited in its ability to issue vouchers to tenants affected by property exits. Even if the agency takes additional steps to plan for maturing mortgages or increases options and incentives for preserving housing, these limits to rental assistance and vouchers restrict RHS's ability to protect tenants. These limits also effect RHS's ability to meet the agency's objective of providing decent, safe, and sanitary housing to low-income rural residents. Expanding RHS's ability to protect existing tenants would give the agency tools that are available to other affordable rental housing programs, and could be implemented in a way to maintain, rather than increase, program size and costs.

Matter for Congressional Consideration

We are making the following matter for congressional consideration:

- For RHS properties whose mortgages have matured, Congress should consider granting RHS the authority to renew annual rental assistance payments to owners who wish to continue to receive them and provide vouchers to tenants living in rental assistance units in properties whose owners choose to no longer receive rental assistance.

Recommendations for Executive Action

We are making the following five recommendations to RHS:

- The RHS Administrator should establish additional controls to check the accuracy of all loan information entered into RHS information technology systems, to help ensure complete, accurate, and reliable data for estimating rural rental housing property exit dates. (Recommendation 1)
- The RHS Administrator should establish a process to help ensure regular and frequent updates for the preservation tool and its underlying data. (Recommendation 2)
- The RHS Administrator should establish performance goals and measures for its rural rental housing preservation and rehabilitation efforts and report out these outcomes. (Recommendation 3)
- The RHS Administrator should monitor the results of rural rental housing preservation efforts and assess the degree to which those efforts yielded intended outcomes. (Recommendation 4)
- The RHS Administrator should identify, analyze, and respond to risks to achieving its preservation goals, including resource and staffing limitations. (Recommendation 5)

Agency Comments

We provided a draft of this report for review and comment to RHS and HUD. RHS provided technical comments, which we incorporated into the report, and stated that it agreed with all five of our recommendations but did not provide a formal agency comment letter. HUD stated that it had no comments on the draft.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Agriculture, the Secretary of Housing and

Urban Development, and other interested parties. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or garciadiazd@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix III.

Daniel Garcia-Diaz
Director, Financial Markets
and Community Investment

Appendix I: Objectives, Scope, and Methodology

Our objectives were to examine the Rural Housing Service's (RHS) efforts to (1) estimate the dates that properties may exit the rural rental housing program due to mortgage maturity, and (2) preserve the affordability of rural rental properties with maturing mortgages.

To examine RHS's efforts to estimate property exit dates, we analyzed RHS documentation and interviewed RHS officials about the data the agency uses to identify and preserve properties with maturing mortgages. To determine what steps RHS has taken to help ensure the accuracy and reliability of RHS's Multi-Family Housing Property Preservation Tool (preservation tool), we reviewed documentation that included the preservation tool's user guide, and the capabilities it offered the agency and the public. We also conducted interviews with RHS national and state office officials about the preservation tool and about how the agency's Automated Multi-Family Housing Accounting System (AMAS) and the Multi-Family Housing Information System (MFIS) operate. AMAS contains data on loans and rental assistance contracts and MFIS tracks monthly loan and rental assistance payments and contains data on the location of RHS's rural rental properties. Both systems provide data used by the preservation tool to calculate mortgage maturity and exit dates for rural rental housing properties. To determine how the preservation tool was built and the main information it uses to determine mortgage maturity and property exit dates, and the information it calculates for users, we interviewed the contractor hired by the agency to create and populate the preservation tool.

To analyze the accuracy of AMAS and MFIS data used by the preservation tool to calculate mortgage maturity and property exit dates, we reviewed mortgage documents that RHS uses to populate those systems. We reviewed loan documents for a generalizable stratified random sample of 100 properties in five states—California; Illinois; Minnesota; Pennsylvania; and Virginia—to determine if loan information found within mortgage documents matched data contained in AMAS and MFIS for selected variables relevant to mortgage maturity and property exit date calculations. We stratified the population of 2,152 loan documents in the five states by state, number of loans per property, and age groups. We computed an initial sample size of 60 properties for a simple random sample to achieve an upper bound of no more than 5 percentage points, an expected error (inaccurate data field) rate of 0 percent, and a 95 percent confidence level. We then proportionally allocated the sample across the strata and increased sample sizes in stratum within each state so that we selected at least 10 properties with more than 1 loan and 10 properties older than 20 years old. States we visited were selected based on their geographic diversity, diversity (age and size of program) of rural rental housing properties, and their proximity to GAO offices.

To select properties' loan files for this review, we created a nongeneralizable sample of 20 properties in each of the five states. We also interviewed agency officials knowledgeable about the data—including officials from RHS, Rural Development's Office of Operations and Management, and the U.S. Department of Agriculture's (USDA) National Financial and Accounting Operations Center—about the processes used to populate these systems and any quality checks in place for ensuring that data were inputted completely and accurately, including any available documentation on these steps. We also interviewed RHS state office officials, who service loans, about the process for identifying errors in these systems and making corrections.

To determine which rural rental housing properties were estimated to exit the RHS program and where these properties were located, we analyzed RHS's raw data from June 2017 (the latest available RHS data). We analyzed the data to determine the number of properties, units, and rental assistance units with property exit dates by state and by year from 2017 to 2050. We also generated summary statistics on the number of properties that were eligible to prepay their mortgages. In assessing RHS's data we also conducted checks on the data for outliers and missing information. Although we found a selected number of data anomalies that point to the need for better data controls, we determined the data we used were sufficiently reliable for purposes of describing the estimated number of properties that could exit the RHS program between 2017 and 2050.

To better understand the calculations used by the preservation tool, we reviewed the logic or code it uses to calculate mortgage maturation dates. For this analysis, we used documentation on the program used to generate estimates and compared this documentation to the code to see if there were any operational differences. Additionally, we reviewed each of the functions within the logic and looked for inconsistencies in logic or deviations from financial convention that might cause incorrect predictions.

To examine steps RHS has taken to preserve properties with maturing mortgages, we reviewed documents that listed options available for retaining properties with maturing mortgages. We gathered and analyzed documentation on any comprehensive planning efforts by RHS to address rural rental housing maturing mortgages, including documentation showing preservation goals and measures, and any assessments of RHS's plans, efforts, or resources needed to address maturing mortgages. We also analyzed documentation and interviewed national and state RHS officials about any training and guidance that was being provided to staff on maturing mortgages. In addition, we interviewed RHS national and state officials about what tools, resources, and plans were in place for addressing maturing mortgages and their limits. Further, we asked about ongoing efforts to address maturing mortgages, including any plans to obtain additional resources for managing maturing mortgages now and in the future when a larger number of properties are expected to have loans mature. We reviewed and interviewed officials about studies commissioned by RHS on the effects of maturing mortgages on the rural affordable rental housing program and affected communities and on program-wide rehabilitation needs and cost estimates. We also assessed how the studies and reports were conducted for any flaws in their approaches and methodologies.

To determine stakeholder perspectives on how RHS was managing maturing mortgages, we interviewed officials from a judgmental sample of rural housing industry organizations. We took multiple steps to identify these industry organizations. First, we met with an affordable housing organization with a national membership that represents owners; developers; housing advocates; and tenants. We asked this national organization to identify industry organizations that work with RHS. From that list, we focused on organizations that also had a multi-state or national focus. Second, during interviews with these organizations, we requested additional contacts. We interviewed organizations that were named during multiple interviews. This selection process allowed us to identify stakeholders that represented a diverse range of roles in the rural housing industry including: developers, borrower and tenant advocacy organizations, and organizations advocating for the retention or expansion of affordable housing.

To determine how other agencies approached expiring rental assistance contracts and low-income housing preservation, we also interviewed

Department of Housing and Urban Development officials. More specifically, we determined what key steps and best practices the department used to preserve its multifamily housing program properties, including properties with maturing mortgages, and what tools and resources were required for managing its housing program.

We conducted this performance audit from May 2016 to May 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Number of Properties and Units That Could Exit the Rural Housing Service's Program between 2017 and 2050

State	Properties that could exit Rural Housing Service's rural rental housing program	Units that could exit Rural Housing Service's rural rental housing program	Units with rental assistance that could exit Rural Housing Service's rural rental housing program
AK	35	847	796
AL	451	14,809	7,981
AR	439	9,898	6,085
AZ	115	3,946	3,423
CA	515	26,577	18,294
CO	129	3,738	2,858
CT	65	2,495	1,776
DE	51	1,681	1,307
FL	414	18,897	12,946
GA	429	15,431	8,583
HI	28	1,039	838
IA	408	8,465	7,071
ID	167	4,241	3,878
IL	534	9,970	7,237
IN	469	12,739	7,405
KS	289	5,876	3,842
KY	431	11,724	6,394
LA	375	12,290	7,934
MA	66	1,930	1,614
MD	149	5,346	3,073
ME	333	8,035	6,216
MI	564	17,168	9,480
MN	509	10,313	6,540
MO	609	14,869	8,667

State	Properties that could exit Rural Housing Service's rural rental housing program	Units that could exit Rural Housing Service's rural rental housing program	Units with rental assistance that could exit Rural Housing Service's rural rental housing program
MS	489	14,998	9,334
MT	130	2,287	1,915
NA	8	0	0
NC	595	21,971	16,921
ND	134	2,350	1,771
NE	189	3,052	2,334
NH	84	2,486	2,112
NJ	90	3,225	2,117
NM	104	4,106	3,255
NV	64	2,024	1,695
NY	428	13,003	5,755
OH	373	14,047	8,768
OK	249	7,383	5,115
OR	185	6,352	4,969
PA	297	9,971	6,934
PR	98	5,636	3,803
RI	12	421	376
SC	306	11,287	6,754
SD	267	5,159	3,846
TN	340	11,798	7,392
TX	670	23,477	14,414
UT	83	2,126	1,728
VA	245	10,016	6,832
VI	16	432	428
VT	120	1,946	1,481
WA	292	8,868	6,324
WI	370	8,584	5,811
WP (Guam)	1	49	0
WV	207	6,532	4,263
WY	54	1,516	1,204
(blank)	1	0	0
Total	**14,075**	**427,426**	**281,889**

Source: GAO analysis of RHS data. GAO-18-285.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Daniel Garcia-Diaz, (202) 512-8678 or garciadiazd@gao.gov

Staff Acknowledgments

In addition to the contact named above, Harry Medina (Assistant Director); Steve Ruszczyk (Analyst in Charge); Holly Hobbs; Enyinnaya David Aja; Jim Ashley; Stephen Brown; William Chatlos; DuEwa Kamara; John McGrail; Marc Molino; and Tovah Rom made key contributions to this report.

Appendix IV: Accessible Data

Data Tables

Data Table for Estimated Number of Rural Housing Service Properties, by State and Territory

Row Labels	Number of RHS Properties
AK	35
AL	451
AR	439
AZ	115
CA	515
CO	129
CT	65
DE	51
FL	414
GA	429
HI	28
IA	408
ID	167
IL	534
IN	469
KS	289
KY	431
LA	375
MA	66
MD	149
ME	333
MI	564
MN	509
MO	609
MS	489
MT	130
NA	8
NC	595
ND	134

Row Labels	Number of RHS Properties
NE	189
NH	84
NJ	90
NM	104
NV	64
NY	428
OH	373
OK	249
OR	185
PA	297
PR	98
RI	12
SC	306
SD	267
TN	340
TX	670
UT	83
VA	245
VI	16
VT	120
WA	292
WI	370
WP	1
WV	207
WY	54
(blank)	1
Grand Total	14,075

Data Table for Figure 2: Estimated Number of Rural Housing Service Rental Properties and Units That Could Exit RHS's Program between 2017 and 2050, by Year

Year mortgage matures	Number of RHS Properties	Number of RHS Total Units
2017	69	1944
2018	74	1909
2019	41	985
2020	36	774
2021	53	937
2022	61	1135
2023	95	1722
2024	102	1942
2025	110	2318
2026	94	2161
2027	163	4420
2028	450	13225
2029	561	16581
2030	623	18213
2031	610	17593
2032	554	16282
2033	648	18824
2034	712	20399
2035	791	23370
2036	806	24900
2037	640	20325
2038	680	20847
2039	725	21300
2040	925	30955
2041	835	27286
2042	832	26231
2043	744	23293
2044	729	22564
2045	590	19821
2046	458	16509
2047	253	7622
2048	4	411
2049	4	271

Year mortgage matures	Number of RHS Properties	Number of RHS Total Units
2050	3	357
Grand Total	14075	427426

Data Table for Figure 3: Estimated Number of Rural Housing Service Rental Properties with Mortgages Eligible for Prepayment between 2017 and 2050, by State

State	Pre-pays
IN	253
TX	249
MN	223
KY	214
MS	202
GA	201
IA	201
MI	196
AL	195
NC	195
MO	187
IL	168
LA	168
WI	150
AR	141
TN	137
ME	130
KS	129
NY	129
OH	122
PA	121
FL	107
CA	101
WA	83
WV	81
SC	80
ND	74
NE	67
VA	62
MD	52

State	Pre-pays
OR	50
OK	46
CO	43
SD	42
ID	41
NM	41
MT	38
AZ	27
NJ	27
UT	27
NH	20
CT	19
WY	19
NV	16
PR	14
MA	13
VT	13
DE	11
HI	5
RI	4
AK	3
VI	1
GU	1

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