

Section 515 Rural Housing Basics

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Introduction

The U.S. Department of Agriculture (USDA) operates several multi-family rental housing programs designed to serve low-income individuals and families in rural areas of the U.S.¹ The USDA's multi-family housing programs are administered by the agency's Rural Housing Service (RHS), which is a subdivision of the USDA's Rural Development (RD) division. RD is headquartered in Washington, DC and St. Louis, MO and has offices in each state led by presidentially appointed state directors.²

The Section 515 program is RD's largest multi-family rental housing program. The Section 515 program offers direct loans for the development of new, or rehabilitation of existing, rental housing for low-income individuals and families in rural areas.

Since its inception in 1963, the Section 515 program has financed nearly 28,000 rental properties containing over 533,000 units.³ There is a Section 515 property in every state and in three U.S. territories, and there is at least one Section 515 property in 87% of all counties.⁴ RD's multi-family housing portfolio serves as a significant source of housing for low-income older adults and those with disabilities. As of 2023, 67% of all RD multi-family housing units were occupied by older adults and/or individuals with disabilities.⁵ In the Section 515 program alone, just over 135,000 units were occupied by older adults, while just under 80,000 units were occupied by individuals with disabilities.⁶

Mortgage maturities and loan prepayments (i.e., payment in full of a Section 515 loan before its original maturity date) are a significant threat to the existing stock of Section 515 housing. Because of prepayments, mortgage maturities, and foreclosures, there are less than 400,000 units remaining in the program.⁷ The issue is expected to worsen moving forward. One estimate determined that between 2028 and 2050, over 90% of RD multi-family properties and units could exit the program via loan maturation or prepayment.⁸ It is important for advocates to track the issue of mortgage maturities and prepayments to preserve this critical source of affordable housing.⁹

The Section 515 program not only provides housing affordability for people in underserved, underinvested rural areas, it also provides a litany of strong tenant protections that give tenants a level of housing stability and fairness simply not available in the private market.

With this background in mind, below is a summary of the Section 515 program.

- 1 The definition of rural and rural area for purposes of USDA rural housing programs are based on population thresholds and other characteristics such as being "rural in character" or having a "serious lack of mortgage credit for lower- and moderate-income families." See 42 U.S.C. §1490. This definition has been amended to include communities that have experienced population growth that puts them at risk of losing eligibility for USDA rural housing programs. [View a map of eligible areas.](#)
- 2 [View State office contact information.](#)
- 3 Housing Assistance Council, [Rural America Is Losing Its Affordable Rental Housing at p. 02.](#)
- 4 *Id.*
- 5 [Fiscal Year 2023 Multifamily Housing Annual Occupancy Report](#) (December 31, 2024) at 1.
- 6 *Id.* at 15.
- 7 *Supra*, n. 5, [Fiscal Year 2023 Multifamily Housing Annual Occupancy Report](#) (December 31, 2024), 2023 Statistics Report at 10.
- 8 Congressional Research Service, [USDA Rural Housing Programs: An Overview](#) (March 8, 2022) at p. 20.
- 9 For more information of Section 515 preservation issues and strategies, see [An Advocate's Guide to Rural Housing Preservation: Prepayments, Mortgage Maturities, and Foreclosures](#), The National Housing Law Project (2018).

Who Can Live in Section 515 Housing

To be eligible for Section 515 housing, an individual must qualify as very low-income, low-income, or moderate-income. Individuals can also qualify for Section 515 housing under the requirements of another housing program that applies to the Section 515 property.¹⁰ This is very common, since owners often tap into other funding sources to finance construction or rehabilitation of their Section 515 project.

There is currently no citizenship requirement for Section 515 occupancy.¹¹ As to income, RD defines the various income designations as follows:

- Very low-income households are those with incomes at or below 50% of area median income.
- Low-income households are those with incomes at or below 80% of area median income.
- Moderate-income is defined as income above the low-income limit but not exceeding \$5,500 more than that limit.¹²

Owners may establish eligibility criteria in addition to the above RD requirements, but only if such criteria:

1. are contained in the borrower's management plan (which must be approved by RD) and;
2. the criteria may not contain arbitrary or discriminatory admission standards.¹³

Note that the rules allow an owner to consider an applicant's past rental and credit history and relations with other tenants.¹⁴

The program has additional safeguards against arbitrary and discriminatory admissions decisions. For example, if an applicant is denied admission, the owner must provide written notice of the rejection.¹⁵ That notice must state the specific reason for why the applicant was deemed ineligible or otherwise rejected.¹⁶ It must also advise the applicant about their right to respond to the notice within 10 days and notify the tenant of their right to a grievance hearing upon request¹⁷ (grievance procedures are discussed in more detail below).

To further ensure fairness in the admissions process, owners must also maintain a waiting list to determine priority for admission.¹⁸ Within 10 days of receipt of a complete application, the owner must notify the applicant in writing that he or she has been selected for immediate occupancy, placed on a waiting list, or rejected.¹⁹ That way, an applicant is not left to wonder about the fate of their application.

Tenant households must recertify their eligibility and must execute a tenant certification form at least annually or whenever a change in household income of \$100 or more per month occurs.²⁰ Owners must recertify for changes of \$50 per month if the tenant requests that such a change be made.²¹ Tenants who fail to comply with tenant certification and recertification requirements will be considered ineligible for occupancy and will be subject to unauthorized assistance claims.²²

¹⁰ 7 C.F.R. § 3560.152(a)(1)-(3).

¹¹ Implementation of the occupancy requirement requiring an individual to be a U.S. Citizen or qualified alien is postponed indefinitely. Id. C.F.R. § 3560.152(a)(1).

¹² Id. § 3560.11 (Definitions).

¹³ Id. § 3560.154(d)(1).

¹⁴ Id.

¹⁵ Id. § 3560.154(h).

¹⁶ Id.

¹⁷ Id.

¹⁸ Id. § 3560.154(f).

¹⁹ Id.

²⁰ Id. § 3560.152(e).

²¹ Id.

²² Id. § 3560.152(e)(1)(iv).

Housing Affordability (Rents)

Under the Section 515 program, owners receive a federally subsidized mortgage with an effective interest rate of only one percent. In exchange, owners are required to rent their Section 515 units at subsidized rates.

The RD program has two types of subsidies: the Interest Credit Subsidy and Rental Assistance. The former is RD's shallow subsidy, and the latter is RD's deep subsidy. Under the Interest Credit subsidy, a tenant pays the highest of:

1. 30% of the tenant's adjusted income;
2. 10% of the tenant's gross monthly income; or the Basic Rent.²³

Most tenants pay the Basic Rent, which is defined as rent sufficient to cover expenses in the project's approved budget and the required loan payment reduced by the interest credit agreement.²⁴ Because it is intended to cover only basic operating and maintenance costs, not maximize profits, the basic rent is generally below market, but whether it is significantly below or not varies by project.

Section 521 Rental Assistance

Rental Assistance (RA) is a direct subsidy paid by RD to Section 515 property owners on behalf of low- and very low-income residents, requiring them to pay no more than 30% of their income for shelter.²⁵ It includes a utility allowance to offset any tenant paid utilities.²⁶ The most recent numbers from RD show that about 76% of RD units receive Rental Assistance.

To be eligible for Rental Assistance:

- Tenant must be very low or low-income;
- Tenant contribution to rent is less than the basic rent;
- Tenant meets occupancy rules/policies established by the owner;
- Tenant has a signed, unexpired tenant certification form on file with the owner; and
- Tenant is not delinquent on any agency unauthorized assistance repayment agreement.²⁷

RD published regulations that would also require the head of household be a citizen or legal alien for a household to receive **any** RA.²⁸ This contrasts with other housing programs which prorate housing subsidies based on the number of household members with qualifying immigration status. As such, RD has delayed implementation of the regulation until further notice to allow time for RD to harmonize its procedures with those of HUD.²⁹ As of the time of this publication, RD has not issued updated procedures.

²³ 7 CFR § 3560.203(a)(1).

²⁴ Id. § 3560.11, Definition of Rent at § (2).

²⁵ 42 U.S.C. § 1490a(a)(2)(A).

²⁶ 7 C.F.R. § 3560.256(b).

²⁷ Id. 3560.254(a).

²⁸ Id. § 3560.254(c)(3).

²⁹ 70 Fed. Reg. 8503, Feb. 22, 2005.

Section 515 Grievance Process

All RD multi-family housing programs have a grievance procedure intended to ensure a “fair and equitable process for addressing tenant or prospective tenant concerns and to ensure fair treatment of tenants in the event that an action or inaction by [an owner] . . . adversely affects the tenants . . .”³⁰

To ensure that tenants are aware of this right, owners must permanently post grievance procedures in a conspicuous place at the project and maintain copies at the management office for inspection by tenants upon request.³¹ Further, if a project is in an area with a high concentration of non-English speaking individuals, grievance procedures must be both in English and in the predominant non-English language.³²

When a Tenant May File a Grievance

Tenants and applicants can file a written grievance with the property owner in response to an owner’s action, or failure to act that results in a denial, significant reduction, or termination of benefits or when a tenant or applicant contests a borrower’s notice of proposed adverse action.³³ A non-exhaustive list of qualifying reasons includes:

- Failure to maintain the property in a manner that provides decent, safe, sanitary and affordable housing;
- Owner violation of the lease or occupancy rules;
- Lease modifications;
- Changes to the occupancy rules;
- Proposed rent increases NOT authorized by the Agency; and
- Denial of a rental application.

The RD grievance process cannot be used to resolve all landlord-tenant issues. Grievance procedures expressly do not apply in the following situations:

- Changes in rent that are authorized by RD.
- Complaints involving discrimination (those must be handled through the USDA’s Office of Civil Rights or HUD’s Office of Fair Housing and Equal Opportunity).
- Where an association of all tenants and the owner have agreed to an alternative method of settling grievances.
- Changes in occupancy rules or other operation or management practices required by the Agency (provided proper notice and opportunity to be heard has been provided).
- Disputes between tenants not involving the owner.
- Displacement or other adverse action against the tenant resulting from prepayment.
- A tenant cannot grieve proposed tenancy terminations or evictions.

³⁰ 7 C.F.R. § 3560.160(a)(1).

³¹ Id. § 3560.160(c).

³² Id.

³³ Id. § 3560.160(d).

The Grievance Process Mechanics

The grievance process is triggered when the owner, who must give the tenant written notice of the adverse action, informs the tenant of their right to request an informal hearing within 10 days of when the notice is delivered. If an informal hearing is requested by the tenant, the owner must offer to meet with the tenant with the goal of resolving the issue. If the issue is not resolved, the tenant can request a formal grievance hearing. The owner and tenant must then work to agree on a hearing officer or panel of officers to consider the issue and render a ruling. If they cannot agree, RD will appoint someone to serve as the sole officer.

There are a number of rules to ensure tenants are afforded due process. For one, the tenant has a right to an opportunity and reasonable time to review and copy any documents, records, and policies that the owner intends to rely on at the hearing. In other words, the owner cannot use any evidence that it did not allow the tenant to review ahead of time. Additional due process safeguards provide tenants and applicants:

- The right to be represented by counsel.
- The right to a private hearing unless a public hearing is requested.
- The right to provide in-person oral testimony, written evidence and argument, to refute the evidence against it, and to cross-examine adverse witnesses.

Once the hearing has concluded, the hearing officer must issue a written decision within 10 calendar days of the hearing. The decision must be reviewed by RD and goes into effect within 10 days after it was issued unless RD invalidates it. Since the hearing decision is ultimately subject to RD approval, it is an agency decision subject to appeal through RD's administrative appeals process under 7 C.F.R. § 11.8.

Other Key Tenant Protections

Good cause is required to evict a Section 515 tenant or to refuse to renew a lease.³⁴ Before moving to terminate a lease for good cause, an owner must give the tenant written notice of the alleged violation and give the tenant an opportunity to correct the violation.³⁵ An eviction can proceed only if the owner can document the violations that led to the tenancy termination and that the tenant was warned that their conduct may result in an eviction.³⁶

In addition to good cause eviction protections, Section 515 tenants are also entitled to automatic one-year renewal of their leases unless there is a good cause basis for non-renewal;³⁷ a grace period of 10 days to pay past due rent and a cap on late rent charges of \$10 or 10% of the resident's rent, whichever is higher;³⁸ and protection from increases to a tenant's rent contribution due to an owner's default under Section 515 program obligations.³⁹

Case consultation assistance is available for attorneys and professionals seeking more information to help older adults. Contact NCLER at ConsultNCLER@acl.hhs.gov.

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³⁴ 7 C.F.R. § 3560.159(a)

³⁵ Id.

³⁶ Id.

³⁷ Id. § 3560.156(b)(3).

³⁸ Id. § 3560.209(b).

³⁹ Id. § 3560.156(c)(3).