

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HOUSING

RENTAL HOUSING ASSISTANCE PROGRAM
(Section 236)

PROGRAM HIGHLIGHTS

	ACTUAL 2002	ESTIMATE 2003	ESTIMATE 2004	INCREASE + DECREASE - 2004 vs 2003
	(Dollars in Thousands)			
<u>Budget Authority</u>				
Unobligated Balance, SOY	\$318,528	\$703,511	\$569,511	-\$134,000
Recapture from prior years:	714,317	...	...	...
Use - State Aided Amendments	-20,267	-34,000	-34,000	...
Rescission of IRP Recaptures	-300,000	-100,000	-303,000	-203,000
Restored/Lapsed	-9,067	...	...	...
Unobligated Balance, EOY	703,511	569,511	232,511	-337,000
Units Eligible for Payment, End of Year (Estimate)	315,916	295,728	275,728	-20,000

SUMMARY OF BUDGET ESTIMATES

No appropriation is requested for the Rental Housing Assistance program in 2004. No new commitment activity has occurred since the program was terminated in 1973. However amendments are still made to State-aided projects utilizing the budget authority provided in the 1983 Supplemental Appropriations Act. Excess rental income remitted to the Department may be refunded to project owners from either the Rental Housing Assistance Fund or the Flexible Subsidy Fund, as authorized by Section 532 of the fiscal year 2000 Appropriations Act and amended by Section 861 of the American Homeownership and Economic Opportunity Act of 2000.

PROGRAM DESCRIPTION AND ACTIVITY

Original Program. The Section 236 program, as enacted in 1968, provides a subsidy to reduce mortgage interest payments. The maximum subsidy available to a project was set at the difference between the monthly payment for principal, interest, and mortgage insurance premium on the outstanding mortgage at the market rate of interest and the monthly payment that would be required under a mortgage bearing an interest rate of 1 percent.

A basic rental charge that was deemed sufficient to meet operating expenses plus debt service expenses at the 1 percent rate of interest was determined for each unit. Every tenant is required to pay the basic rental charge or up to 30 percent of income, whichever is higher. Contract approvals for new projects were discontinued in January 1973, except for "bona fide" commitments outstanding at that time. In addition, contracts approved prior to termination of the Program could be amended.

"Deep Subsidy" Program. The Rental Assistance Payments (RAP/"deep subsidy") program, authorized by the Housing and Community Development Act of 1974, was designed to aid very low-income families in Section 236 projects by permitting HUD to provide additional subsidies equal to the difference between the basic rent and 30 percent of income for a certain percentage of units in a project. Most insured projects receiving RAP funding have converted to Section 8 assistance. The remaining inventory of RAP assisted projects is largely limited to State-aided, bond-financed, projects that continue to receive amendment funding from a special set-aside.

State Agency Financed Projects (RAP funding). Amendments to State agency sponsored RAP projects will continue to be made utilizing funds provided in the 1983 Supplemental Appropriations Act.

Prepayment. As an incentive to attract developers into the original Section 236 program, participants were given the right to prepay their subsidized mortgage after 20 years.

Within the projects whose owners were given the right to prepay, tenants receiving Section 8 assistance occupy some of the units. Other tenants may be income eligible but not presently receiving assistance. If owners prepay, and these unassisted tenants face rent increases and

Rental Housing Assistance Program

they will be provided Tenant Protection vouchers. This will allow them to stay in their current unit or move if they choose.

Once the Section 236 mortgage is prepaid and liquidated, the Interest Reduction Payment (IRP) contract terminates. Therefore, previously obligated funds are subject to recapture.

Rental Housing Assistance Fund. The Housing and Urban Development Act of 1968 authorized the Secretary to establish a fund for the deposit of rental collections in excess of the established basic rent for units in subsidized Section 236 projects. These funds were remitted to the Department by the project owners and deposited into the Rental Housing Assistance Fund. The Funds were subsequently transferred to the Flexible subsidy fund. However, pursuant to Public Law 106-569, American Homeownership and Economic Opportunity Act of 2000, excess rental collections may be refunded to the owners from balances deposited in the Rental Housing Assistance Fund or balances transferred to the Flexible Subsidy account. However, excess rental income has been remitted to and refunded from the Rental Housing Assistance Fund only. The following table reflects the status of the funds:

	ACTUAL <u>2002</u>	ESTIMATE <u>2003</u>	ESTIMATE <u>2004</u>
	(Dollars in Thousands)		
Fund balance, start of year	\$9,907	\$16,469	\$1,069
Recovery of prior year obligations . . . . .	. . .	. . .	. . .
Excess rental collection	7,109	6,000	5,000
Transfer to Flexible Subsidy Fund . . . . .	. . .	-21,000	-4,500
Refund of Excess Income	-547	-400	-400
Fund balance, end of year	<u>16,469</u>	<u>\$1,069</u>	<u>\$1,169</u>

ADMINISTRATIVE EXPENSES

FTE/OBJECT CLASS	ACTUAL 2002	ESTIMATE 2003	ESTIMATE 2004
FTE			
Headquarters	1	1	1
Field	2	2	2
Total FTE	3	3	3
S&E Cost (Dollars in Thousands)			
Personal Services	\$253	\$260	\$267
Travel	3	2	3
Printing	1	1	1
Other Services	1	...	...
Total S&E Cost	\$258	\$263	\$271