

**HOUSING
OTHER ASSISTED HOUSING
(RENT SUPPLEMENT (SECTION 235) AND RENTAL HOUSING ASSISTANCE (SECTION 236))
2015 Summary Statement and Initiatives
(Dollars in Thousands)**

RENT SUPPLEMENT/RENTAL ASSISTANCE	<u>Enacted/ Request</u>	<u>Carryover</u>	<u>Supplemental/ Rescission</u>	<u>Total Resources</u>	<u>obligations</u>	<u>Outlays</u>
2013 Appropriation	\$1,300	\$71,183 ^a	-\$3	\$72,480	\$35,389	\$390,216
2014 Appropriation/Request	21,000	37,091	-3,500	54,591	44,292	372,000
2015 Request	<u>28,000</u>	<u>9,750</u>	<u>...</u>	<u>37,750</u>	<u>37,750</u>	<u>300,000</u>
Program Improvements/Offsets	+7,000	-27,341	+3,500	-16,841	-6,542	-72,000

a/ This amount is net recoveries and cancellations. Actual carryover amount is \$57.5 million.

1. What is this request?

The Department requests \$28.0 million for the Rental Housing Assistance Program (Section 236) (RAP) and Rent Supplement Program (Rent Supp) in fiscal year 2015, an increase of \$7 million from the gross fiscal year 2014 enacted level. The requested funds represent amounts sufficient to: 1) support amendments to State-aided Section 236 Rental Assistance Payment (RAP) and Rent Supplement contracts in fiscal year 2015, and 2) support short-term extensions of expiring Rent Supplement or RAP contracts that will be in the process of converting to long-term project-based contracts under RAD. The Department is also requesting authority that would extend and expand current authority under the Rental Assistance Demonstration (RAD) to allow Rent Supp and RAP owners the option to convert to either Project-Based Rental Assistance (PBRA) or Project-Based Voucher (PBV) contracts, thereby consolidating Rent Supp and RAP onto the Section 8 platform. The Department is also requesting authority for 2015 to use these appropriations, along with recaptured contract balances, to provide initial funding for conversions of Rent Supplement and RAP projects to long-term PBRA contracts.

2. What is this program?

The Other Assisted Housing account contains several programs, two of which still actively receive appropriations. These programs are described below.

Rent Supplement Program

Rental Housing Assistance Program (Section 236)

The RAP (Section 236) program includes two components:

Section 236 Interest Reduction Payments (IRP). The Section 236 program, which was established by the Housing and Urban Development Act of 1968, combined federal mortgage insurance with interest reduction payments to the mortgagee for the production of low-cost rental housing. Under this program, HUD provided interest subsidies to lower a project's mortgage interest rate to as low as 1 percent. This program no longer provides insurance or subsidies for new mortgage loans, but existing Section 236 properties continue to operate under the program. The interest reduction payment results in lower operating costs and subsequently a reduced rent structure.

The Section 236 basic rent is the rent that the owner must collect to cover the property's operating costs given the mortgage interest reduction payments made to the property. The Section 236 market rent represents the rents needed to cover operating costs if the mortgage interest were not subsidized. All tenants pay at least the Section 236 basic rent for their unit and, depending on their income level, may pay a rent up to the Section 236 market rent. Tenants paying less than the Section 236 market rent are considered assisted tenants. Some Section 236 properties experienced escalating operating costs, causing the basic rents to increase beyond levels readily affordable to many low-income tenants. To help maintain the financial health of the property, HUD may have allocated project-based rental assistance, such as RAP contracts (see below).

No new commitments have been made since the program was terminated in 1973; however, disbursements of IRP payments are made from the RAP account on a continuing monthly basis until the underlying loans terminate.

Rental Housing Assistance Payments (RAP). The RAP program was established by the Housing and Community Development Act of 1974 to provide additional rental assistance subsidy to property owners on behalf of very low-income tenants. RAP was available only to Section 236 properties and was a predecessor to the Project-Based Section 8 program.

Many Section 236 projects also receive rental subsidies. The issuance of new contracts under those rental assistance programs ceased with the introduction of Section 8. However, the Department continues to be required to fund RAP contracts on non-insured, State-aided Section 236 projects through the end of their contracts, providing amendment funding when the amount initially appropriated proves to be insufficient.

Rent Supplement (Rent Supp)

Section 101 of the Housing and Urban Development Act of 1965 authorized rent supplements on behalf of needy tenants living in privately owned housing and was the first Project-Based Assistance program for mortgages insured by the Office of Housing. These contracts were available to Section 221(d)(3) BMIR, Section 231, Section 236 (insured and non-insured), and Section 202 properties for the life of the mortgage. Eligible tenants pay 30 percent of the rent or 30 percent of their income toward the rent, whichever is

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greater. The difference between the tenant payment and the economic rent approved by the Department is made up by a Rent Supplement payment made directly to the project owner.

The issuance of new contracts under the program was suspended by the housing subsidy moratorium of January 5, 1973. As rents escalated in the 1980s, contract funds were insufficient to subsidize contract units for the full term of the contract. Most insured and Section 202 projects were able to convert their rent supplement assistance to Section 8 assistance during the 1980s in order to avoid contract amendment problems.

Salaries and Expenses (S&E) and Full-Time Equivalents (FTE) Request

The primary workload for Rent Supp and RAP programs is provided by HUD's Office of Housing, mainly the Office of Multifamily Housing. A total of 92.2 FTE are requested for the Rent Supplement/RAP which is a decrease of 7.2 from the fiscal year 2014 estimate. Total S&E funding is \$13.438 million a decrease of \$185 thousand from the fiscal year 2014 estimate. The decrease is primarily due to efficiencies gained from the implementation of the Multifamily Transformation initiative.

3. Why is this program necessary and what will we get for the funds?

Rent Supplement and RAP contracts currently support critical affordable housing and rental assistance for vulnerable populations, (low-income families and elderly) across the country. To effectively support this housing stock, the Department continues to request appropriations for remaining contracts, while simultaneously working to streamline and consolidate the programs onto the project-based Section 8 platform via RAD, which would allow for a more efficient use of resources and staffing for these properties.

In prior fiscal years, the Department has implemented three strategies to preserve the affordability of these assisted units and/or to prevent displacement or rent increases for low-income residents. The first strategy was to offer short-term contract extensions of up to 12 months, as authorized in recent appropriations bills and as proposed again in this request. These extensions provided time for owners to obtain new financing for the property to maintain it as affordable housing, and for residents to locate new housing opportunities, should they choose to move. The second strategy was to provide tenant protection vouchers to eligible residents at the time of expiration of the Rent Supplement or RAP contract, to safeguard low-income residents from rent increases or displacement. The third strategy, aimed at the long-term preservation of these properties, was authorized as part of RAD, which allowed owners to convert tenant protection vouchers (TPVs) to long-term Project-Based Vouchers to preserve the properties as affordable housing.

In fiscal year 2015, the Department is proposing a strategy that combines the resources and lessons learned from all three prior strategies, while expanding owners' options for preserving and streamlining projects onto a project-based platform. The funding request would allow the Department to continue to support the Rent Supplement and RAP contracts during the conversions and

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streamlining process, either via short-term contract extensions (less than 12 months), or via contract rent amendments. Contract extensions would only be provided to projects that would otherwise expire in fiscal year 2015, and require time to plan for a conversion via RAD.

The fiscal year 2015 proposal would also provide Rent Supplement and RAP properties the option to convert to long-term Project Based Rental Assistance (PBRA) contracts in fiscal years 2015 and 2016 via RAD, using: amounts remaining on the contracts of converting projects, funding that might otherwise be used to provide contract extensions and rent amendments for converting projects, and amounts from TPVs. To ensure cost neutrality, any increase in cost in the PBRA account as a result of Rent Supp and RAP properties converting to PBRA contracts must be equal to transfers from the Rent Supp/RAP and/or TPV (Housing Choice Voucher) accounts. The proposal also retains the existing ability to convert to PBV contracts, using only the TPV amounts that would have been triggered at contract termination or expiration.

Therefore, while the amount of the fiscal year 2015 funding request is based on projected extension and amendment needs in fiscal year 2015, a portion of the funding may also be used to support Rent Supp and RAP conversions to project-based contracts via RAD.

4. How do we know this program works?

RAD was tremendously successful as a first iteration in the Department's strategy to preserve Rent Supplement and RAP units for the long term. The Department processed conversions for approximately 75 properties in fiscal years 2012 and 2013, nearly one third of the remaining stock of properties. These owners combined the project-based voucher assistance with Low-Income Housing Tax Credits, conventional and FHA-insured financing to complete needed project repairs, energy efficiency improvements, and add services in many family projects. The Department also received Letters of Interest from an additional 127 owners of Rent Supp and RAP projects, who were interested in converting via RAD if authority was to be extended beyond Fiscal Year 2013. (Now that authority has been extended to December 31, 2014, the Department will be able to accommodate conversion requests from a portion of those owners.) Converting the assistance of remaining Rent Supplement and RAP housing units that were financed by the federal government under the Section 236 program and the Section 101 program is a cost effective means of preserving and recapitalizing at least a portion of the affordable housing stock, and leveraging HUD's investment with outside funding sources.

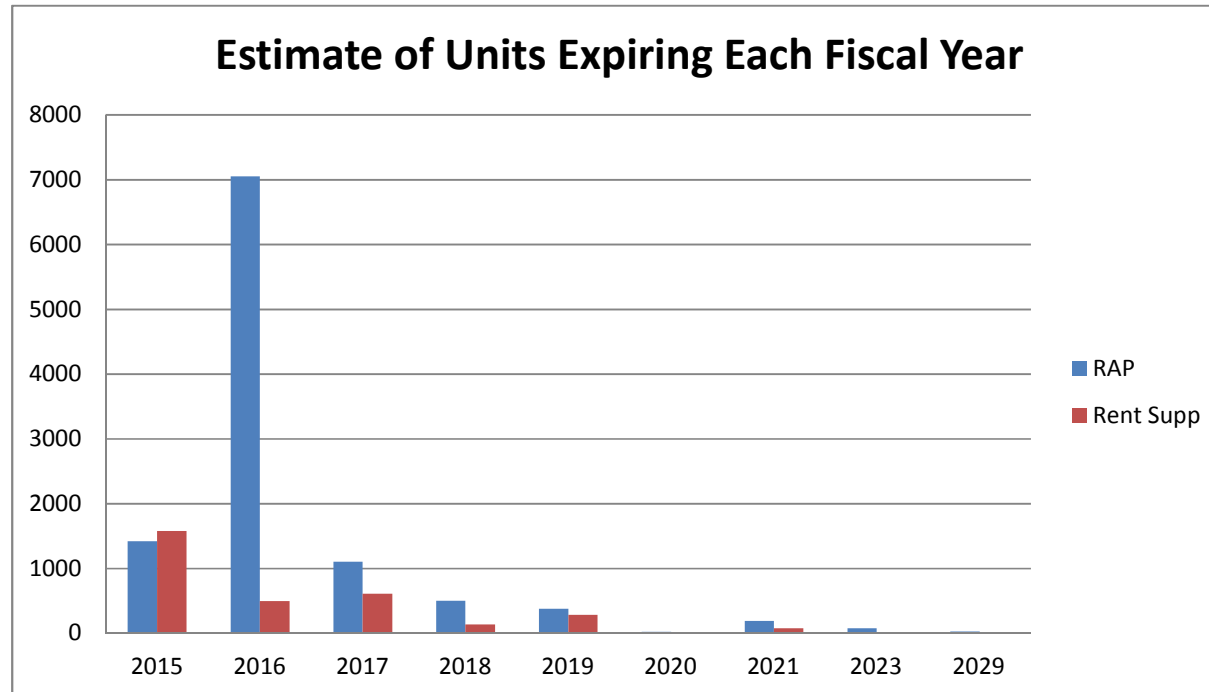
National data show a continuing and increasing need for affordable rental housing. In February 2013, HUD released a summary of its biennial Worst Case Housing Needs Report. HUD found that the number of very low-income renters facing severe housing problems continues to grow. In 2011, nearly 8.5 million households had worst case housing needs, up from 7.1 million in 2009. This represents a 19 percent increase since 2009 and 43 percent since 2007. Worst case needs are defined as renters with very low incomes (below half the median in their areas) who do not receive government housing assistance and who either paid more than their monthly incomes in rent, lived in substandard conditions, or both. Housing needs cut across all regions of the country and included all racial and ethnic groups, regardless of whether they lived in cities, suburbs, or rural areas. In addition, large numbers of worst case needs were also found across various household types including families with children, senior citizens, and persons with

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disabilities.

The rise in hardships among renters is due to substantial increases in rental housing demand and weakening incomes that increased competition for already-scarce affordable units. As a result, the gap between the number of affordable units that were available for very low-income renters and the number of renters who need these units not only failed to improve in percentage terms, but worsened in absolute terms. See *U.S. Department of Housing and Urban Development. 2013 (February). Worst Case Housing Needs 2011: Report to Congress--Summary.*

CHART 1:



Rent Supplement Program

**HOUSING
OTHER ASSISTED HOUSING
Summary of Resources by Program
(Dollars in Thousands)**

<u>Budget Activity</u>	<u>2013 Budget Authority</u>	<u>2012 Carryover Into 2013</u>	<u>2013 Total Resources</u>	<u>2013 Obligations</u>	<u>2014 Budget Authority/ Request</u>	<u>2013 Carryover Into 2014</u>	<u>2014 Total Resources</u>	<u>2015 Request</u>
Amendments to State								
Agency RS/RAP								
Contracts .....	...	\$62,062	\$62,062	\$26,627	\$9,746	\$25,785	\$35,531	\$23,000
Extension of Expiring								
Contracts	\$1,297	9,121	10,418	8,762	11,254	5,394	16,648	5,000
Section 236 Interest								
Reduction Payments								
(IRP) .....	...	...	...	...	<u>-3,500</u>	<u>5,912</u>	<u>2,412</u>	...
Total	1,297	71,183	72,480	35,389	17,500	37,091	54,591	28,000

Rent Supplement Program

**HOUSING
OTHER ASSISTED HOUSING
Appropriations Language**

The fiscal year 2015 President's Budget includes proposed changes in the appropriation language listed and explained below. New language is italicized and underlined, and language proposed for deletion is bracketed.

RENTAL HOUSING ASSISTANCE

For amendments to contracts under section 101 of the Housing and Urban Development Act of 1965 (12 U.S.C. 1701s) and section 236(f)(2) of the National Housing Act (12 U.S.C. 1715z-1) in State-aided, noninsured rental housing projects, ~~[\$21,000,000]~~ *\$28,000,000*, to remain available until expended: *Provided*, That such amount, together with unobligated balances from recaptured amounts appropriated prior to fiscal year 2006 from terminated contracts under such sections of law, and any unobligated balances, including recaptures and carryover, remaining from funds appropriated under this heading after fiscal year 2005, shall also be available for extensions of up to one year for expiring contracts under such sections of law.

**[RENT SUPPLEMENT]
[(RESCISSION)]**

[Of the amounts recaptured from terminated contracts under section 101 of the Housing and Urban Development Act of 1965 (12 U.S.C. 1701s) and section 236 of the National Housing Act (12 U.S.C. 1715z-1) \$3,500,000 are rescinded: *Provided*, That no amounts may be rescinded from amounts that were designated by the Congress as an emergency requirement pursuant to the Concurrent Resolution on the Budget or the Balanced Budget and Emergency Deficit Control Act of 1985, as amended.] (*Department of Housing and Urban Development Appropriations Act, 2014.*)