

**HOUSING
OTHER ASSISTED HOUSING
(RENT SUPPLEMENT AND RENTAL HOUSING ASSISTANCE (SECTION 236))
2016 Summary Statement and Initiatives
(Dollars in Thousands)**

OTHER ASSISTED HOUSING	<u>Enacted/ Request</u>	<u>Carryover</u>	<u>Supplemental/ Rescission</u>	<u>Total Resources</u>	<u>obligations</u>	<u>Outlays</u>
2014 Appropriation	\$21,000	\$48,165 ^{a/}	-\$3,500	\$65,665	\$34,213	\$329,186
2015 Appropriation	18,000	34,808	...	52,808	38,465	287,000
2016 Request	<u>30,000</u>	<u>14,043</u>	<u>...</u>	<u>44,043</u>	<u>46,035</u>	<u>240,000</u>
Program Improvements/Offsets	+12,000	-20,765	...	-8,765	+7,570	-47,000

a/ The amount is net recoveries and cancellations. Actual carryover amount is \$31 million.

1. What is this request?

The Department requests \$30.0 million for the Rental Housing Assistance Program (Section 236) (RAP) and Rent Supplement Program (Rent Supp) in fiscal year 2016, an increase of \$12 million from the gross fiscal year 2015 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 2016, 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 Section 8 contracts under the Rental Assistance Demonstration (RAD). The increased request reflects a greater number of expirations scheduled to occur in fiscal year 2016, with over 7,000 units expiring in fiscal year 2016 relative to 3,500 units expiring in fiscal year 2015.

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.

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

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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 unassisted 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. 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 Rental Housing Assistance Payments (RAP), Rent Supplement (Rent Supp), or Section 8 contracts to make the rent affordable to lower-income tenants.

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.

The issuance of new contracts under RAP 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 gross rent or 30 percent of the household's adjusted monthly income toward the rent, whichever is 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.

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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.

The Department is pursuing 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 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 2016, and require additional time to plan for a conversion via RAD.

Authority enacted in the fiscal year 2015 appropriations bill provided Rent Supplement and RAP properties the option to convert to long-term Project Based Rental Assistance (PBRA) contracts 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 2016 funding request is based on projected extension and amendment needs in fiscal year 2016, a portion of the funding may also be used to support Rent Supp and RAP conversions to project-based contracts via RAD.

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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 the first two years of the second component of the RAD program, 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. 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.

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Summary of Resources by Program
(Dollars in Thousands)**

<u>Budget Activity</u>	<u>2014 Budget Authority</u>	<u>2013 Carryover Into 2014</u>	<u>2014 Total Resources</u>	<u>2014 Obligations</u>	<u>2015 Budget Authority</u>	<u>2014 Carryover Into 2015</u>	<u>2015 Total Resources</u>	<u>2016 Request</u>
Amendments to State								
Agency RS/RAP								
Contracts	\$9,746	\$42,771	\$52,517	\$24,356	\$13,000	\$28,017	\$41,017	\$3,000
Extension of Expiring								
Contracts	11,254	5,394	16,648	9,857	5,000	6,791	11,791	27,000
Section 236 Interest								
Reduction Payments								
(IRP)	-3,500	...	-3,500
Total	17,500	48,165	65,665	34,213	18,000	34,808	52,808	30,000

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Appropriations Language**

The fiscal year 2016 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.

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, [~~\$18,000,000~~]*\$30,000,000* 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. (Department of Housing and Urban Development Appropriations Act, 2015.)