
AUDIT MEMORANDUM



NATIONWIDE AUDIT OF *RENT REASONABLENESS FOR SECTION 8 TENANT-BASED UNITS*

2001-SE-103-0802

AUGUST 29, 2001

OFFICE OF AUDIT, NORTHWEST/ALASKA
SEATTLE, WASHINGTON



**U. S. Department of Housing and Urban Development
Office of the Inspector General for Audit**

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Audit Memorandum
No. 2001-SE-103-0802

August 29, 2001

MEMORANDUM FOR: Paula O. Blunt, Acting General Deputy Assistant Secretary for
Public and Indian Housing, PD

(ORIGINAL SIGNED)

FROM: Frank E. Baca, District Inspector General for Audit, OAGA

SUBJECT: Nationwide Audit of Rent Reasonableness for Section 8 Tenant-Based Units

As part of our annual audit plan, we conducted an audit of HUD's controls regarding the determination of rent reasonableness for housing units assisted by the tenant-based Section 8 program. The audit resulted in one audit finding included in the attachment. We found that Section 8 rents were generally reasonable. However, HUD should simplify its requirements to ensure conformance with federal statutes, increase effectiveness, and lesson public housing authority Section 8 administrative expense.

Within 60 days please give us, for each recommendation in this report, a status report on:
(1) the corrective action taken; (2) the proposed corrective action and the date to be completed;
or (3) why action is considered unnecessary. Also, please furnish us copies of any
correspondence or directives issued because of the audit.

If you have any questions, please contact Connie Brouner, Senior Auditor, or me at (206) 220-5360.

Attachments

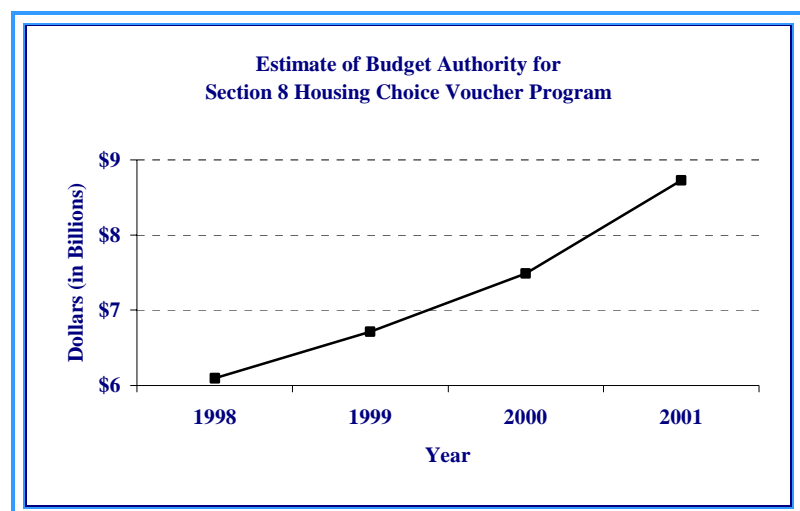
Summary of Audit Results

HUD's rent reasonableness regulations require more than the federal statute requires, and do not appear to provide a significant benefit. This occurred because HUD has never evaluated these regulations to determine if the effort expended compiling and updating comparability data for single and multifamily units within a public housing authority's market facilitates the rent reasonableness determination. As a result, authorities are expending valuable administrative resources on rent reasonableness, which could be used to improve controls for the calculation of tenant rents.

Background

In October 1999, HUD published a final rule implementing the statutory merger of Section 8 tenant-based and certificate programs into the Housing Choice Voucher Program. The Housing Choice Voucher Program assists low-income families in obtaining decent, safe, and sanitary housing in the private market. Under the program, the family is free to choose any housing that meets the requirements including single-family homes, townhouses and apartments. This assistance is often referred to as tenant-based because the assistance is attached to the family rather than to a specific unit in a project.

The Housing Choice Voucher Program is one of HUD's largest programs, accounting for approximately \$9 billion of the \$32.4 billion funded for 2001 (excluding FHA). This funding provides housing assistance for approximately 1.5 million families. The program has increased steadily since 1998.



Under the Housing Choice Voucher Program, the housing authority generally pays the landlord the difference between 30 percent of household income and the authority-determined payment standard, about 90 to 110% of the Fair Market Rent (FMR). Tenants may choose a unit with a higher rent than the payment standard and pay the landlord the difference. HUD pays an average assistance payment of approximately \$400 per month for each unit in the program.

Housing authorities are responsible for administering the program and ensuring compliance with federal requirements, including rent reasonableness. The federal statute for rent reasonableness states, “rent for assisted dwelling units shall be reasonable in comparison with rents charged for comparable dwelling units in the private, unassisted local market.”

Recently HUD implemented the Section 8 Management Assessment Program (SEMAP) for monitoring authority performance. Under the SEMAP, each authority is required to submit an annual certification that states:

- The public housing authority (PHA) has a reasonable written method to determine reasonable rent which considers location, size, type, quality and age of the units and the amenities, housing services, and maintenance and utilities provided by the owners; and
- Based on the PHA's quality control sample of tenant files, the PHA follows its written method to determine reasonable rent and has documented its determination that the rent to owner is reasonable in accordance with § 982.507. (24 CFR 985.3(b)(3)(i))

Using a point system, the housing authority makes a self-assessment and certifies its performance under each indicator. The annual independent audit reports and Office of Public Housing on-site confirmatory reviews are used to verify and adjust the authority's points.

Audit Objectives, Scope, and Methodology
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The purpose of our review was to determine if HUD's controls and requirements regarding rent reasonableness for the tenant-based Section 8 program are adequate, are working as prescribed, and are cost effective. We also wanted to find out if tenant-based Section 8 rents are generally reasonable. To accomplish these objectives, we:

- Reviewed rent reasonableness laws, regulations, and other related criteria;
- Reviewed rent reasonableness guidance and a commercial rent reasonableness training program used by housing authorities;
- Determined what controls HUD has in place to ensure that rent reasonableness requirements are being met and that rents are generally reasonable;
- Evaluated the Rent Reasonableness section of the draft *Quality Control for Rental Assistance Subsidies Determination* report prepared for HUD's Office of Policy Development & Research.

We also performed audit procedures at four housing authorities including:

- Obtaining an understanding of how each of the authorities implement HUD's rent reasonableness requirements;
- Interviewing housing authority staff about administrative plan policies and planned and applied practices for rent reasonableness determinations;
- Reviewing available rent reasonableness and other supporting documents for a random sample of tenant files to determine if each authorities' methods are compliant with HUD and authority regulations and requirements;
- Ascertaining if housing authority methods result in rents that are generally reasonable; and
- Determining if the assisted units sampled are comparable to the authority-selected unassisted units by reviewing the data in the authority's files, observing assisted and unassisted units and researching the attributes of the unit utilizing property records.

Audit work was performed at various times from September 1999 to March 2001 and covered the period from November 1998 through March 2001. The audit was conducted in accordance with generally accepted government auditing standards.

Finding

HUD's rent reasonableness regulations require more than the federal statute requires, and do not appear to provide a significant benefit. As a result, authorities are expending valuable administrative resources on rent reasonableness, which could be used to improve controls for the calculation of tenant rents.

Rent Reasonableness
Requirements for the
Housing Choice Voucher
Program

Housing authorities are responsible for administering the Housing Choice Voucher Program and ensuring compliance with HUD's requirements. The program's statutory requirement for rent reasonableness determinations for assisted units is found at 42 USC 1437f.(o)(10)(A). The requirement simply states:

“The rent for dwelling units for which a housing assistance payment contract is established under this subsection shall be reasonable in comparison with rents charged for comparable dwelling units in the private, unassisted local market.”

To ensure conformance with the statute, HUD further requires housing authorities to:

- Document the method of determining rent reasonableness in its administrative plan (24 CFR 982.54(d)(15));
- Determine that the rent to owner is reasonable for each unit leased: (1) prior to the initial lease approval, (2) before any increase in the rent to owner, (3) if directed by HUD, or (4) if the Fair Market Rent (FMR) decreases by 5% or more (24 CFR 982.507(a));
- Determine that the assisted unit's rent to owner is reasonable based on its comparison with both unassisted units in the premises and local submarket utilizing nine distinct comparability criteria: location, quality, size, unit type, age of the contract unit, any amenities, housing services, maintenance and utilities provided by the owner (24 CFR 982.507(b)); and
- Maintain complete and accurate accounts and other records for the program in accordance with HUD requirements and maintain records for three years that document the basis for the determination that rent to an owner is a reasonable rent. (24 CFR 982.158(a) and 24 CFR 982.158(f))

Lack of Full
Conformance to HUD's
Requirements Has Little
Effect on the
Reasonableness of
Section 8 Rents

Our review of tenant files at four housing authorities found that none of these authorities made rent reasonableness determinations that were in full conformance with HUD's requirements. In these determinations, the authorities did not always include required items such as unit type, quality, age, housing services, maintenance, and included utilities. Instead, the authorities relied on the professional knowledge and skills of their staffs and used less cumbersome alternative methods, including negotiations

with landlords, to establish reasonable rents for Section 8 assisted units. Although the authorities did not completely follow HUD's requirements, Section 8 tenant rents were generally reasonable for 140 of 141 units tested. Similarly, in a report prepared for the HUD Office of Policy Development and Research (PD&R), a consultant noted that subsidized rents were generally reasonable even without full PHA conformance with HUD's requirements.

Section 8 subsidized rentals fall into three distinct types: single family dwellings, apartments in multifamily projects containing unassisted units, and apartments in multifamily projects primarily containing assisted units. However, the current regulations mandate a "one-size fits all" method to determine reasonable rents for units subsidized under the voucher program. HUD requires authorities to document the application of the same nine elements (location, quality, size, type, age, amenities, housing services, maintenance and utilities provided) to determine rent reasonableness for every unit leased. HUD further complicates this process by requiring the authorities to compare the subject units with units in the premises and units in the general local submarket. As a result, authorities must spend excessive time collecting comparability data that may not be essential for determining a reasonable rent for any given unit.

At the time of our audit there was no current HUD guidance for Rent Reasonableness determinations. HUD removed the section on rent reasonableness limitations from Handbook 7420.7, *Public Housing Agency Administrative Practices Handbook for the Section 8 Existing Housing Program* in January of 1995. Comments in the September 10, 1998 Federal Register included a request for HUD to clarify what methods PHAs were required to use to determine reasonable rents. HUD responded that the rent reasonableness requirements at 24 CFR 982.503 (later changed to 982.507) apply. HUD also noted that it planned to issue guidance substantially similar to guidance previously found in paragraph 6-5 of cancelled (pre-January 1995) handbook. In April 2001, HUD released 7420.1G, *Voucher Program Guidebook, Housing Choice*. This consultant-prepared guidebook contains a section on rent reasonableness determination.

Although a guidebook can be beneficial, we believe that HUD should first evaluate and simplify the rent reasonableness regulations. Simplifying the basic

requirements could make them more economical to implement and facilitate compliance by the housing authorities. HUD could then issue guidance on how authorities can meet the rent reasonableness requirements taking into account each of the three different housing types.

We analyzed each of the three types of rental units and how the authorities document their rent reasonableness determinations. We believe that HUD will have stronger control over the reasonableness of rents for Section 8 assisted units if it tailors the regulations to fit each distinct housing type.

<p>Comparable Unassisted Units “In the Premises”</p>
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Currently, HUD requires authorities to determine rent reasonableness by comparing rents for assisted units with both unassisted units within the same project and with other units in the same submarket. Comparing an assisted unit with unassisted units at other locations in the submarket necessitates accounting for differences such as size, location, and condition of the comparable units. This can become very costly to the authorities. Further, these comparisons may not be very accurate as they rely heavily upon the judgment of the person making the comparisons.

In our opinion, the most effective and efficient comparison is with other similar units within the same apartment complex. Because the units are in the same complex, there is no need to account for differences in geographic location, amenities, maintenance, services, and utilities provided. In most cases, the comparison can be made to unassisted units of the same size and features thereby increasing the objectivity and eliminating guesswork. Thus, HUD should simplify the regulations and only require authorities to make its rent reasonableness determination through comparisons with the unassisted units within the same premises.

Property owners having both assisted and unassisted rental units are already required to provide housing authorities with information on the unassisted units. According to 24 CFR 982.507(c):

“By accepting each monthly housing assistance payment from the PHA, the owner certifies that the rent to owner is not more than rent charged by the owner for comparable unassisted units in the

premises. The owner must give the PHA information requested by the PHA on rents charged by the owner for other units in the premises or elsewhere.”

We found that only one of the four authorities reviewed had procedures in place to ensure conformance with this requirement. If the authorities enforced this requirement, they could obtain sufficient rent comparability information at no cost directly from the property owners.

Our review disclosed that housing authorities spend considerable resources compiling data on apartment complexes. Since this data is the easiest to collect, it is often collected in large volumes. However, this data does not provide any significant benefit to determinations of rent reasonableness at apartments. The housing authorities collect data to meet requirements, not to determine a reasonable rent.

One of the housing authorities recently spent a year implementing a point system to aid in the rent reasonableness determination process. Our review of the system disclosed that almost all of the data collected was for apartment complexes. This data provides no real benefit to the housing authorities since the best measure of reasonable rents is units within the premises.

Multifamily Units Within
Projects Containing
Mostly Assisted Units

To ensure that rents are not set at artificially high levels, HUD should continue to require that the rents for these units be reasonable in comparison to the unassisted rents for similar units in locales having similar demographics. Currently, HUD requires rent reasonableness determinations for any requested increase in rent. Generally, landlords request rent increases when leases are renewed each year forcing housing authorities to perform many time-consuming comparability studies. We believe that HUD could lessen this burden by applying rent reasonableness requirements similar to those in place for the project-based Section 8 assistance program.

For project-based Section 8, HUD requires a rent comparability study (or alternative) to be completed for each project by a licensed appraiser every five years and allows the application of operating cost adjustment factors to the appraised rents in the other four years. For projects primarily containing tenants with Section 8 vouchers, HUD

could require the authorities to prepare a rent comparability study every five years and limit any requested rent increases to the approved rent multiplied by the current published annual adjustment factor for that particular locale. Housing authorities should only apply the adjustments in cases where the landlord requests the increase and only if the authority determines, through its annual physical inspection, that the unit is being properly maintained.

Comparable Unassisted
Units for Single Family
Homes

Determining the reasonableness of rents for single family dwellings can be a difficult process involving the gathering and analysis of large amounts of data. This can be done more efficiently if HUD changed its requirements and allowed authorities to perform rent comparability studies once every five years for long term rentals. As discussed above, for the years that a comparability study is not done, the authorities should then be allowed to apply the annual adjustment factors when landlords request rent increases.

Providing Guidance to
Housing Authorities

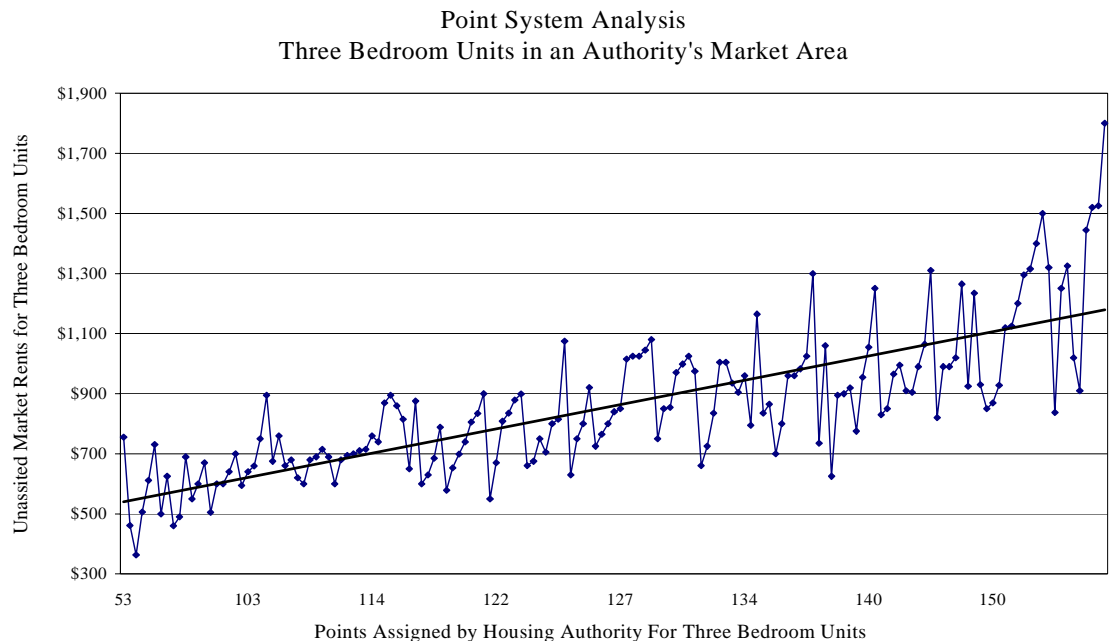
Once the above changes in the requirements are put into effect, HUD can then issue guidance to the authorities on how to document their rent reasonableness determinations. The results of our review show that authorities have been successful using different methods and skills such as negotiation, knowledge of the local market, and experience to obtain reasonable rents for the Section 8 tenants. However, HUD's new guidebook, as well as a national public housing authority consultant firm's training program, discuss the use of a point system to standardize and quantify the rent reasonableness determination. To use a point system, each factor (location, quality, size, unit type, age, amenities, housing services, maintenance, and utilities) must be divided into categories. Points are then assigned to each category so that one category can be weighted against another. Once the points are assigned the authority must develop a point range that ties the quality of the unit to the rent amount.

We agree with HUD's new guidebook that, in order for points to be a good predictor for rents, there must be a strong relationship between the point values and the rental rate. Two of the authorities in our audit as well as twenty percent of the authorities in the PD&R study, have been using a point system. We analyzed the system at one of the authorities included in our audit. As shown below, the

rents for a specific point total often differed by more than \$300.

Points Assigned	Number of Units	Range of Rents	Variance
103	5	\$595-\$895	\$300
120	7	\$578-\$900	\$322
127	10	\$725-\$1,080	\$355
137	7	\$700-\$1,300	\$600
145	5	\$820-\$1,265	\$445

We graphed the relationship between rents and assigned points for the 159 three bedroom units used for rent comparables at this authority.



The graph shows that there is not always a direct relationship between point values and rents. The blue line connecting the graph points is jagged, indicating a wide variance between the assigned point values and actual rents. The black line represents the general trend of the relationship between rents and point values. If the point system was accurate, then higher rents would have higher point values and the graph points would be located closer to the black trendline. In our opinion, assigning points to the various characteristics of comparable rentals is very

difficult to accomplish, can require significant resources by authority staff, and provides questionable results.

Establishing comparable rental rates is not an exact quantifiable process and is dependent upon many market factors not mentioned in the current regulations including vacancy rates, neighborhood quality, and access to transportation, shopping and schools. Instead of requiring authorities to collect unnecessary quantifiable data, HUD should allow them enough flexibility to tailor their rent reasonableness determinations that make the most of staff experience and knowledge of the market characteristics at hand. Any future guidance from HUD or from HUD-approved trainers should concentrate on training housing authorities on how to properly document a rent determination to allow for independent review and verification without requiring authorities to document irrelevant data.

Auditee Comments and OIG Evaluation
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The Office of Public and Indian Housing (PIH) generally agreed with our audit finding and recommendations and plan to reword the regulations to simplify the rent reasonableness requirements. The PIH response included some technical corrections to our draft report, which have been integrated into this final report. Specifically, PIH noted that HUD does not certify training programs. PIH also advised that they recently issued a new voucher guidebook containing a chapter on rent reasonableness.

According to PIH, the rent reasonableness regulations were intended to require only what the statute requires and provide only the basic standards on how and when rent reasonableness must be determined. PIH noted that the addition of the SEMAP requirements and indicators relating to rent reasonableness have caused the public housing authorities to be more zealous in complying with the current regulations.

PIH advised that HUD has not emphasized that there are nine distinct criteria for rent comparability and that these criteria were meant to be used in a common sense approach to valuing a rental unit. They further noted that they did not intend to require the public housing authorities to individually consider each of the nine criteria to any certain extent in order to fully comply with the regulation. PIH acknowledged that, in the wake of the SEMAP implementation, commercial trainers have emphasized

the need for housing authorities to consider all nine factors stated in the regulation, causing the authorities to expend excessive administrative resources for rent reasonableness determinations.

The PIH disagreed on our suggestion for using annual adjustment factors to establish reasonable rents for projects primarily containing tenants with Section 8 vouchers. PIH responded that rental submarkets can change markedly in a five year period and noted that this method would not allow for rent decreases within a submarket. PIH proposed instead that housing authorities be allowed to establish average annual rent increases. Any rent increase request that falls below the annual average increase would be presumed to be reasonable. If a proposed increase is above the established average, the housing authority would then be required to determine if the new rent is reasonable. We concur with this alternative suggestion, as it will result in not requiring a new rent reasonableness determination when an owner requests a moderate rent increase and should prevent excessive rent increases.

Recommendations:

We recommend that HUD's Office of Public Housing:

- 1A. Simplify and standardize the rent reasonableness requirements.
- 1B. Evaluate proposed revisions to the requirements to ensure that: (1) the burden of collecting, compiling, and updating comparability data is necessary for effective determination and documentation of rent reasonableness, and (2) the alternative methods of determining rent reasonableness result in better controls with fewer administrative requirements.
- 1C. Provide detailed guidance on the minimum amount of documentation required in the tenant file to support the rent reasonableness determination for each determination method.

Management Controls

In planning and performing our audit, we considered HUD's management controls relating specifically to our objectives to determine our auditing procedures and not provide assurance on management controls. Management controls over program operations include the policies and procedures that management has implemented to reasonably ensure that a program meets its objectives. The components of management control are interrelated and include integrity, ethical values, competence, and the control environment, which includes establishing objectives, risk assessment, information systems, control procedures, communication, managing change, and monitoring. The entity's management is responsible for establishing and maintaining adequate systems of management controls.

Relevant controls

For the purpose of our audit, we determined the management controls relevant to our objectives were HUD's policies, procedures, and practices relative to:

- documentation and determination of reasonable rents by the housing authorities,
- implementation of the Section 8 Management Assessment Program by the housing authorities, and
- rent reasonableness section of the A-133 compliance supplement used by the independent auditors during the annual audit.

Scope of work

We evaluated the management control categories listed above by assessing control design, implementation, and effectiveness. A significant control weakness exists if the controls do not give reasonable assurance that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data is obtained, maintained, and fairly disclosed in reports.

Assessment results

Based on our audit, we identified the following significant weaknesses in HUD's management controls:

- HUD does not provide authorities with adequate guidance on how to determine and document rent reasonableness in a cost beneficial manner.
- Although HUD has recently implemented the Section 8 Management Assessment Program (SEMAP) to monitor rent reasonableness requirements, based on an initial review, the SEMAP controls are not adequate to ensure authorities comply with rent reasonableness requirements.

- Although HUD has recently modified the A-133 Compliance Supplement, based on an initial review, the single audit will not always detect the lack of compliance with rent reasonableness requirements.

Issues needing further study and consideration

Multifamily Tenant Characteristics System

During our audit we analyzed and verified the data in the Multifamily Tenant Characteristics System. Our audit disclosed that data input to MTCS by the authorities is not accurate.

We utilized the data in MTCS to randomly select our sample units for audit. Our audit noted that the data input to MTCS is not always accurate. While the tenant names, social security numbers and other items that rarely change were accurate, fields that contained items that frequently change such as gross rent and housing assistance payment were often in error. Additional verification may be required to determine the extent of the errors.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-5000

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OFFICE OF THE ASSISTANT SECRETARY
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HUD/OIG AUDIT
SEATTLE, WA

MEMORANDUM FOR: Frank E. Baca, District Inspector
General for Audit, OIG

FROM: *Karen C. Newton*
Paula O. Blunt, Acting General Deputy Assistant
Secretary for Public and Indian Housing, PD

SUBJECT: Nationwide Audit of Rent Reasonableness for
Section 8 Tenant-based Units

Thank you for the opportunity to comment on the draft report on your nationwide audit of rent reasonableness for the tenant-based program. We are pleased that you found that rents in the tenant-based program are generally reasonable. We appreciate the constructive recommendations offered in your audit report and concur with the recommendations. We also appreciate the constructive effort by the audit team with suggestions for program streamlining and management improvement.

The audit report states that HUD's rent reasonableness regulations require more than the statute requires, are costly to implement and do not appear to provide a significant benefit. It states this occurred because HUD never evaluated the regulations to determine if the costs associated with compiling and updating comparability data for single and multifamily units actually facilitates rent reasonableness determination. As a result public housing agencies (PHAs) are expending valuable administrative resources on rent reasonableness, which could be used to improve controls for calculating tenant rents.

The Office of Public and Indian Housing (PIH) has a slightly different view. The rent reasonableness regulations are intended to require only what the statute requires, are not meant to be unduly burdensome or costly to implement, and will continue to provide a significant benefit to the program if they are followed in a somewhat less zealous manner. The regulations provide only basic standards for determining reasonable rent and specify when rent reasonableness must be determined. In spring 1998, in connection with the Section 8 management assessment program (SEMAP), HUD added a new requirement that the PHA must state its method for determining rent reasonableness in its administrative plan and must follow that method in determining rent reasonableness. The addition of this requirement and the subsequent SEMAP performance indicator has caused PHAs to zealously comply with the rent reasonableness requirements.

Traditionally HUD has not emphasized that there are "nine distinct" comparability criteria. Indeed, HUD stated in the preamble to subpart K, Rent and Housing Assistance Payment, in the April 30, 1998 Federal Register that "determination of rent reasonableness for Section 8 tenant-based assistance does not call for a special or unusual valuation in accordance with detailed procedures prescribed by HUD." We stated that the rule "contains [only] a brief and simple statement of the basic standards to be applied by a PHA in determining rent reasonableness for the Section 8 tenant-based programs." We acknowledged that "PHAs have extensive experience in determining rent reasonableness" and instructed that "each PHA should use appropriate and practical procedures for determining rental values in the local market." In any judgment about the reasonableness of rent for a particular unit, a willing renter reasonably and rationally considers location, quality, size, type, age, amenities, housing services, maintenance and utilities to be supplied by the owner. Since program inception, the criteria were meant to be a common sense approach to valuing a rental unit. HUD never intended that PHAs must individually consider each of the nine criteria to any certain extent to "fully comply" with the regulation.

We also acknowledge that, in the wake of implementation of SEMAP, commercial trainers have stressed that in determining rent reasonableness a PHA must consider each of the nine factors stated in the regulation: location, quality, size, type, age, amenities, housing services, maintenance and utilities provided by the owner. Because rent reasonableness is one of only two 20-point performance indicators in SEMAP, PHAs became exceedingly concerned that they were implementing rent reasonableness exactly right. They failed to realize that HUD in fact allowed them enough flexibility to tailor their rent reasonableness determinations to make the most of staff experience and knowledge of the market. As a result, we agree with your finding that PHAs are now expending excessive administrative resources on rent reasonableness that could be better used on other aspects of program administration.

The OIG made three recommendations:

1.A. Simplify and standardize the rent reasonableness requirements.

PIH will simplify requirements by rewording the regulation at 24 CFR 982.507(b) to read as follows: "Comparability. The PHA must determine whether the rent to owner is a reasonable rent in comparison to rent for other comparable unassisted units. To make this determination, the PHA must consider **unit characteristics such as** the location, quality, size, unit type, age, amenities, maintenance, and utilities to be provided by the owner in accordance with the lease." A similar change will also be made in the SEMAP regulation at 24 CFR 985.3 (b) (1).

PIH will also modify its guidance on rent reasonableness to clarify that a PHA need not go to great lengths to build market survey databases where it can obtain data for recent unassisted rentals of comparable units in the same complex. We will also offer a streamlined standard form that will be sufficient to document a rent reasonableness determination.

1.B. Evaluate proposed revisions to the requirements to ensure that:

- **The burden of collecting, compiling, and updating comparability data is necessary for effective determination and documentation of rent reasonableness, and**
- **The alternative methods of determining rent reasonableness result in better controls with fewer administrative requirements.**

The recently issued voucher guidebook implies that obtaining information on all "nine factors" is required for a rent reasonableness determination, although it explains that not all of the nine have the same effect on rents and there is considerable variation on what is important from market to market. The guidebook states that PHAs should focus on the items that really affect rents. In line with the proposed rule change, the guidebook will be revised to de-emphasize the implication that all "nine factors" must always be considered for each unit.

PIH will reconsider its guidance in the recently issued housing choice voucher guidebook in light of the findings and recommendations in your audit report. We will ensure that revised guidance is clear that it is quality rather than quantity of data that is essential to the rent reasonableness determination. Revisions to the guidebook will emphasize that the most effective and efficient comparison for a unit in an unassisted multifamily property is with other similar units within the same apartment complex. In general we will try to streamline the work that PHAs may presently be doing unnecessarily.

In accordance with one of your recommendations, PIH is revising the request for tenancy approval to add information from owners of unassisted multifamily properties on the rents charged for three recent rentals of comparable units.

1.C. Provide detailed guidance on the minimum amount of documentation required in the tenant file to support the rent reasonableness determination for each determination method.

PIH agrees that a sample standard format with minimum requirements for documentation of the rent reasonableness

determination is a good way to help PHAs understand that they need not go to great lengths to determine that rent is reasonable.

The remainder of our comments addresses a recommendation in your report that we do not plan to implement, and minor technical corrections.

For determination of reasonable rent for multifamily assisted properties and for single family properties, the OIG suggested that HUD could require a comparability study only once every five years and limit any requested increase to a local annual adjustment factor. We hesitate to follow that recommendation because we know that rental submarkets can change markedly in five years with rents changing in either direction. For that reason, annual adjustment factors are only a gross measure of how much rent for any particular property should increase. Even when HUD used AAFs in the certificate program, we still felt it important and required that PHAs make rent reasonableness determinations. In our certificate program experience, we found that while AAFs effectively limit increases in rents, in some cases they did not permit increases when market comparables would warrant them, and they were not effective at all in reducing rents when markets declined.

Instead, we propose to allow PHAs to establish an average annual rent increase for families participating in their housing choice voucher program. Any rent increases that falls within the average rent increase would be presumed to be reasonable and no further action would be required on the part of the PHA. However, if the proposed rent increase exceeded the average, the PHA would be required to make a determination that the new rent is reasonable.

Page 2, paragraph 1 - "Tenants may choose a unit with a higher rent than the ~~FMR~~ **payment standard** and pay the landlord the difference. HUD pays an average assistance payment of approximately ~~\$400~~ **\$425** [per MTCS] per month for each unit..."

Page 2, paragraph 6 - "~~Each housing authority assigns points to the indicators~~ **certifies as to its performance under each indicator** based on its self-assessment."

Page 3, second bullet and page 10 last sentence - It is not clear what "certified" training programs were reviewed. HUD has not "certified" any trainers since 1988, when HUD undertook specific comprehensive training for the rental certificate program. HUD does not presently "certify" training programs or approve trainers ("Any future guidance from HUD or from HUD-approved trainers should concentrate on ...").

Pages 5 and 6, - "There is no current HUD guidance for rent reasonableness determinations." The recently issued voucher guidebook includes a chapter on rent reasonableness.

Page 12, last paragraph - "Our audit noted that there is no field [on Form HUD-50058] for the type of unit." The revised Form HUD-50058 dated June 2001, now contains a field for type of unit.

Distribution

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