

HOUSING
RENTAL HOUSING ASSISTANCE PROGRAM (SECTION 236)
2013 Summary Statement and Initiatives
(Dollars in Thousands)

RENTAL HOUSING ASSISTANCE PROGRAM (SECTION 236)	<u>Enacted/ Request</u>	<u>Carryover</u>	<u>Supplemental/ Rescission</u>	<u>Total Resources</u>	<u>obligations</u>	<u>Outlays</u>
2011 Appropriation	\$31,000 ^{a/}	\$323,314	-\$40,662	\$313,652 ^{b/}	\$12,920	\$447,236
2012 Appropriation/Request .....	...	300,423	-231,600	68,823 ^{c/}	23,300	425,844
2013 Request	<u>...</u>	<u>45,523^d</u>	<u>...</u>	<u>45,523</u>	<u>24,776</u>	<u>331,098</u>
Program Improvements/Offsets .....	...	-254,900	+231,600	-23,300	+1,476	-94,746

- a/ Part of the total \$40 million provided in the Department of Defense and Full-Year Continuing Appropriations Act , 2011 (P.L. 112-10), the balance of the appropriation (\$9 million) used for amendments to Rent Supplement contracts is shown in the Rent Supplement Program justification.
- b/ Includes \$309 thousand that was transferred to the Department’s Transformation Initiative account. This amount is excluded from obligations and outlays.
- c/ Includes \$3.6 million in Section 236 Interest Reduction Payments (IRP) funds which are not available for obligation.
- d/ If needs in the Rent Supplement account are higher than actual carryover to fiscal year 2013, excess balances from the Rental Housing Assistance Program account may be transferred to the Rent Supplement account.

1. What is this request?

The Department is not requesting any additional funding for the Rental Housing Assistance program (Section 236) or for the Rent Supplement Program in fiscal year 2013. The program has carryover funds that are sufficient to support amendments to State-aided Section 236 Rental Assistance Payment (RAP) contracts. However, the Department is estimating that the Rent Supplement Program may not have sufficient funds to fully cover all eligible contract amendments and extensions. The appropriations for the Rent Supplement and Rental Housing Assistance Programs have been enacted under a single heading titled *Other Assisted Housing Programs*. The Department has discretion as to how that appropriation is divided between the two programs.

The RAP (Section 236) program includes two components:

Section 236 Interest Reduction Payments (IRP). No new commitments have been made since the program was terminated in 1973.

Rental Housing Assistance Program

Rental Housing Assistance Payments (RAP). 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 statutorily required to amend the RAP contracts on non-insured, State-aided Section 236 projects.

2. What is this program?

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.

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 the predecessor of the project-based Section 8 program.

Staffing

<u>FTE</u>	<u>2011 Actual</u>	<u>2012 Estimate</u>	<u>2013 Estimate</u>
Headquarters	1	1	1
Field	26	25	25
Total	27	26	26

No changes to the Rental Housing Assistance Program staffing levels are planned for fiscal year 2013.

Rental Housing Assistance Program

Descriptions of work to be performed by FTE (Headquarters and Field) to administer RHAP and Key Workload Drivers

Headquarters staff develops policy related to all aspects of administering the program; provides oversight and monitoring of field staff administration of policy and procedures related to management and occupancy, physical condition, financial accounting, owner obligations and responsibilities; develops and executes necessary enforcement actions; monitors field achievement of goals and targets regarding utilization of the Rental Housing Assistance program including compliance with HUD business agreements with respect to financial and physical requirements; and ensures availability of funding to guarantee timely payment of all assistance contracts.

Field Staff perform the following functions to administer the Rental Housing Assistance program: review and approve management agents; analyze monthly accounting reports, annual financial statements, requests to transfer project ownership; monitor service coordinator grant agreements; process contract extension requests; review monthly assistance vouchers; disburse assistance payments; negotiate management improvement plans; initiate necessary enforcement actions; monitor project physical condition; review project operating budgets; conduct management and occupancy reviews; review capital needs assessments; monitor project use agreements; respond to tenant and community inquiries; and review utility allowance schedules and process special claims for vacancies or damages.

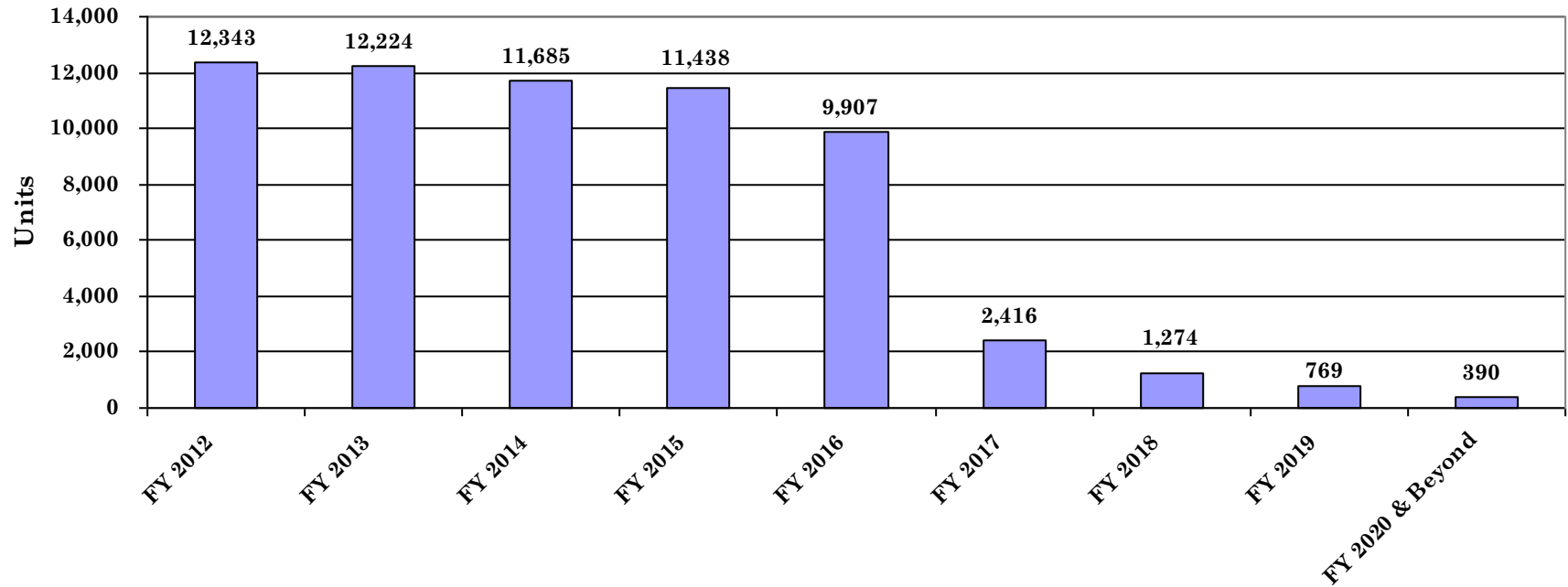
3. Why this program is necessary and what will we get for the funds?

This program provides continued rental assistance to low-income families residing in Section 236 properties. The carryover funds will be used to provide amendments to contracts which have yet to expire but have exhausted the original funds provided to the contract. The funds will also be used to provide extensions to expiring contracts for up to a 1-year term. Current estimates show that 12,224 units will be assisted during fiscal year 2013. The program is no longer active however families will continue to be supported until each Section 236 contract expires. As each contract reaches its expiration date, the number of contracts and units being supported will decrease as shown in the following graph.

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The graph shows the total number of units being supported by the Section 236 RAP program by fiscal year. The number of units decreases as the expiration date of each contract passes. The long-term preservation of these units is being addressed through the Department's Rental Assistance Demonstration program discussed below and in its' own separate justification.

Estimate of Total Units Funded by Fiscal Year Year



The Department is implementing 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 is to offer short-term contract extensions of up to 12 months, as authorized in P.L. 112-10 and P.L. 112-55. These extensions provide 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 is to provide tenant protection vouchers to residents at the time of expiration of the RAP contract, to safeguard low-income residents from rent increases or displacement. The third strategy, aimed at the long-term preservation of these RAP properties, is authorized as part of the Department's Rental Assistance Demonstration (RAD). In 2013, RAD will allow owners to convert tenant protection vouchers to Project-Based Vouchers to preserve the properties as affordable housing for an additional 15 years. The RAD

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program is discussed in its own separate justification. Section 236 and RAP support the Department in achieving its strategic goal to “meet the need for quality affordable rental housing.” More specifically, continued funding for the program helps to achieve the objective to “preserve the affordability and improve the quality of the Federally assisted and private unassisted rental homes.”

4. Notes to Justification

Status of Unobligated Balance

As of December 31, 2011, \$65 million of the total carryover is still available for obligation. Approximately \$24 million of the carryover was recaptured in fiscal year 2011. Funds were not completely obligated in fiscal year 2011 because our appropriations for the past 2 fiscal years were more than sufficient for our amendment needs. We believe this has been offset with the enactment of the fiscal year 2012 Budget. The carryover is expected to be adequate to meet the needs of the Rental Housing Assistance Program during fiscal year 2013.

Fiscal years 2012 and 2013 Funding Estimates

In fiscal year 2013, the Department plans to continue providing contract amendments and extensions with the remaining carryover funds. For fiscal year 2012, an estimated \$21.8 million will be obligated for amendments to Section 236 RAP contracts and \$1.5 million will be obligated for contract extensions. For fiscal year 2013, an estimated \$23.8 million will be obligated for amendments to Section 236 RAP contracts and \$976 thousand will be obligated for contract extensions.

Rental Housing Assistance Program

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

<u>Budget Activity</u>	<u>2011 Budget Authority</u>	<u>2010 Carryover Into 2011</u>	<u>2011 Total Resources</u>	<u>2011 Obligations</u>	<u>2012 Budget Authority/ Request</u>	<u>2011 Carryover Into 2012</u>	<u>2012 Total Resources</u>	<u>2013 Request</u>
Section 236 Rental Assistance Payments (RAP)	-\$9,971	\$63,814	\$53,843	\$12,920	...	\$60,208	\$60,208	...
Transformation Initiative Transfer ..	309	...	309	...	...	...	...	...
Section 236 Interest Reduction Payments (IRP) .....	...	259,500	259,500	...	-\$231,600	235,215	3,615	...
Extension of Expiring Contracts .....	...	...	...	...	...	<u>5,000</u>	<u>5,000</u>	...
Total	-9,662	323,314	313,652	12,920	-231,600	300,423	68,823	...