

**HOUSING**  
**RENTAL HOUSING ASSISTANCE PROGRAM (SECTION 236)**  
**2014 Summary Statement and Initiatives**  
**(Dollars in Thousands)**

RENTAL HOUSING ASSISTANCE PROGRAM (SECTION 236)	Enacted/ Request	Carryover	Supplemental/ Rescission	Total Resources	Obligations	Outlays
2012 Appropriation .....	...	\$303,909 <sup>a</sup>	-\$231,600	\$72,309 <sup>b</sup>	\$19,710	\$400,920
2013 Annualized CR .....	...	44,899 <sup>c</sup>	-23,000	21,899	21,400	339,162
2014 Request .....	<u>\$3,446<sup>d</sup></u>	<u>25,599<sup>e</sup></u>	<u>-3,500</u>	<u>25,545</u>	<u>25,282</u>	<u>332,328</u>
Program Improvements/Offsets .....	+3,446	-19,300	+19,500	+3,646	+3,882	-6,834

- a/ It consists of actual carryover of \$300.4 million, recaptures realized in fiscal year 2012 in the amount of \$100 million, and collections of \$200 thousand. It also includes contract and budget authority withdrawal of \$96.7 million.
- b/ Total Resources includes \$3.6 million in Section 236 IRP funds that are not available for obligations. It does not include Section 235.
- c/ Reflects a realignment of \$7.7 million to the Rent Supplement account.
- d/ A total of \$21 million is requested for Other Assisted Housing, the remaining balance of \$17.6 million is discussed in the Rent Supplement Program justification. This number includes an estimated Transformation Initiative (TI) transfer that may be up to 0.5 percent of Budget Authority.
- e/ Includes \$3.5 million of Section 236 IRP funds.

**1. What is this request?**

The Department is requesting \$3.4 million for the Rental Housing Assistance Program (Section 236) in fiscal year 2014, an increase of \$3.4 million from the fiscal year 2012 enacted level. The Department projects that it will need \$25.3 million in total resources to support amendments to State-aided Section 236 Rental Assistance Payment (RAP) contracts in fiscal year 2014. This request of \$3.4 million, when combined with fiscal year 2013 carryover and anticipated recaptures, will allow HUD to direct approximately \$23.4 million to contract amendments and \$1.8 million to extensions of expiring contracts for up to a 1-year term in fiscal year 2014.

The funding will ensure adequate on-going assistance to more than 11,300 units with active contracts, and extend expiring assistance contracts covering an additional 247 units.

Some projects will receive short term extensions of up to 12 months while finalizing RAD applications/conversions. These fiscal year 2014 RAD conversion estimates assume that the fiscal year 2014 appropriations act includes authority for continuing RAD conversions of Rental Housing Assistance Program (Section 236). Should this authority not be granted, the costs for Rental Housing

## Rental Housing Assistance Program (Section 236)

Assistance Program (Section 236) in 2014 would increase due to resulting increases in the number and/or duration of contract extensions.

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; however, disbursements of IRP payments are made from the Rental Housing Assistance Program (RHAP) account on a continuing monthly basis until the underlying loans terminate.

**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 contracts. 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.

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

The primary workload for RHAP programs is provided by HUD's Office of Housing, mainly the Office of Multifamily Housing. A total of 105.4 FTE are requested for the Rental Housing Assistance Program, which is an increase by .3 from the fiscal year 2012 enacted level. Total S&E funding is \$13.4 million or an increase of \$509 thousand from the fiscal year 2012 enacted level. Personnel services increase by \$471 thousand or 4 percent reflecting the cost of salary and fringe benefits. Non-personnel services are increased by \$38 thousand from the fiscal year 2012 enacted level.

### Workload by Function

The overall S&E requests reflect the following workload by functions for the Rental Housing Assistance Program (Section 236):

- Multifamily Asset Management and Recapitalization has 101.7 FTE (96.5 percent) to provide oversight and monitoring of field staff implementation of policy and procedures related to sponsor and owner obligations and responsibilities; monitor field achievement of goals and targets; ensures compliance with HUD business agreements with respect to financial and physical requirements; oversight and monitoring of the Use Agreement and other contracts.
- Multifamily Policy Development staff has 3.7 FTE (3.5 percent) used to administer the multifamily rental assistance programs; develops policy on the renewal of Section 8 contracts and the provision of rent adjustments; writes guidebooks and notices; responds to inquiries regarding contract provisions, including internal and external correspondence, and waiver requests; develops and provides technical support and training.

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

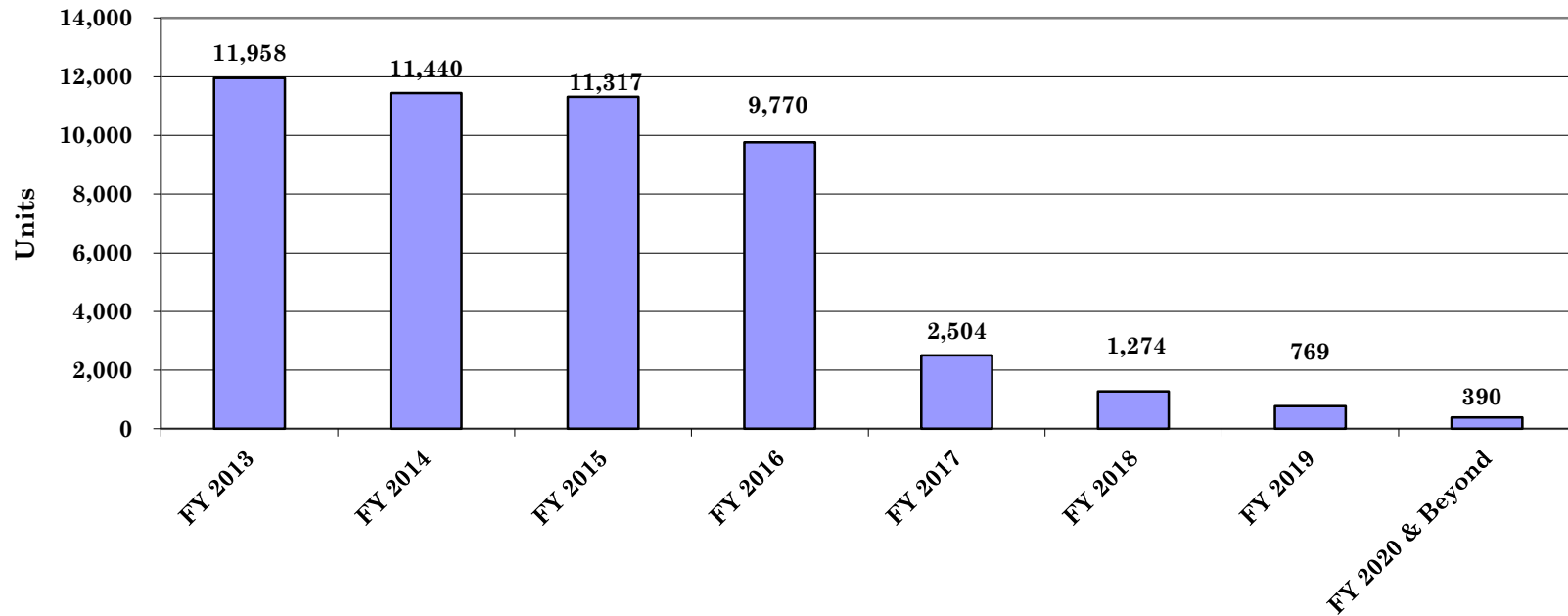
Section 236 and RAP support the Department in achieving its strategic goal to "meet the need for quality affordable rental housing." More specifically, continued funding for the program helps to achieve the objective to "preserve the affordability and improve the quality of the federally assisted and private unassisted rental homes."

RAP contracts provide continued rental assistance to low-income families residing in Section 236 properties. The requested 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 requested appropriations will also be used to provide extensions to expiring contracts for up to a 1-year term. Current estimates show that 11,300 units will be assisted during fiscal year 2014. Though the program is no longer active, families will continue to be supported until each Section 236 contract expires. As each contract reaches its expiration date, the number of

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contracts and units being supported will decrease as shown in the following graph. 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\***



\*Unit counts assume that contract extensions will continue to be authorized in fiscal year 2014. Long-term policy has not yet been determined.

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 is 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 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 eligible residents at the time of expiration of the RAP contract, to safeguard low-income residents from rent increases or displacement. The third strategy,

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aimed at the long-term preservation of these RAP properties, is authorized as part of the Department's Rental Assistance Demonstration (RAD). RAD allows owners to convert tenant protection vouchers to long-term Project-Based Vouchers to preserve the properties as affordable housing. The Department estimates that approximately 270 RAP units will convert to RAD in fiscal year 2013. Approximately another 124 RAP units will convert to RAD in fiscal year 2014.

### **4. How do we know this program works?**

Maintaining the remaining housing units that were financed by the federal government under the Section 236 program is a cost effective means of preserving at least a portion of the affordable housing stock. 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 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.

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

<u>Budget Activity</u>	<u>2012 Budget Authority</u>	<u>2011 Carryover Into 2012</u>	<u>2012 Total Resources</u>	<u>2012 Obligations</u>	<u>2013 Annualized CR</u>	<u>2012 Carryover Into 2013</u>	<u>2013 Total Resources</u>	<u>2014 Request</u>
Section 236 Rental Assistance Payments (RAP) .....	-\$2,985	\$66,679	\$63,694	\$15,471	...	\$42,051	\$42,051	\$3,446
Section 236 Interest Reduction Payments (IRP) .....	-228,615	232,230	3,615	...	-\$23,000	200	-22,800	...
Extension of Expiring Contracts .....	...	<u>5,000</u>	<u>5,000</u>	<u>4,239</u>	...	<u>2,648</u>	<u>2,648</u>	...
Total .....	-231,600	303,909	72,309	19,710	-23,000	44,899	21,899	3,446

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**HOUSING  
RENTAL HOUSING ASSISTANCE PROGRAM  
Appropriations Language**

Below is the italicized appropriations language for the Rental Housing Assistance Program account.

**Other Assisted Housing Programs  
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, 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 hereby permanently cancelled: 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.*

Note.--A full-year 2013 appropriation for this account was not enacted at the time the budget was prepared; therefore, this account is operating under a continuing resolution (P.L. 112-175). The amounts included for 2013 reflect the annualized level provided by the continuing resolution.