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National Affordable Housing Management Association – 400 N. Columbus Street, Suite 203 - Alexandria, VA 22314
Phone 703-683-8630 - Fax 703-683-8634 - www.nahma.org

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# GAO Report:
# HUD Needs to Take Action to Improve Metrics and Ongoing Oversight of RAD

## Background

In fiscal year (FY) 2012, the Rental Assistance Demonstration (RAD) program was authorized for HUD to address an estimated $25 billion in unmet capital needs in the public housing stock. The purpose of RAD is for public housing authorities (PHAs) to convert properties in the public housing program to Section 8 rental assistance programs (project-based vouchers or project-based rental assistance), and retain property ownership or transfer it to other entities. The goal of this conversion is to enable PHAs to leverage additional funding and private capital generally not available for public housing properties.

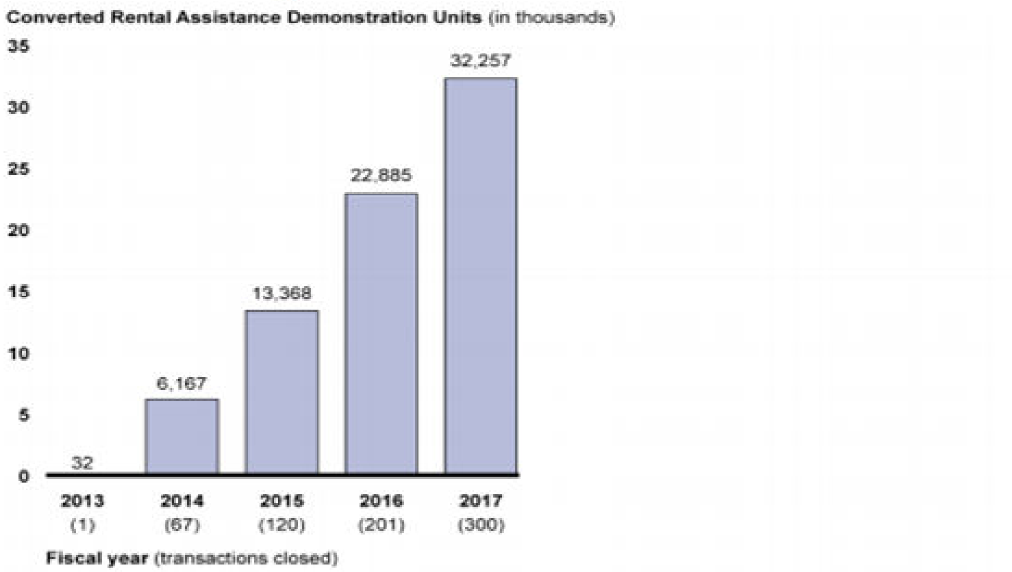
As evidenced by the recent FY18 omnibus funding bill, the Rental Assistance Demonstration (RAD) Program has strong bi-partisan support in Congress: Under the funding bill, the authorization for RAD was extended to 2024, the cap on RAD conversions was more than doubled (from 225,000 to 455,000 units), and RAD was expanded to allow Section 202 Project Rental Assistance Contract conversions (RAD for PRAC).

In light of these positive developments, RAD has also received scrutiny from the Government Accountability Office (GAO). In March 2018, the GAO released a report on RAD, *Rental Assistance Demonstration: HUD Needs to Take Action to Improve Metrics and Ongoing Oversight.* As stated in the report, the "GAO was asked to review public housing conversions under RAD and any impact on residents…GAO analyzed data on RAD conversions through fiscal year 2017; reviewed a sample of randomly selected, non-generalizable RAD property files; and interviewed HUD officials, PHAs, developers, academics, and affected residents." This NAHMAnalysis examines key findings of the GAO report and their recommendations to improve the RAD program.

**Amount of RAD Conversions and Financing**

In its report, the GAO provided an analysis of HUD construction data (through September 30, 2017) on RAD conversions (Figure 1). Specifically, the GAO noted that the RAD Program facilitated the following types of closed and active conversions: "417 of 689 closed conversions (61 percent) involved planned rehabilitation to the property, 86 (12 percent) new construction, and 186 (27 percent) no construction; and 361 of 706 active RAD conversions (51 percent) involved planned rehabilitation, 89 (13 percent) new construction, and 256 (36 percent) no construction."

**Figure 1: Number of Transactions Closed and Converted Rental Assistance Demonstration Units by Fiscal Year**




Source: GAO analysis of Department of Housing and Urban Development data. | GAO-18-123

One of the key narratives used to champion the expansion of the RAD program is its ability to successfully leverage funding not otherwise available for public housing. The GAO report shows that financing for these RAD conversions usually involves both public and private sources, with the federally-funded Low-Income Housing Tax Credit (LIHTC) playing a key role.

The GAO found that LIHTC was included in the financing of the following RAD conversions: "173 of 689 closed RAD conversions (25 percent) utilized 4 percent LIHTC, 99 (14 percent) utilized 9-percent LIHTC, and 416 (60 percent) did not use LIHTC. By dollar amount, major financing sources were 4 percent LIHTC at $2.4 billion; new first mortgages at $1.8 billion; and 9 percent LIHTC at $1.1 billion." The financing was largely used to cover construction costs, followed by building and land acquisition costs and developer fees. On average, the GAO found construction costs per closed conversion were over $6 million and nearly $60,000 per-unit converted to RAD.

However, it is important to note that the GAO did challenge HUD's calculation of RAD's success in leveraging private financing (Figure 2). The GAO stated, "HUD's methodology does not account for all financial data collected by HUD and includes 'other' funding sources erroneously considered as leveraged funds. Thus, we manually adjusted RAD funding source data and found that nearly $1.2 billion were erroneously considered leveraged funds because they are not private funds."

Based on HUD-provided data, the GAO replicated HUD's methodology and re-categorized financial sources that corrected errors in the data. The GAO found that the RAD leverage ratio was less than half of HUD's reported leverage ratio (19:1), approximately 7.44:1. The GAO also recalculated alternative leverage ratios, if you exclude LIHTC and all federal sources (1.43:1) and a strictly private sector leverage ratio of approximately 1.23:1. Regardless of which ratio is used, the important takeaway is that the ratio is very different than the data HUD has provided as a rationale for RAD's expansion.

**Figure 2: HUD-Reported 2017 Leverage Ratio and GAO-Adjusted Leverage Ratio Estimates for RAD Using Recategorized Financial Sources, as of June 2017**

| Rental Assistance Demonstration (RAD) leverage ratio source | Description | Leverage ratio |
|---|---|---|
| 2017 HUD-reported | Leverage ratio of funds generated for every $1 in public housing funds | $19 to $1 |
| GAO-adjusted estimates | Recalculation using HUD's methodology and recategorized financial source data | $7.44 to $1 |
| | Recalculation of nonfederal financial sources to PHA financial sources | $1.43 to $1 |
| | Recalculation of private financial sources to PHA financial sources | $1.23 to $1 |

Sources: Department of Housing and Urban Development (HUD); GAO analysis. | GAO-18-123

### Impact on Residents

Similar to financing for conversions, impact on current residents is a key pillar of the RAD program. The GAO made some critical findings when it comes to RAD's impact on residents, and this is an area HUD must address for the program to succeed. Specifically, the GAO stated:

> "HUD has not yet developed procedures to monitor RAD projects for risks to long-term affordability of units, including default or foreclosure…HUD officials told [the GAO] that the agency does not systematically track or analyze household-level data

> on residents in RAD-converted units across existing program databases (HUD maintains household data for the public housing and Section 8 rental assistance programs in two databases). In particular, HUD does not track changes in household characteristics before and after conversion, such as changes in rent, as well as relocations or displacement of individual households."

Opponents of RAD's expansion would argue that these findings on affordability and tracking of residents should give Congress pause before any future RAD expansion.

**Recommendations**

The GAO made recommendations to HUD "to improve leveraging metrics, monitoring of the use and enforcement of resident safeguards, and compliance with RAD requirements." One positive is that HUD agreed to GAO's recommendations to improve metrics and build on existing oversight. Below are the five recommendations included in the GAO report:

- HUD's Assistant Secretary for Housing should include provisions in its postclosing monitoring procedures to collect comprehensive high quality data on financial outcomes upon completion of construction, which could include requiring third-party certification of and collecting supporting documentation for all financing sources and costs.
- HUD's Assistant Secretary for Housing should improve the accuracy of RAD leverage metrics--such as better selecting inputs to the leverage ratio calculation and clearly identifying what the leverage ratio measures--and calculate a private-sector leverage ratio.
- HUD's Assistant Secretary for Housing should prioritize the development and implementation of monitoring procedures to ensure that resident safeguards are implemented.
- HUD's Assistant Secretary for Housing should determine how it can use available program-wide data from public housing and Section 8 databases, in addition to resident logs, for analysis of the use and enforcement of RAD resident protections.
- HUD's Assistant Secretary for Housing should prioritize the development and implementation of procedures to assess risks to the preservation of unit affordability.

**Conclusion**

RAD is a critical tool to preserve the aging public housing portfolio. In today's market, new construction is very limited and the preservation of hard units is critical. NAHMA strongly supports the RAD for PRAC expansion and looks forward to HUD improvements in their oversight of the program.