IMPLICATIONS OF INADEQUATE FUNDING OF PROJECT-BASED SECTION 8 CONTRACTS AND RENTAL ASSISTANCE CONTRACTS FOR RURAL PROPERTIES

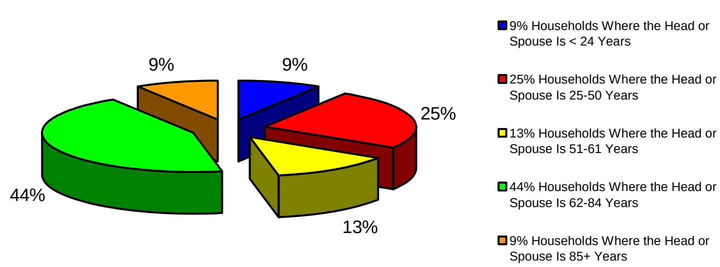
If Congress fails to appropriate sufficient funds, in FY 2012 and beyond, for Project-Based Section 8 and Section 521 Rental Assistance (RA)contracts it will have a negative impact on vulnerable Americans who depend on affordable rental housing. Therefore we support adequate funding for all existing contractual Section 8 and Section 521 Rental Assistance (RA) payments, as part of original and renewal contracts. Underfunding the existing government obligation of these contracts will impact the solvency of the Federal Housing Administration, the Rural Housing Insurance Fund and state and local economies – particularly in rural America. This will have a short- and long-term negative impact on the condition and availability of affordable rental housing stock across the country.

The current dearth in the availability of affordable rental housing is evidenced by the large demand. Currently only one of four households eligible for rental assistance actually receives it. Further, the conventional rental market is predicting a large gap between supply and demand over the next five years making it even more difficult for those with low and moderate incomes to find affordable rental housing. The preservation of this stock is critical, but more importantly protecting vulnerable Americans from losing their homes is paramount.

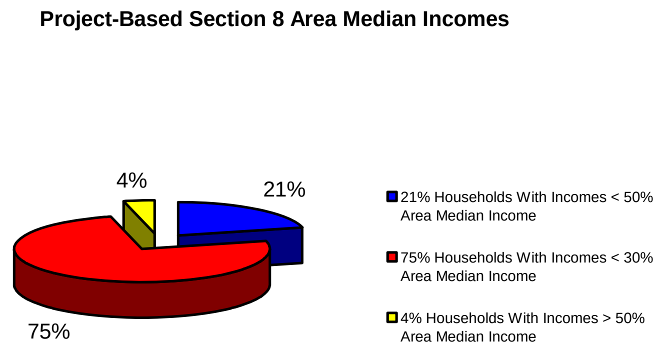
1) Insufficient Project-Based Section 8 Funding Eliminates Homes for Vulnerable Americans

The following charts highlight the various income and demographic groups served by the Project-Based Section 8 Housing program.

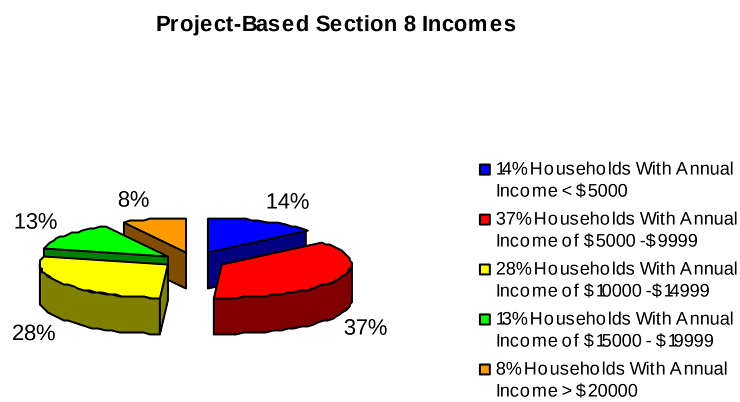
Project-Based Section 8 Ages



- Section 8 housing serves several vulnerable populations including elderly, disabled and low wage workers.
  - Elderly: 53 percent of tenants are over age 62;[1]
  - Disabled: 17 percent of tenants are disabled;[2]
  - Veterans: Overrepresented in the homeless population and are in great need of federally-subsidized housing; on any given night, 10-12 percent of homeless Americans are veterans.[3]



- The Section 8 Project-based program provides housing to the working poor and the myth that residents do not work is unfounded in the data
  - Working Poor: 75 percent of tenants earn below 30 percent of the area median income, 96 percent of tenants earn below 50 percent of the area median income;[4] and
  - Welfare Recipients: Only 4 percent of tenants count welfare as their primary income.[5]



- When Congress cuts funding for the Project-Based Section 8 program, owners may not be able to pay their mortgage or they may cut operational spending, which includes rehabilitation of the property and/or amenities for low-income tenants
  - Owners will begin selecting the highest income tenants they legally can select in order to mitigate the impact of missed or reduced assistance payments.
  - Maintenance of the property may also suffer because rehabilitation will be postponed.

---

[1] *Picture of Subsidized Households-2008.* Office of Policy Development and Research. U.S. Department of Housing and Urban Development.
[2] Ibid.
[3] *Veteran Homelessness: A Supplemental Report to the 2009 Annual Homeless Assessment Report to Congress.* National Center on Homelessness Among Veterans, U.S. Department of Veterans Affairs and the Office of Community Planning and Development, U.S. Department of Housing and Urban Development, February 10, 2011.
[4] *Picture of Subsidized Households-2008*.
[5] Ibid.

- Frustrated owners will opt out of the Section 8 program, eliminating property affordability and taking their properties to market rents, which very low and low-income tenants will not be able to afford.
- 92 percent of households have an annual income of less than $20,000.

- Providing enhanced vouchers and tenant protection vouchers for assisted households residing in a property that opts out of the Section 8 program is much more expensive than project-based rental assistance, which will increase the cost to the Federal government for housing displaced government-assisted tenants.

---

2) The Federal Housing Administration (FHA) and Rural Development (RD) will be put in serious financial jeopardy and heighten taxpayer risk

- There are 1,235,235 units in 17,723 properties with active Section 8 contracts including nearly 10,000 insured by the Federal Housing Administration (FHA). Insufficient appropriations to pay contractual obligations or renew contracts will cause defaults and significant costs to the Treasury.

- If defaults increase, the FHA may need to increase mortgage insurance premiums on all FHA multifamily mortgage insurance programs to ensure there are adequate reserves to pay future defaults. This would raise the cost of development for new construction and the rehabilitation of existing rental properties, also forcing rents upward.

- There are 267,665 units of RD Rental Assistance, accounting for 64.7 percent of all rural rental multifamily units. Failure to fund this subsidy will undermine the ability of the majority of the nearly 16,000 Section 514/515 multifamily apartment complexes to meet obligations, jeopardizing the federal government's $11 billion investment.

- Prices realized by HUD and RD in selling foreclosed properties with section 8 subsidies would decline.

- There are broader implications in the capital markets. A default by the United States in any area could send further shock waves to the already shocked markets. Would the potential for default by the United States raise borrowing costs for Treasury?

3) State and local economies will be hurt, and jobs lost

- When Congress cuts funding for Section 8, the impact may be either a loss of units through contract abrogation or significant payment delays. Both have serious consequences on state and local economies. It means loss of jobs and loss of housing potentially for vulnerable families. When payments are delayed or owners receive short funded contracts, their ability to enter into contracts for even routine maintenance is diminished – impacting local businesses that typically perform routine maintenance. Housing properties are great contributors to local economies through the vendors they contract with, from security companies to pest control to painting companies and others who perform routine maintenance.

- If Congress cuts or delays funding for Section 8 assistance, unless the properties have significant reserves, maintenance and repair contracts may be stalled. Workers will walk off the jobs, if they aren't being paid. And if reserves are drained, eventually mortgage payments will be late with ensuing defaults, owners and managers won't be able to take advantage of savings that come with paying bills quickly, utility payments are paid at the last possible moment. All these payment issues impact the local economies.

- The last time HUD had insufficient funds to pay all contract renewals for all 12 months, staff members went without paychecks, invoices were not paid and workers' medical insurance was cancelled. In many communities across the country, work under contract like lead and asbestos removal, and property renovation including energy efficiency work was stopped in mid-stream.

4) Rural communities will be disproportionally hurt

- Like HUD's Section 8 project-based programs, RD has a Rental Assistance (RA) program under Section 521. Currently, RA is provided to 267,665 families in RD's multifamily portfolio of 469,000 units.

- The Administration's budget for FY12 would cut RA by $50 million. Such a cut will decimate a program designed to help the most vulnerable citizens and will displace these rural renters whose average incomes are $11,000 per year. These are the poorest of the poor with no other housing options.

5) Affordable rental housing stock will deteriorate and may be permanently lost

- For those projects remaining in the program, there will be an increase in deferred maintenance and little likelihood of obtaining tax credits or other financing for rehabilitation.

- Lenders will be less willing to make long-term loans for mortgage refinance or purchases of Section 8 or RD projects, transactions which help in the rehabilitation and long term preservation of the properties.

- Investors and syndicators will be less willing to purchase low income housing tax credits, which are paramount to the sale and rehabilitation of those projects.

- The lack of sufficient section 8 funds will also thwart the refinancing of older Section 202 and RD projects for the elderly and disabled that have Section 8 subsidies. Many of these projects are 20 to 30 years old and can be preserved for another long period with recapitalization and rehabilitation, but lenders and investors would be wary of participating as the government's ability to honor its contracts will be in doubt.

- Participation in non-housing federal programs, dependant on ongoing federal subsidies, would be compromised if participants felt the United States defaulted on its Section 8 contracts.