

Project-Based Rental Assistance

By Ellen Lurie Hoffman, Federal Policy Director, National Housing Trust

Administering Agency: HUD's Office of Multifamily Housing Programs and Office of Recapitalization

Years Started: 1961 – Section 221(d)(3) Below Market Interest Rate (BMIR); 1963 – USDA Section 515; 1965 – Section 101 Rent Supplement; 1968 – Section 236; 1974 – Project-Based Section 8, and Rental Assistance Payments Program; 1978 – Section 8 Moderate Rehabilitation Program.

Number of Persons/Households Served: Over 1.2 million

Population Targeted: Extremely low- to moderate-income households

Funding: 13.5 billion in FY21

See Also: For related information, refer to the *USDA Rural Rental Housing Programs, Tenant Protection Vouchers, and Project-Based Vouchers* sections of this guide.

Project-based housing is a category of federally assisted housing produced through a public-private partnership to build and maintain affordable rental housing for low-income households. HUD has provided private owners of multifamily housing either a long-term project-based rental assistance contract, a subsidized mortgage, or in some cases both, in order to make units affordable. Project-based assistance is fixed to a property.

This stock of affordable housing is in danger of being permanently lost as a result of owners opting out, physical deterioration of properties, and maturing mortgages ending use restrictions. When owners opt out of the HUD project-based assistance program, they may convert their properties to market-rate rental buildings or condominiums.

HISTORY AND PROGRAM SUMMARY

From 1965 to the mid-1980s, HUD played an essential role in creating affordable rental homes by providing financial incentives such as below-market interest rate loans, interest rate subsidies, and project-based Section 8 contracts. Currently, no additional units are being produced through these programs.

Initially, project-based assistance was provided through the Federal Housing Administration (FHA) in the form of a mortgage subsidy. Mortgage subsidies reduced the cost of developing rental housing, and in return, HUD required owners to agree to use restrictions that limit contract rents and limit occupancy to households meeting program income limits. These programs did not provide the direct rental assistance needed in order to be affordable to extremely low- or very low-income households.

The Section 221(d)(3) Below Market Interest Rate (BMIR) mortgage insurance program, created by the “National Housing Act of 1961,” enabled HUD to purchase below-market loans made by private lenders. In 1968, the Section 221(d)(3) BMIR program was replaced by the Section 236 program which combined FHA mortgage insurance on private loans with an interest rate subsidy to effectively lower the mortgage interest rate to 1%. Owners of Section 221(d)(3) BMIR and Section 236 properties were required to make units available to low- and moderate-income families at HUD-approved rents for the term of their 40-year mortgages. More than 600,000 units of affordable housing were built under those two programs. Some, but not all, subsidized mortgage properties also have project-based rental assistance from the Section 8 program.

In 1974, Section 236 was replaced by the Section 8 New Construction and Substantial Rehabilitation program, now known as the project-based Section 8 program. HUD entered into 20- to 40-year contracts with private owners

to serve low-income tenants. More than 800,000 units were developed from 1974 to 1983, when authorization for new construction was repealed.

There are three other smaller programs that still have units associated with them and those programs are sometimes referred to as “orphan” programs. In addition to mortgage subsidies, HUD provided rental assistance payments to owners for some tenants of Section 221(d)(3) BMIR, and Section 236 insured properties through several programs.

The Section 101 Rent Supplement Program (Rent Supp) was authorized by the “Housing and Urban Development Act of 1965.” Many of those properties received Loan Management Set-Aside (LMSA) Section 8 contracts due to rapidly rising operating costs in the mid-1970s. The last two Rent Supp contracts covering 140 units both converted to long-term project-based rental assistance contracts under the Rental Assistance Demonstration (RAD) in 2018.

Some Section 236 properties were provided additional rental assistance through the Rental Assistance Payments (RAP) program, authorized by the “Housing and Community Development Act of 1974.” RAP payments were made to owners on behalf of very low-income tenants unable to afford basic rent with 30% of their income. RAP reduces tenant payment for rent to 10% of gross income, 30% of adjusted income, or the designated portion of welfare assistance; whichever is greater. Most RAP contracts converted to Section 8 LMSA contracts, while the rest converted under RAD. There are no RAP contracts remaining, with the last having converted in late 2019. Another form of rental assistance is the Section 8 Moderate Rehabilitation (Mod Rehab) program, designed in 1978 to stimulate moderate levels of rehabilitation to preserve affordable housing. Mod Rehab provides project-based rental assistance for low- and very low-income residents, but unlike other project-based Section 8 programs, the agreement is between the owner and a local public housing agency (PHA). Like project-based Section 8, residents pay 30% of

adjusted income for rent, while rental assistance pays the balance. The program was repealed in 1991 and no new projects are authorized for development. There are approximately 15,283 Mod Rehab units and 11,002 Mod Rehab SRO units remaining.

The Office of Rural Development at the U.S. Department of Agriculture administers two rental housing programs, Section 515 (the Rural Rental Housing Program) and Section 521 (the Rural Rental Assistance Program). The Section 515 program provided subsidized mortgage loans that developed more than 550,000 rental units for very low- to moderate-income households. Started in 1963, budget cuts reduced production dramatically after 1979. The stock of Section 515 units has been dwindling due to mortgage prepayment and deteriorating physical conditions. The Section 521 program is a project-based subsidy available for Section 515 projects (as well as Section 514/516 farm worker projects) that subsidizes the difference between the contract rent and a tenant rent payment of 30% of income.

ISSUE SUMMARY

Today, more than 1.2 million households live in homes with project-based rental assistance. Sixty-five percent of these households are headed by someone who is disabled or elderly and the average household income is \$13,000. Another 165,000 households live in homes with one of the other forms of project-based assistance, but without rental assistance.

For project-based Section 8 rental assistance, HUD enters into Housing Assistance Payment (HAP) contracts with owners. These contracts can be renewed in one-, five-, or 20-year increments. However, funding for the contracts is provided 12 months at a time. Tenants pay 30% of their monthly adjusted income for rent and utilities, and HUD pays the owner the difference between the contract rent and the tenant’s portion. The average monthly subsidy per unit in 2020 was \$875. New residents in project-based Section 8 units can have incomes of no more than 80% of

the area median income (AMI), with 40% of new admissions required to have incomes below 30% of AMI.

New residents of Section 221(d)(3) BMIR properties can have incomes up to 95% of AMI, although those in Section 236 properties can have incomes up to 80% of AMI, though the median annual household income for residents of these properties is between \$11,000 and \$12,000. Since no new units are being constructed, the challenge today is ensuring that federally assisted affordable housing is not permanently lost, either through physical deterioration, or as a result of properties being converted to non-affordable uses, such as high-rent units or condominiums, when a HUD-subsidized mortgage is either prepaid or matures or when an owner decides not to renew an expiring project-based Section 8 contract.

There are several specific conversion risks for rental housing with project-based assistance:

Mortgage Prepayment

Although Section 236 and Section 221(d)(3) BMIR mortgages originally had 40-year terms, program regulations allowed most for-profit owners to prepay their mortgages after 20 years. By prepaying, in most cases owners may terminate income and rent restrictions and any Section 8 rent subsidy. Owners must give tenants at least 150 days' advance notice of an intention to prepay. Upon prepayment, tenants are eligible for Tenant Protection Vouchers (TPVs), or in some cases an enhanced voucher, that allows a tenant to either remain in the property or find new affordable rental housing with the voucher assistance.

Maturing Mortgages

Tens of thousands of low-income families face escalating rents if affordability protections are not extended for properties with maturing Section 236 and Section 221(d)(3) BMIR mortgages. Residents living in apartments with affordability protections but without project-based Section 8 contracts do not currently qualify for enhanced vouchers or other rental assistance when the HUD-subsidized mortgage expires. The National

Housing Preservation Database identifies more than 9,696 unassisted units in 49 properties in 16 states at risk of mortgage maturity or the expiration of use restrictions or assistance between FY21 and FY26 (tenants remain eligible despite the expiration of restrictions prior to FY15, subject to owner application).

Expiring Project-Based Section 8 Assistance Contracts

When project-based Section 8 contracts expire, owners may choose to opt out of their contracts, enabling them to increase rents to market levels or to convert units to market-rate condominiums, thereby rendering apartments unaffordable to lower-income tenants. Owners must give tenants one-year advance notice of intent to opt out. Most tenants will receive enhanced vouchers to enable them to remain in their homes. According to the Joint Center for Housing Studies at Harvard University, of the approximately 1.2 million active Project-Based Rental Assistance (PBRA) units, more than 266,000 units (22%) are at risk of losing their affordability status according to calculations from the National Housing Preservation Database.

Enhanced Vouchers

Special voucher assistance is provided to tenants who would otherwise be displaced due to rising rents or condo conversion if an owner prepays a Section 221(d)(3) BMIR or Section 236 mortgage, or if an owner opts out of a project-based Section 8 contract. HUD is required by statute to provide enhanced tenant-based vouchers to tenants in such properties to enable them to afford to remain in their homes. Enhanced vouchers pay the difference between 30% of the tenant's income and the new rent, even if that rent is higher than the PHA's payment standard. Tenants have a right to remain in their apartments after conversion to market rents and owners must accept enhanced vouchers. If a tenant with an enhanced voucher moves to another property, the enhanced voucher converts to a regular voucher and the unit they occupied is unfortunately no longer affordable to any lower-income household.

Mark-to-Market and Mark-Up-to-Market

Some FHA-insured properties with expiring project-based Section 8 contracts have rents that exceed market rents. Upon contract renewal, HUD is required to reduce rents to market level, creating a cash crunch for those properties and potentially putting their FHA-insured mortgages at risk of default. To address this problem, Congress enacted the Mark-to-Market Program in 1997. Owners of eligible properties must either go through the Mark-to-Market Program or opt out. In the Mark-to-Market Program, an owner has two options:

- Choose to have the mortgage restructured to be able to afford to operate and maintain the property with lower market rents. In exchange for this mortgage restructuring, an owner agrees to accept Section 8 rent subsidies for an additional 30 years.
- Choose to renew the Section 8 contract for one year with Section 8 rents reduced to market without undergoing a mortgage restructuring.

HUD is also able to raise contract rents to market levels upon contract renewal for properties in high-cost areas through the Mark-Up-to-Market Program. Contract renewals of at least five years are required in Mark-Up-to-Market, which provides a needed incentive for owners to renew their participation in the Section 8 program when private-sector rents are high. These contract renewals also provide a source of revenue for capital improvements.

Troubled Properties

HUD multifamily properties may be at risk when a property is in poor financial or physical condition. An owner in default on a HUD-assisted mortgage could result in termination of the Section 8 subsidy through HUD's foreclosure and property disposition process. Since 2005, however, Congress has used appropriations acts to renew the so-called Schumer Amendment. The provision requires HUD to maintain a project-based Section 8 contract at foreclosure or disposition sale as long as the property is in viable condition. If not viable, HUD can, after

consulting tenants, transfer the Section 8 subsidy to another property.

Another risk is that HUD may terminate a Section 8 contract mid-term or refuse to renew the Section 8 contract if there is a serious violation of the terms of the Section 8 Housing Assistance Payment contract. Appropriations act provisions since FY06 have allowed HUD to transfer project-based assistance, debt, and use restrictions from properties that are physically obsolete or not financially viable to another project. Residents must be notified and consulted.

Provisions of the "Consolidated Appropriations Act of 2020"

The "FY20 Consolidated Appropriations Act" had five key provisions affecting project-based programs:

1. A \$5 million set-aside was allocated within the public housing TPV account to provide TPVs or enhanced vouchers to at-risk tenants living in buildings with expiring HUD-insured mortgages (e.g., Rent Supp) or expiring RAP contracts that do not qualify tenants for enhanced vouchers. Tenants would have to be in jeopardy of paying more than 30% of income for rent in properties located in low-vacancy areas. These vouchers could also be project-based.
2. The Schumer Amendment was renewed for FY19, generally requiring HUD to preserve project-based contracts on troubled properties before or during the foreclosure process, canceling HUD's prior policy of automatically terminating contracts. This provision also required HUD to notify tenants and obtain their consent before HUD abates a contract and relocates tenants for major health and safety threats.
3. Section 8 transfer authority is renewed, allowing HUD to transfer a Section 8 contract, debt, and use restrictions from a financially troubled or physically obsolete building to another building or buildings. This provision allows transfers to be completed in phases and permits the number of units in the receiving property to be fewer than in the

original if those units were unoccupied and the reconfiguration is justified by current market conditions. HUD is required to conduct an evaluation of this transfer authority, including the effect of such transfers on the operational efficiency, contract rents, physical and financial conditions, and long-term preservation of the affected properties.

4. The act reauthorized a requirement that property owners receiving housing assistance payments must comply with Uniform Physical Condition Standards and state and local standards regarding the physical condition of a property. The act reiterated the regulatory and contractual obligation that owners receiving housing assistance payments must maintain decent, safe, and sanitary conditions. HUD is directed to provide quarterly reports to the House and Senate Appropriations Committees on PBRA properties that receive deficient or unsatisfactory scores and include HUD's plans to remedy the deficiencies.

The "FY20 Consolidated Appropriations Act" provided \$13.465 billion for PBRA contract renewals.

HUD PRESERVATION ACTION

In 2020, HUD encouraged the preservation of the existing multifamily housing stock through several regulatory actions. First, HUD revised its National Standards for the Physical Inspection of Real Estate (NSPIRE) inspection standards for HUD-assisted housing and accepted public comments on them. NSPIRE is intended to improve resident health and safety in public and assisted housing, while reducing regulatory burden. Before the COVID-19 pandemic, the demonstration was anticipated to include approximately 4,500 properties nationally and will evaluate all aspects of the Real Estate Assessment Center's physical inspection processes.

In addition, HUD published a proposed rule revising the Mark-to-Market program regulations to clarify that all annual rent adjustments for

projects subject to a restructuring plan must be done by application of an operating cost adjustment factor (OCAF) established by the Department. The previous regulations contained a provision authorizing HUD to approve a request for a budget-based rent adjustment in lieu of an OCAF. This provision was both contrary to the governing statutory framework and inconsistent with Mark-to-Market renewal contracts, which allow only OCAF rent adjustments. The proposed rule would conform the regulations to the governing statutory provision, the terms of Mark-to-Market renewal contracts, and the programmatic practice of adjusting rents annually by OCAF.

HUD also released for public comment a notice entitled, "Guidelines for Certain HUD Approvals Regarding Properties Encumbered by HUD-Held Mark-to-Market Program Debt and Portfolio Reengineering Demonstration Program Debt." This notice provided new instructions for the acquisition and/or refinancing of projects after they have been through a Mark-to-Market Program debt restructuring or a Portfolio Reengineering Demonstration Program restructuring and are encumbered by HUD-held debt. The notice also proposed changes to the Mark-to-Market Operating Procedures guide.

TIPS FOR LOCAL SUCCESS

Subsidized multifamily rental housing can be at risk of leaving the affordable housing stock for any number of reasons, such as an owner's intent to prepay a subsidized mortgage or not renew a project-based rental subsidy contract, or uninhabitable living conditions prompting a HUD foreclosure. Preservation is when action is taken to ensure the federal housing subsidy and affordability restrictions remain in place, preserving long-term housing affordability. Preservation is usually combined with repairs to the property. Often the property is purchased by a new owner who is committed to the long-term affordability of the property and is then renovated and managed along with those values.

Preservation of affordable rental housing is usually undertaken by mission-driven

developers, often regional or national nonprofits. The most successful local efforts include early identification of properties at risk of conversion, as well as active partnerships with tenants, local HUD officials, state and local housing officials, and lenders and investors with a shared commitment to preserving affordable rental housing.

Preservation inventories are lists of specific affordable multifamily rental properties in a jurisdiction that can be used to identify and prevent the loss of at-risk properties. These inventories typically focus on dedicated subsidized properties, including those with project-based rental assistance, although affordable unsubsidized units may be covered as well. Preservation inventories may include information on each property's location, age, number of units (affordable and market rate), physical condition, and the year when rent restrictions expire, among other data points. Through proactive monitoring of this information, local jurisdictions can act in a timely manner to try to preserve at-risk properties as part of the affordable stock, allowing time to assemble financing or an incentive package to facilitate the transfer of the property to a mission-oriented owner or encourage the current owner to maintain affordability. Local Housing Solutions provides [resources and examples](https://www.localhousingsolutions.org/act/housing-policy-library/preservation-inventories-overview/preservation-inventories/) for local governments which wish to create a preservation inventory here: <https://www.localhousingsolutions.org/act/housing-policy-library/preservation-inventories-overview/preservation-inventories/>.

NLIHC and the Public and Affordable Housing Research Corporation created the National Housing Preservation Database, a tool for preserving the nation's affordable rental housing. It provides integrated information on all housing subsidies for each federally subsidized project. It also enables advocates and researchers to easily quantify the supply of federally assisted affordable housing in any geographic area, while at the same time establishing a baseline of subsidized affordable units against which future levels can be measured. The database is available at: <http://www.preservationdatabase.org>.

WHAT TO SAY TO LEGISLATORS

Advocates should urge legislators to provide sufficient funding to renew all project-based rental assistance contracts for the next fiscal year. If Congress moves forward with another long-term CR, explain that an anomaly will be needed to fully fund all project-based rental assistance contracts for the entire year, given necessary adjustments to rental contracts.

Members of Congress also should be asked to support preservation features of the RAD program and improvements to the project-based voucher program to allow housing authorities, developers, and owners to preserve the existing housing stock. In addition, advocates should urge reintroduction of broad legislation to preserve assisted housing that would:

- Provide grants and loans to for-profit and nonprofit housing sponsors to help ensure that properties can be recapitalized and kept affordable.
- Allow owners to request project-based assistance in lieu of enhanced vouchers.
- Protect the rights of states to enact preservation and tenant protection laws that will not be preempted by federal law.
- Ensure that data needed to preserve housing are publicly available and regularly updated and allow for the creation of a single database for all federally assisted properties based on a unique identifier for each property.
- Authorize rural housing preservation programs for Rural Development Section 515 properties.

FOR MORE INFORMATION

National Low Income Housing Coalition, 202-662-1530, www.nlihc.org.

National Housing Trust, 202-333-8931, www.nhtinc.org.

National Housing Law Project, 415-546-7000, www.nhlp.org.

National Alliance of HUD Tenants, 617-267-9564, www.saveourhomes.org.