Section 202: Housing for the Elderly

The Section 202 Housing for the Elderly Program provides funding to nonprofit organizations to develop and operate housing for older adults with very low incomes.

Issue Summary

Expanding the supply of Section 202 homes is critical to meet the severe nationwide shortage of affordable senior housing. After no funding for new Section 202 homes for several years, revived congressional funding for new Section 202 homes remains drastically below historic annual funding levels. The waiting lists for Section 202 communities are often two to five or more years long. Nationally, more than 2.35 million very low-income older adult renter households have worst case housing needs. Between 2009 and 2019, worst case housing needs increased 69% among older adults, according to HUD's Worst Case Housing Needs: 2023 Report to Congress. Households with worst case housing needs are renters with incomes below 50% of area median income who spend more than half of their income on rent. Meanwhile, HUD released 2021 data in August 2023, showing "the number of elderly people with chronic patterns of homelessness increased by an alarming 73%" between 2019 and 2021. Nearly 10,000 more people aged 65 and older experienced sheltered homelessness in just two years.

Preserving the existing supply of Section 202 homes must remain at the forefront of housing advocacy efforts. Annual appropriations must ensure full funding to meet ever rising renewal needs of Section 202 rental assistance, which is provided by the Project Rental Assistance Contract (PRAC) and Section 8 Project-Based Rental Assistance (PBRA) programs. Smart preservation includes full funding reflecting realistic operating subsidies, including for rising insurance and staff costs, for owners to operate high-quality housing connected to services and supports to help residents age in community. Preservation also requires adequate funding and processes for RAD for 202/PRAC conversions to be successful.

Only approximately 45% of HUD multifamily senior communities have a Service Coordinator. Research has found Service Coordinators lower hospital use, increase higher value health care use (e.g., primary care), have success reaching high-risk populations, and result fewer nursing home transfers. Every affordable senior housing community should have at least one Service Coordinator.

Homelessness among older adults is on a steep rise. Congress and HUD must improve data on homelessness among older adults as well as the resources and efforts to prevent and end all homelessness, including addressing the unique needs of older adults experiencing homelessness. Continuums of Care, Area Agencies on Aging, and housing partners, including Section 202 providers, must work closely with each other to identify and carry out solutions.

Housing accessibility barriers are higher for older households, for renter households, for low-income households, and for households of color than for other households. While single-floor living and zero-step entry are common in HUD multifamily housing, retrofitting existing buildings with age-friendly features will ensure aging older adults can continue to live in the community. Between now and 2038, the number of households age 80+ will double. HUD's Older Adult Home Modification Program, administered by the Office of Lead Hazard Control and Healthy Homes, is an important program that deserves broad expansion.

Resources to install building-wide internet in Section 202 communities are needed. The broadband funds in the "Infrastructure Investment and Jobs Act" could help bring internet installation, and service, to Section 202 communities but HUD must continue to intentionally pursue all avenues to wire all affordable communities.

HUD's Green and Resilient Retrofit Program, would greatly benefit Section 202 communities. Section 202 stakeholders hope to emphasize energy and water efficiencies throughout the senior housing portfolio to improve climate outcomes and better leverage HUD funding, and to increase equity in climate resilience while improving the federal approach to disaster preparedness and response.

History and Purpose

The Section 202 program was established under the "Housing Act of 1959." Enacted to allow older adults to age in community by funding affordable housing connected to supportive services, the program has gone through several programmatic iterations during its lifetime. Before 1974, Section 202 funds were 3% loans that may or may not have had either Section 8 Project-Based Rental Assistance or rent supplement assistance for all or some of the units. Between 1974 and 1990, Section 202 funds were provided as loans and subsidized by project-based Section 8 contracts. Until the creation of the Section 811 program in 1990, the Section 202 program funded housing for both seniors and people with disabilities. In 1991, the Section 202 program was converted to a capital advance grant with a Project Rental Assistance Contract for operational expenses, known as Section 202 PRAC. More than 400,000 Section 202 units have been built since the Housing Act of 1959. Around 75% of Section 202 residents are dually enrolled in Medicare and Medicaid. In one study, 88% of residents have two or more chronic or potentially disabling conditions, 60% have five or more, and 21% have 10 or more. With Service Coordinators and other staff connecting residents to voluntary health and wellness support, Section 202 residents access community-based services to live independently and age in community. A 2021 report from the Urban Institute, The Future of Headship and Homeownership, looks at the rise in older adult renter households with low incomes. Over the next 20 years, almost all future net household growth will be among older adult households. There will be a 16.1 million net increase in households formed between 2020 and 2040, and 13.8 million of these households will be headed by someone older than 65, reflecting the nation's aging population. Of the 13.8 million new older adult households, 40% (5.5 million) will be renter households. Of these, the Urban Institute projects, 1.3 million will be new Black older adult renter households. This will double the number of the nation's Black older adult renter households, from 1.3 million in 2020 to 2.6 million in 2040.

Program Summary

The Section 202 Housing for the Elderly program provides funds to nonprofit organizations, known as owners or sponsors, to develop and operate senior housing. Section 202 residents generally must be at least 62 years old and have incomes less than 50% of the area median income (AMI) qualifying them as very low-income. Many pre-1990 Section 202 communities have a percentage of units designed to be accessible to non-elderly persons with mobility impairments or may serve other targeted disabilities. In 2023, the average annual household income of a Section 202 household was $16,262. Today, 16% of Section 202 residents are 85+ and, 50% of Section 202 households are non-white, two characteristics that make Section 202 residents at greater risk of having chronic health conditions. In the Section 202 program, the Capital Advance covers some expenses related to housing construction and Project Rental Assistance Contract provides the ongoing operating assistance to bridge the gap between what residents can afford to pay for rent (about 30% of their adjusted household incomes) and what it costs to operate high quality housing. Both the capital and operating funding streams are allocated to nonprofits on a competitive basis, through a HUD Notice of Funding Opportunity (NOFO).

Capital Funding

The first component of the Section 202 program provides Capital Advance funds to nonprofits for the construction, rehabilitation, or acquisition of affordable housing for older adults with very low incomes. These funds are augmented by the HOME Program, national Housing Trust Fund, FHLB Affordable Housing Program, and/or Low Income Housing Tax Credit, and/or other sources to either build additional units or supplement the Capital Advance as gap financing in mixed finance transactions. Given the current and growing need for affordable senior housing, Congress must greatly expand its commitment to senior housing.

Operating Funding

The second component of the post-1990 Section 202 program provides rental assistance in the form of PRACs to subsidize the operating expenses of these developments. The operating subsidy can also pay up to $15 per unit per month for supportive services and for a Service Coordinator, if approved by HUD. Residents pay rent equal to 30% of their adjusted income, and the operating subsidy (PRAC) makes up the difference between this tenant rental income and operating expenses. Before 1990, most Section 202s received their operating subsidy from the Section 8 Project-Based Rental Assistance (PBRA) program. Since 1990, Section 202 operating subsidy is in the form of PRACs. In 2023, with support from stakeholders, HUD established a process to shift all Section 202 PRAC properties into contracts with 5-year terms, with annual rent adjustments possible, phased in over three years. Of the country's 6,957 Section 202 communities, 4,074 receive their operating subsidy from PBRA and 2,993 receive their operating subsidy from PRAC.

Service Coordinators

The third key component of Section 202 communities is a Service Coordinator. Almost half of Section 202 properties have a Service Coordinator funded as part of their Section 202 annual operating budgets ("budget-based Service Coordinators") or through HUD grants ("grant-funded Service Coordinators"). Service Coordinators assess residents' needs, identify and link residents to services, and monitor the delivery of services. In 2023, HUD issued guidelines to clarify how Section 202/PRAC communities can receive up to $15 per unit per month for supportive services. Section 202 PRACs that convert to the Section 8 platform under the Rental Assistance Demonstration are eligible for up to $27 per unit per month for an approved supportive services plan.

Forecast for 2025

Absent significant expansion of affordable housing, housing cost burdens and homelessness among older adults will continue to increase. In addition to affordable homes, many older adults need accessible homes, without which many older adults are "stuck in place" rather than "aging in place." In 2025, emphasis should be placed on using affordable housing as a platform to offer voluntary health and wellness services and supports for older adult residents. Potential cost savings from investments to address social determinants of health, including housing, would result in the Section 202 program's ability to help older adults with very low incomes avoid or delay much more costly nursing home care.

What to Say to Legislators

Advocates should encourage their members of Congress to expand access to affordable senior housing through new capital advances and operating assistance, including service coordination, for new Section 202 Supportive Housing for the Elderly homes nationwide; allow capital advances for new Section 202 properties to be paired with project-based Section 8 operating subsidy; provide funding for new Older Adult Special Purpose Vouchers; provide full funding for Section 8 Project Based Rental Assistance (PBRA) and Project Rental Assistance Contract (PRAC) renewals, including funding that reflects increased costs for insurance, staffing, utilities, service coordination, and internet connectivity; expand ongoing budget adjustment options for Section 202/PRAC properties, including by implementing market-driven adjustments options such as Operating Cost Adjustment Factors (OCAFs); and expand resources to install building-wide internet in HUD-assisted communities.