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Hearing before the Committee on Appropriations
Subcommittee on Transportation, HUD, and Related Agencies

United States House of Representatives



“Preservation of Affordable Housing and Section 8”

March 27, 2007

Chairman Olver, Ranking Member Knollenberg, Distinguished Members of the Subcommittee, I want to thank you for this opportunity to address some very important aspects of the project-based Section 8 program and the preservation of affordable housing.

It is broadly known that the preservation of existing affordable housing is an important national priority and the Office of Housing at HUD is actively engaged in that mission.

Project-based affordable housing represents more than 22,000 privately owned and subsidized housing projects throughout the country. These properties represent approximately 1.5 million units of family and senior housing.

Both for-profit and nonprofit owners have been actively engaged in providing this housing for decades. Residents are responsible for a portion of the rent that is to be no more than 30% of their gross income. HUD then provides subsidies to the owners for the remaining rent through a variety of subsidy programs. The largest of the subsidy programs is project-based Section 8, representing approximately 1.3 million household units nationally. In some cases, Section 8 was combined with other types of subsidies – Below Market Interest Rate mortgages, for example – to provide additional affordable housing units

Project-based affordable housing programs were created in the 1960s and 1970s to supplement the public housing program, as part of the policy change that relied on the use of existing and privately development housing instead of government sponsored construction as a source of increased affordable housing. Today many of the buildings that joined the project-based program in those years need significant rehabilitation to retain their suitability as an affordable housing resource.

The Department provides several programs to assist owners in their rehabilitation and preservation efforts.

Refinancing programs including the 236 Decoupling and 202 Elderly Refi programs can be combined with other resources, such as Low Income Housing Tax Credits and HOME funds, to provide resources to these properties. Combined, these programs are currently assisting in the preservation of over 300 projects per year.

Additionally, the Multifamily Assisted Housing Reform and Affordability Act (MAHRA) programs of Mark-to-Market (M2M) and Mark-up-to-Market (MU2M) are important preservation tools. Through these programs over 3,700 properties have been preserved, representing over 330,000 units of affordable housing.

The interaction between these preservation efforts and Section 8 subsidy programs is critical. While the Mark-to-Market program reduces rents to market levels thus reducing the Section 8 subsidy, other preservation efforts many times require rent increases to either match market rents (Mark-up-to-Market) or to provide sufficient rental income to support extensive rehabilitation.

At the same time, rapid escalations in property operating costs are resulting in additional upward pressure on subsidy rates. The costs of insurance and in some cases utilities are combining with

increases in property taxes or the loss of property tax abatements and are driving up the costs of operating affordable housing properties above the general increases in the cost of living.

Owners of these subsidized project-based affordable housing properties periodically must make a decision to stay in the project-based program or choose another direction for their project. The decision to take another direction is commonly called an "Opt-Out" of project-based Section 8 and usually comes when the Section 8 Housing Assistance Contract is up for renewal. Several studies completed in the last year looked at this opt-out decision. Looking at a five-year period (2001-2005) there were almost 15 thousand projects representing over 1 million units of housing that came to that renewal decision. Owners in 97 percent of those projects decided to stay in the program.

One of the studies went on to follow the post opt-out properties to determine the ongoing level of affordability. That study determined that 60% of the opt-out properties had post opt-out rents below the local Fair Market Rent and would be affordable to households with vouchers. An additional 31 percent of the properties had rents that were between 100 and 125 percent of the FMR, indicating they might still be affordable to voucher holders depending upon the payment standards chosen by the voucher program administrators.

The Department actively manages the quality of the housing provided and the financial strength and integrity of the properties. This oversight sometimes leads to the necessity to relocate the residents in a badly performing project and to terminate the subsidy to the project. During that same five-year period, an additional 300 properties (2% of total) with 16,000 housing units were terminated for these reasons. Again, many of these properties remained affordable as HUD requires foreclosure buyers to commit to continued affordability and a long-term use agreement.

No new project-based units have been subsidized since the mid 1990s. The \$5.8 billion budgeted for this program for FY 2008 represent amounts necessary to renew existing contracts, pay for contractor support and other administrative expenses. Basically, the Department is requesting sufficient funds to maintain the program at its current level.

Budgeting for the Section 8 program has become somewhat of a challenge because decades of annual renewals and the resulting need to change the contract data has resulted in an accumulation of errors creeping into the program systems. While we have been able to manually work thorough these issues, the Department has undertaken a full reconciliation of the Section 8 account consisting of 22,000 contracts that will match physical contracts/records to electronic systems and actual payments. This reconciliation started in FY2006 and many of the data collection steps have finished. The reconciliation should be completed in FY2007. The results of this study should significantly enhance the accuracy and speed of the project-based Section 8 budgeting process.

It's important to note that, at HUD, "Preservation" is not just one office or program, but a department-wide priority. HUD's preservation commitment spans a range of offices, programs, and efforts. Many initiatives, such as the Mark-to-Market and Mark-Up-to-Market programs, management reviews, REAC physical inspections, Healthy Homes, Enforcement Center actions

and Fair Housing actions, are all part of our efforts to ensure that affordable housing units are not only preserved, but also safe and well managed.

As most of you know, HUD's rental housing programs have been designed primarily to develop subsidized projects that have rent affordability requirements for a fixed term. The need for affordable rental housing, however, is not fixed. Thus, we continue to work with Congress to develop tools and incentives to maintain affordability when rental assistance contracts expire.

Thank you for your interest in the affordable housing mission. I will be glad to answer any question you may have.