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HOUSING AND COMMUNITY OPPORTUNITY SUBCOMMITTEE

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Chairman Ney, Ranking Member Waters, distinguished members of the Subcommittee on Housing and Community Opportunity, thank you for inviting the Department to testify on the GAO report entitled <u>Multifamily Housing: More Accessible HUD Data Could Help Efforts to Preserve Housing for Low-Income Tenants (GAO-4-20)</u>.

This Administration and the Department are firmly committed to preserving affordable housing. Historically, the Department's rental housing programs have been designed primarily to develop subsidized projects that have rent affordability requirements for a fixed term. Therefore, the Department has focused on retaining these properties as affordable for at least the fixed term, and has worked with Congress to develop tools and incentives to maintain affordability in cases of rental assistance contract expirations. Although these tools and incentives do not specifically address mortgage maturity, some of these incentive programs such as the Mark to Market and the Section 236 Decoupling have extended the affordability restrictions beyond the maturity of the insured mortgage.

To date, the Department has been very pleased with the success of the role of these programs in assisting in the Department's efforts to preserve the affordable housing stock. Under this Administration, we have over 1,000 projects with over 86,000 units processed under the Mark to Market Program, over 350 projects with approximately 32,000 units processed under the Section 236 Decoupling Program and approximately 800 projects with some 80,500 units processed under the Mark Up to Market Program. In these three programs combined, the Department has preserved the affordability of over 2,000 projects with about 200,000 units.

The Section 202 Prepayment Program also allows owners to prepay their HUD loans and obtain other financing, but keep the affordability use restriction until the maturity of the original loan. The refinancing of these loans allows additional funds to be made available to modernize and rehabilitate these projects to ensure their long-term affordability even beyond the prepayment of the loan. Due to the increasing number of sponsors desiring FHA insurance to refinance these aging projects, the Department has been reviewing its procedures to provide more flexibility in underwriting an FHA-insured loan to replace the

Section 202 loan. In recognition of the great need to assist these affordable elderly housing projects and preserve this housing stock, the Department is preparing a notice to allow these loans to be underwritten at the existing Section 8 rent even if above market levels. This change should enable substantially more Section 202 projects to be refinanced through FHA and provide capital needed to make necessary repairs and improvements to improve long-term viability.

Although the incentives to extend affordability do not directly address the termination of the affordability requirements resulting from mortgage maturity, the Mark Up to Market, Mark to Market and Section 236 Decoupling Programs all provide incentives to owners to continue to provide affordable housing on a long-term basis and beyond the mortgage prepayment while improving the physical and financial viability of the properties. These incentives have substantially decreased the actual numbers of insured mortgages that would normally be maturing in the next 10 years. In the GAO Report, they reviewed properties with HUD mortgages that originated from 1959 through 1962 and found that only 8, or 11% of the properties had reached mortgage maturity. This data supports the Department's position that these incentives are preserving affordable units for an extended period of time beyond the original mortgage maturity date.

Currently, there is no statutory authority for the Department to offer residents special protections, such as enhanced vouchers, when a mortgage matures unless rental assistance is also provided. In some of the programs such as Section 221(d)(4) and Section 207 addressed by the GAO study, there is not and never was an interest rate subsidy. However, some residents receive rental assistance, and depending on the type of rental assistance a resident receives, a resident may be eligible to receive a voucher or continue with the project-based rental assistance notwithstanding the section of the Act even though the mortgage has matured.

As the GAO report states, there are a total of 236,650 units in 2,328 properties where the mortgages are scheduled to mature through 2013. Of this universe, 134,087 units (57%) receive project-based Section 8 assistance or other rental assistance. These residents will continue to benefit from affordable rents and be protected, regardless of when the mortgage matures, as long as there is a rental assistance contract. Under current rules, if the rental assistance contract expires or the owner elects not to renew the contract (opts out of the contract), eligible residents are provided vouchers. Historically, Congress has always provided appropriate renewal funds for these contracts.

The remaining 43% of the units in the GAO study (101,730) receive the benefit not from rental assistance but rather through the mortgage rate interest subsidy. [*] In properties financed under the Section 221(d)(3) BMIR and Section 236 programs, many residents do not receive rental housing assistance. The question has been raised as to whether the residents who do not receive rental assistance are able to afford the potential increased rents upon the mortgage maturing. It should be noted that residents of these projects typically have a higher income than those under the rental assistance programs. The Section 236 program has no income limitations, and properties financed under the Section 221(d)(3) BMIR program allow residents with incomes of up to 95 percent of area median income. These are in contrast to project-based Section 8 which limits residents' incomes to less than 80 percent of area median income. It is also important to note that unassisted residents of Section 221(d)(3) BMIR and Section 236 projects have average household income that is somewhat greater than that of residents who receive rental assistance. In a 1998 HUD study, residents in the Section 221(d)(3) BMIR without rental assistance had an average household income that was 83% greater than that for residents in a Section 221(d)(3) BMIR project with rental assistance. The average income of a household in a non-rental assisted unit was $22,000 as compared to an average income of $12,000 for a household in a rental-assisted unit. Households in Section 236 units without rental assistance had an average household income that was 30% greater than that for residents in Section 236 project with rental assistance. The average income of a household in a non-rental assisted-unit was $13,000 as compared to an average income of $10,000 for a household in a rental-assisted unit. Based on these statistics, these residents potentially

[*] The residents of only 833 units (less than 1%) receive no rental assistance or benefit of a mortgage interest rate subsidy since they reside in market rate properties insured under sections 221(d)(3), (d)(4), or 231. This is the entry to balance with the GAO's total universe.

should have the ability to afford higher rents. And in the case of the Section 236 program, many of these residents may have been paying these higher rents throughout the mortgage term.

Actual history shows that many projects remain affordable after loan maturity. Data gathered in conjunction with the GAO report indicate that there were 32 properties where the HUD-insured mortgage had matured between January 1, 1993 and December 31, 2002. Of these 32 properties, sixteen are still serving low-income residents through rental assistance contracts and ten properties that have no rental assistance contracts were identified as affordable to residents with incomes below 50% of area median income. After mortgage maturity, over 80% of the properties (26 of 32) remain affordable to low- and moderate-income residents.

Therefore, because of incentives provided currently, such as vouchers and actual experience, it would appear that there are few projects at risk of losing the affordable housing units. For those projects where the mortgages do mature, the projects are remaining affordable despite the mortgage maturity.

The Department certainly concurs with GAO that it is helpful to notify our partners, both local and state governments, when HUD-insured properties have the potential to leave HUD programs. In accordance with GAO's recommendation in the Report, in the past thirty days, the Department has begun posting a listing of HUD-insured mortgages and Section 202 loans expiring in the next 10 years. The Department will continue to post information and applicable data regarding expiring rental assistance contracts on HUD's website.

The Department is also planning to solicit comments from our industry partners on the information and data that is being provided so that we are able to continue to improve the format and if necessary, modify the current means of conveying the data on these properties to make the data more widely available and accessible.

That concludes my testimony. I would happy to respond to questions that you may have at this time.