

May 24, 2010

The Honorable Barney Frank
Chairman
House Financial Services Committee
2129 House Rayburn Building
Washington, DC 20515

Dear Chairman Frank:

As the Financial Services Committee prepares to examine the proposed Preservation, Enhancement and Transformation of Rental Assistance Act of 2010 (PETRA), we are writing to inform the Committee that we have grave concerns about this legislation.

In February, our organizations informed HUD of our serious concerns with the transformation of rental assistance proposed in the Department's FY 2011 budget. As we noted in the attached letter to Secretary Donovan, the project-based Section 8 program is understood by the lending community, and it has functioned well in meeting the needs of low income families. We have been seriously concerned that discussions about merging project-based Section 8 into HUD's new hybrid rental assistance program will destabilize the known project-based Section 8 program in the financial markets. We have remained actively engaged with the Department as it sought stakeholder feedback on the transformation proposal. Unfortunately, the resulting PETRA legislation not only failed to address our initial concerns, but also prompted several new objections.

PETRA would authorize HUD to convert its rental assistance programs into three forms of rental assistance: Housing Choice Vouchers, a revised project-based voucher program, and a new hybrid property-based rental assistance program that includes a mobility option for tenants. Although the budget proposal focuses on public housing and orphan rental assistance programs, mod rehab, rent supplement and RAP, PETRA expands coverage to convert all Section 8 and "other affordable housing programs as identified by the Secretary by notice" to the new hybrid rental assistance. We believe the current project-based Section 8 program is generally working well. Our members believe there are no incentives for project-based Section 8 properties to convert to the new assistance, and no efficiencies to be achieved through the conversion. Furthermore, the bill proposes sweeping new authority for HUD to streamline policies and procedures across ***all of its rental assistance programs—not just within the new conversion programs***. We believe this authority will result in costly, new administrative burdens which will inappropriately alter the existing contacts non-converting owners have with HUD.

Public housing, mod-rehab, rent supp and RAP units are important resources which should be preserved as affordable housing. We strongly urge HUD to continue engaging the public housing community to develop workable recapitalization and preservation strategies. On the other hand, the RAP and Rent Supp units could be easily and efficiently preserved by allowing owners to convert the units to the current project-based Section 8 program. We welcome the opportunity to work with HUD and Congress to ensure these units are preserved; however, we do not support the approach proposed in PETRA.

Thank you for considering our comments on this matter.

Sincerely,

American Association of Homes and Services for the Aging
Council for Affordable and Rural Housing
Institute of Real Estate Management
Institute for Responsible Housing Preservation
National Affordable Housing Management Association
National Apartment Association
National Association of Home Builders
National Leased Housing Association
National Multi Housing Council

cc: The Honorable Spencer Bachus
The Honorable Maxine Waters
The Honorable Shelly Moore Capito
The Honorable Shaun Donovan

Attachment

February 24, 2010

The Honorable Shaun Donovan
Secretary
U.S. Department of Housing and Urban Development
Suite 10000
451 7th St., SW
Washington, DC 20410

Dear Secretary Donovan:

For too many years, the resources needed for quality affordable rental housing in this country have been lacking. The intentions outlined in HUD's FY2011 budget proposal to reassert Federal leadership on rental housing is welcomed by the undersigned national housing organizations. We understand the budget constraints facing this country, but too often it is the programs that serve the nation's most vulnerable citizens that are targeted when cuts need to be made. For the most part, HUD's budget proposal represents a sincere attempt to reverse that trend. However, we do have a number of concerns that we wish to share relating to the Department's "Transformation Rental Assistance" (TRA) initiative.

HUD's plan to streamline the myriad of Federal rental assistance programs into one type of rental assistance is well-intentioned, but we believe, ill-conceived. The current project-based rental assistance programs (PBRA) provide quality rental housing to over 1.3 million households. PBRA is understood and respected by the lending and investor communities resulting in the preservation and recapitalization of thousands of aging affordable rental units. It is inconceivable to us, particularly at a time when the financial market remains extraordinarily risk averse, that HUD would propose converting PBRA to an undefined hybrid of the project-based voucher program. The project based voucher program is intentionally small and limited in scope and such properties are often difficult to finance given the risks associated with that program.

The Department indicated in briefings on its TRA proposal that the initiative was designed to support the philosophy that "tenants should be able to vote with their feet." By making such statements, we believe HUD is creating the impression that the affordable housing stock is not in good condition and therefore tenants would want to flee. In fact, the HUD-assisted portfolio is in commendable physical condition; this is supported by the high REAC scores achieved by the majority of HUD-assisted properties. Further, any major proposal to change the existing PBRA program will affect the current comfort level of lenders and investors with the program, something we can ill afford in this current financing climate. As you know, lenders and investors can be wary of the appropriations risks related to rental assistance programs. Although subject to annual

appropriations, the PBRA program contracts are long-term, a fact that has been key to the ability of project owners to leverage this funding stream in support of recapitalization loans. The project-based voucher program's contracts, as well as the program's rent structures, are not equivalent, and the lending and investment community has not accepted them for underwriting purposes as they have PBRA contracts.

Our groups support the concept of providing Public Housing Authorities the option to voluntarily convert the current funding stream for their public housing into rental assistance, but HUD should look at the success of the PBRA model instead of the voucher model for the reasons noted above. The industry stands ready to work with HUD to refine proposals previously developed by the public housing community that will achieve the goal of preserving public housing.

We commend HUD for recognizing that the inventory of rent supplement and rental assistance programs (RAP) should be converted to Section 8. However, the preference would be to convert these programs to PBRA as proposed by the House Financial Services Committee in the draft preservation bill. As for the moderate rehabilitation program, the inventory is down to fewer than 30,000 from a one time high of 125 -140,000 units and yet, HUD policy is still thwarting their preservation. The renewed ability to use Low Income Housing Tax Credits with mod rehab has presented an opportunity to recapitalize the remaining inventory. HUD's refusal to renew these contracts for more than one year (subject to annual appropriations), while proposing conversion to project-based vouchers is wasting that opportunity.

We are unable to support the TRA initiative as outlined in the FY2011 budget proposal. We encourage HUD to focus on the very urgent needs of public housing, rather than create instability and uncertainty for the successful PBRA programs. We believe that HUD, in consultation with the public housing industry, will be able to develop a range of conversion options focused primarily on the preservation of existing public housing units. Our organizations are committed to working with the Department on this important endeavor.

Sincerely,

American Association of Homes and Services for the Aging (AAHSA)
Council for Affordable and Rural Housing (CARH)
Institute of Real Estate Management (IREM)
Institute for Responsible Housing Preservation (IRHP)
National Apartment Association (NAA)
National Association of Affordable Housing Lenders (NAAHL)
National Affordable Housing Management Association (NAHMA)
National Association of Homebuilders (NAHB)
National Association of Housing and Redevelopment Officials (NAHRO)
National Leased Housing Association (NLHA)
National Multi Housing Council (NMHC)