February 23, 2012

Tom Latham, Chair
House Appropriations Subcommittee on
Transportation, Housing and Urban Development,
and Related Agencies
Room 2358–A Rayburn House Office Building
Washington DC 20515

Patty Murray, Chair
Senate Appropriations Subcommittee on
Transportation, Housing and Urban Development,
and Related Agencies
448 Russell Senate Office Building
Washington DC 20510

John Olver, Ranking Member
House Appropriations Subcommittee on
Transportation, Housing and Urban Development,
and Related Agencies
1111 Longworth House Office Building
Washington DC 20515

Susan Collins, Ranking Member
Senate Appropriations Subcommittee on
Transportation, Housing and Urban Development,
and Related Agencies
413 Dirksen Senate Office Building
Washington DC 20510

Dear Congressmen Latham and Olver and Senators Murray and Collins:

We are writing jointly as non-profit and for-profit entities deeply concerned about maintaining decent, safe, affordable housing opportunities for some of America's most vulnerable households. Our members and local partners own or help finance hundreds of thousands of affordable rental homes receiving HUD rental assistance, occupied primarily by elderly, disabled, and low income households. We thank you for your critical support to the Section 8 program and the low-income individuals and families it assists.

HUD's Project Based Rental Assistance (PBRA) program provides rental assistance funding to multifamily rental housing owners to help them provide affordable housing to low and moderate income residents, which is sometimes the only source of affordable housing in a community. The Administration's proposed FY13 budget for the PBRA program is funded $1.5 billion below the FY 12 baseline funding level. The bulk of this shortfall would be met by "short funding" 10,600 contracts (including 739,000 Section 8 apartments) in FY 13 and deferring $1.1 billion in contract expenses to the FY 14 budget. The remainder of the gap would be met with questionable proposals to spend down property reserves, restate existing market rent standards, raise minimum rents for the poorest households, raise the threshold for medical deductions, and cap rents for properties with higher costs. We believe this is the wrong approach to ensuring the long-term viability of this badly needed housing and falls short of HUD's promise to fully fund, on a 12 month basis, contracts with private owners across the U.S.

Short funding PBRA contracts does not reduce federal expenditures. The proposed $1.1 billion "reduction" shifts costs to future budgets without actually achieving any savings. But in so doing, it increases administrative cost and complexity and raises real concerns for many properties and current residents. Avoided costs are simply deferred to FY 14, when Congress would be faced with a full 12 months of expenditures plus inflation and the need to address any possible administrative shortfalls.

Short funding increases complexity and creates opportunity for administrative error. The plan would require HUD to process funding for all affected contracts at least twice annually: once at the historical contract anniversary and once at the beginning of the fiscal year. The new processing at the beginning of the fiscal year would need to happen for all contracts simultaneously, and would have to be repeated each time HUD was funded by a Continuing Resolution in lieu of full-year appropriations. HUD's most recent experience with a similar PBRA cost-deferral attempt, in 2007, resulted in expenditure forecasting errors, a contract funding shortfall, late payments to owners, significant risk of opt-outs and defaults on FHAinsured mortgages, and ultimately the need for a $2 billion appropriation to restore full funding. No such funding infusion is likely to be available to reverse the short funding proposal in the President's budget request.

Short funding increases risks and costs for owners, lenders, and investors. For existing properties it creates a material change in the conditions for existing debt and investment, resulting in closer scrutiny of ongoing property operations. And for any prospective new acquisition and rehabilitation projects, owners will be required to increase debt coverage, provide additional reserves, and find additional sources of capital to satisfy potential lenders and investors. These all increase costs for owners and will reduce the number of affordable homes that can be preserved, the level of rehabilitation that can be achieved, the jobs created, and the projected useful life of repairs and improvements. All of this could have negative consequences for the 739,000 affordable rental units potentially affected by short funding of contracts.

According to HUD's own Congressional Justification for the PBRA program, "PBRA contracts act as a critical credit enhancement for project financing, allowing owners to leverage private debt and equity to permit project refinancing and recapitalization. … The periodic refinancing of this debt generates significant capital available for investment in construction repairs and improvements. If funding for the PBRA program is not provided, the value of this underlying debt to both FHA and private lenders as well as existing equity in the physical structures would be severely eroded, contributing to significant loss of privately held wealth and community investment."

The proposal to short fund PBRA contracts creates real risks for residents and owners, would discourage new investment in affordable rental housing, and would result in reduced rehabilitation and job creation in the portion of the housing sector where there is the greatest unmet demand. We urge you to reject this proposal. As you move forward in the budget process, we urge you to continue to protect HUD funding by advocating for the largest possible 302(b) allocation to the Transportation, Housing and Urban Development, and Related Agencies Subcommittees.

Thank you for your consideration of this request.

Sincerely,

Affordable Housing Tax Credit Coalition
Enterprise Community Investment
Enterprise Community Partners
Housing Partnership Network
Institute of Real Estate Management (IREM)
Institute for Responsible Housing Preservation (IRHP)
LeadingAge (formerly AAHSA)
Local Initiatives Support Corporation (LISC)
Low Income Investment Fund (LIIF)
National Affordable Housing Management Association (NAHMA)
National Apartment Association
National Association of Home Builders
National Association of State and Local Equity Funds (NASLEF)
National Council of State Housing Agencies (NCSHA)
National Equity Fund
National Housing Trust
National Leased Housing Association
National Multi Housing Council
Stewards of Affordable Housing for the Future (SAHF)