United States General Accounting Office

GAO

Report to the Committee on Financial Services, House of Representatives

January 2004

MULTIFAMILY HOUSING

More Accessible HUD Data Could Help Efforts to Preserve Housing for Low-Income Tenants

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GAO-04-20

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Highlights

Highlights of GAO-04-20, a report to the Committee on Financial Services, House of Representatives

January 2004

MULTIFAMILY HOUSING

More Accessible HUD Data Could Help Efforts to Preserve Housing for Low-Income Tenants

Why GAO Did This Study

The Department of Housing and Urban Development (HUD) has subsidized the development of over 23,000 properties by offering owners favorable long-term mortgage financing or rental assistance payments in exchange for owners' commitment to house low-income tenants. When owners pay off mortgages—the mortgages "mature"—the subsidized financing ends, raising the possibility of rent increases. GAO was asked to determine the number of HUD mortgages that are scheduled to mature in the next 10 years, the potential impact on tenants, and what HUD and others can do to keep these properties affordable.

What GAO Recommends

To help state and local housing agencies track properties with maturing mortgages, we recommend that the Secretary of HUD solicit the views of state and local housing agencies to determine what information on HUD-subsidized properties is needed and the most effective format to convey this information.

GAO provided a draft of this report to HUD for comment. HUD agreed with the report's conclusions and recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-04-20.

To view the full product, including the scope and methodology, click on the link above.

To view the survey results (GAO-04-211SP), click on the following link www.gao.gov/cgi-bin/getrpt?GAO-04-211SP. To place an order for a copy of the CD-ROM (GAO-04-210SP) with property-level data, click on the following link www.gao.gov/cgi-bin/ordtab.pl.

For more information, contact David G. Wood at (202) 512-8678 or WoodD@gao.gov.

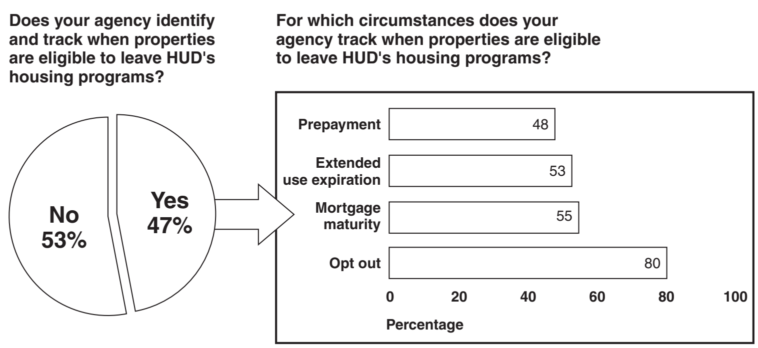
What GAO Found

Nationwide, the HUD mortgages on 2,328 properties—21 percent of the 11,267 subsidized properties with HUD mortgages—are scheduled to mature in the next 10 years, but among states this percentage varies significantly: from 7 percent in Alabama, to 53 percent in South Dakota. About three-quarters of these mortgages are scheduled to mature in the last 3 years of the 10-year period. A CD-ROM (GAO-04-210SP) that accompanies this report provides property-level data for subsidized properties with mortgages scheduled to mature.

Impacts on tenants depend on tenant protections available under program statutes and regulations, as well as on property owners' decisions about their properties. While about 134,000, or 57 percent, of the rental units in the 2,328 properties are protected by rental assistance contracts, tenants in over 101,000 units without rental assistance are at risk of paying higher rents after mortgage maturity because no requirement exists to protect tenants when HUD mortgages mature. Absent specific requirements, property owners' decisions on whether to continue serving low-income tenants after their HUD mortgages mature depend on many factors, including neighborhood incomes, property conditions, and owners' missions. Of the 32 properties with HUD mortgages that matured during the past 10 years, 16 have rental assistance contracts that continue to subsidize at least some units, and 10 of the remaining 16 that GAO was able to contact offer rents that are affordable to tenants with incomes below 50 percent of area median income.

HUD does not offer incentives to owners to keep properties affordable upon mortgage maturity. While many state and local agencies GAO surveyed offer incentives to preserve affordable housing, they have not directed them specifically at properties where HUD mortgages mature. Most of the agencies do not track HUD mortgage maturity dates for subsidized properties. In addition, although HUD's Web site contains detailed property-level data, some state and local agencies perceive that the information is not readily available.

State and Local Agencies' Efforts to Identify and Track Properties that May Leave HUD Programs



Source: GAO.

Contents

Abbreviations

BMIR	below-market interest rate
CDBG	Community Development Block Grant
COSCDA	Council of State Community Development Agencies
FHA	Federal Housing Administration
HUD	Department of Housing and Urban Development
NALHFA	National Association of Local Housing Finance Agencies
NCDA	National Community Development Association
NCSHA	National Council of State Housing Agencies
OMHAR	Office of Multifamily Housing and Restructuring
RAP	Rental Assistance Payment program
REAC	Real Estate Assessment Center
REMS	Real Estate Management System
TRACS	Tenant Rental Assistance Certification System

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United States General Accounting Office
Washington, D.C. 20548

January 23, 2004

The Honorable Michael G. Oxley
Chairman
The Honorable Barney Frank
Ranking Minority Member
Committee on Financial Services
House of Representatives

Since the 1950s, the Department of Housing and Urban Development (HUD) has subsidized about 1.7 million rental units in over 23,000 privately owned properties that are generally affordable to low-income tenants—those with incomes 80 percent or less of area median income. HUD supported the development of affordable housing by offering property owners favorable mortgage financing, long-term rental assistance contracts, or both in exchange for owners' commitment to house low-income tenants for at least 20 years and, in some cases, up to 40 years. However, many of these commitment periods will be completed in the next 10 years. Properties subsidized under these HUD programs represent a significant source of housing that is currently affordable to low-income households.

HUD programs that provide mortgage financing in subsidized properties to private developers are known by the section of the act that authorized them.[1] We consider a property subsidized if HUD provided favorable financing (below-market interest rate mortgages), rental assistance, or both. They include the following programs:

- *Section 202 Elderly and Disabled Housing Direct Loan*, which provided below-market interest rates on up to 40-year mortgages to developers of rental housing for low-income elderly and persons with disabilities from 1959 to 1991.[2] Congress changed Section 202 to a grant program in 1990;

[1]We refer to mortgages made under these programs simply as "HUD mortgages."

[2]The start year for the mortgage financing programs reflects the year of authorization and not necessarily the year when the programs became operational.

- *Section 221(d)(3) Below-Market Interest Rate (BMIR)*, which provided subsidized financing on private 40-year mortgages to developers of rental housing from 1961 to 1968;

- *Section 236*, which provided monthly subsidies to effectively reduce interest rates on private 40-year mortgages for rental housing from 1968 to 1973;

- *Sections 221(d)(3) and 221(d)(4)*, which insured private mortgages to developers of rental housing from 1961; and

- *Section 231*, which insured private mortgages to developers of rental housing for the elderly from 1959.

Frequently, properties that benefited from HUD mortgages were coupled with long-term rental assistance provided under various programs, such as project-based Section 8, Rent Supplement, and Rental Assistance Payment (RAP) programs. (The project-based Section 8 program also provides rental assistance to owners of properties that were not financed with HUD mortgages.) Rental subsidy was also provided through the Section 8 Moderate Rehabilitation program, which is administered by local housing authorities and tied to rehabilitated units. Rental assistance programs basically pay property owners a portion of the monthly rents for units occupied by assisted low-income tenants. Subsidized financing, rental assistance, or a combination of both allows property owners the opportunity to earn financial returns while limiting the rents paid by low-income tenants to a fixed percentage of their household incomes.

Both mortgages and rental assistance contracts are for set periods of time, and subject to specific program provisions, properties become eligible to leave HUD programs when mortgages mature or when HUD or owners elect not to renew expiring rental assistance contracts. HUD mortgages subsidized under Section 202, Section 221(d)(3) BMIR, and Section 236 restrict how much rent an owner can charge. These restrictions are generally effective until the mortgage is paid off. Mortgages financed under Section 221(d)(3), Section 221(d)(4), and Section 231 do not have similar requirements. In addition, certain properties are eligible to leave HUD programs by paying off the mortgage prior to the maturity date.

As agreed with your offices, this report provides information on (1) the numbers and selected characteristics of HUD-subsidized rental properties scheduled to reach mortgage maturity over the next 10 years; (2) the potential impact on tenants when mortgages reach maturity; and (3) the tools and incentives that HUD, the states, and localities offer owners to keep HUD properties affordable when mortgages mature. The 10 questions contained in your December 10, 2002, letter and summary answers are presented in appendix II.

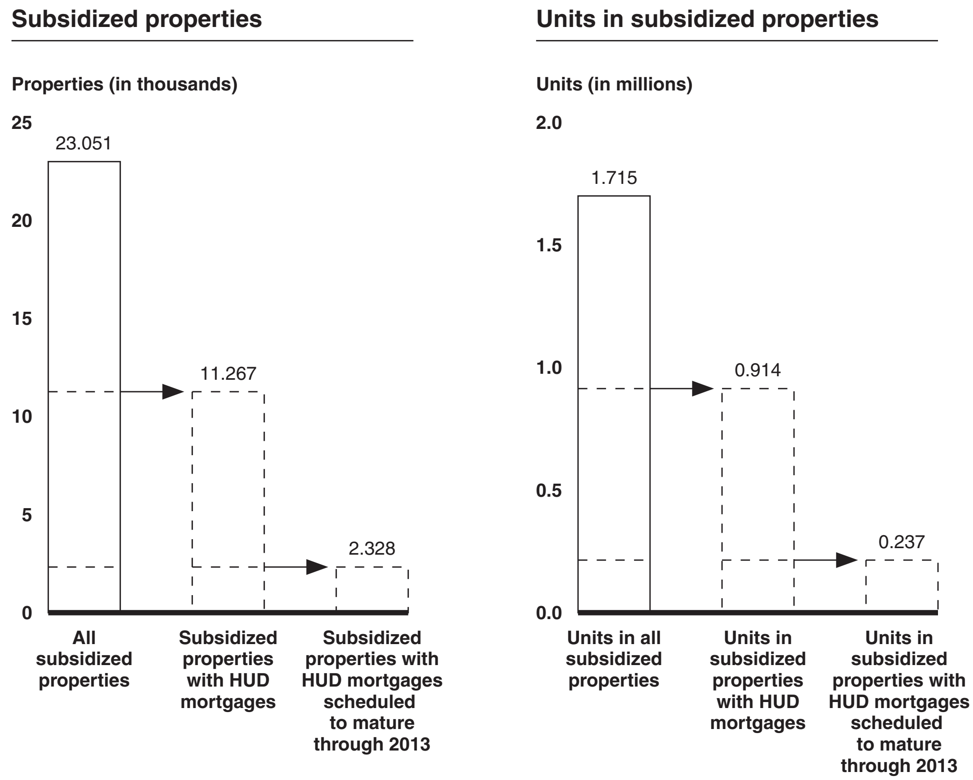
To address these objectives, we analyzed HUD databases, including the Real Estate Management System (as of April 2003), to identify the characteristics of those properties with mortgages that have already reached maturity as well as those scheduled to reach maturity by December 31, 2013.[3] We also interviewed HUD and housing industry officials and reviewed literature on the preservation of low-income housing. Because nationwide data on tools and incentives that can be used to preserve affordable housing do not exist, we used a Web-based questionnaire to survey 327 state and local housing and community development agencies to determine what tools and incentives they use to keep HUD-subsidized properties affordable to low-income tenants and which of the tools and incentives they believed to be effective. We received 226 usable responses, for a response rate of 69 percent. We reviewed statutes and regulations, interviewed HUD officials, and obtained relevant documents to identify tenants' protections when mortgages mature in subsidized properties. Additional details on our scope and methodology, including information on our survey design and participants, are discussed in appendix I. We performed our work from January through November 2003 in accordance with generally accepted government auditing standards.

Results in Brief

Nationwide, 21 percent (2,328) of the 11,267 subsidized properties with HUD mortgages are scheduled to reach mortgage maturity through 2013 (see fig.1), but among states this percentage varies significantly: from 7 percent in Alabama, to 53 percent in South Dakota. Nearly all of these 2,328 properties were financed under the Section 236, Section 221(d)(3) BMIR, and Section 221(d)(3) programs, and about three-quarters of these mortgages are scheduled to mature in the last 3 years of the 10-year period.

[3] To have 10 full years of data, our analysis covered the period from April 15, 2003, through December 31, 2013.

Figure 1: Universe of Subsidized Properties, 2003



Source: GAO analysis of HUD data.

Impacts on tenants depend in part on tenant protections available under program statutes and regulations, as well as on owners' decisions about their properties. No statutory requirement exists to protect tenants from increases in rent when HUD mortgages mature, absent the existence of rental assistance contracts or other subsidies. Without tenant protection requirements, tenants in over 101,000 units under the Section 202, Section 221(d)(3) BMIR, and Section 236 programs that do not receive rental assistance may have to pay higher rents or move to other housing when the HUD mortgages on these properties mature and rent restrictions are lifted. Further, owners are not required to notify tenants when a property's mortgage is about to mature. In contrast, owners are required to notify tenants by up to 1 year in advance of their intent to prepay mortgages or opt out of the rental assistance contracts. Property owners' decisions on whether they continue to serve low-income tenants after their HUD mortgages mature depend on many factors, such as neighborhood incomes, the condition of their properties, and owners' missions. During the past 10 years, HUD-insured mortgages at 32 properties reached mortgage maturity, and the majority of these properties are still serving low-income tenants.

HUD does not offer any tool or incentive to keep properties affordable after HUD mortgages mature, although it does offer incentives to keep properties affordable under certain other circumstances, such as the expiration of rental assistance contracts or prepayment of HUD mortgages. According to officials from the four national housing and community development organizations we contacted, because few HUD mortgages have matured to date, their member state and local agencies have not experienced the need to develop programs to deal with mortgage maturity specifically.[4] However, they noted that their member agencies could offer tools and incentives, such as loans and grants, to keep properties affordable after mortgage maturity. Yet, over 50 percent of the state and local agencies that responded to our survey reported that they have no system in place to identify and track properties that may leave HUD's programs, and about three-quarters of them did not track the maturity dates of HUD mortgages.[5]

This report contains recommendations to the Secretary of HUD intended to help state and local housing agencies gain access to useful information on HUD-subsidized properties, including mortgage maturity dates.

Background

Prior to the early 1970s, the federal government provided affordable multifamily housing to low- and moderate-income households by subsidizing the production of either privately owned housing or government-owned public housing. Under the production programs, the subsidy is tied to the unit (project-based), and tenants benefit from reduced rents while living in the subsidized unit. These programs include Section

[4]The organizations include the National Council of State Housing Agencies (NCSHA), which represents state housing finance agencies; the Council of State Community Development Agencies (COSCDA), which represents state housing and community development agencies; the National Community Development Association (NCDA), which represents local communities that administer federally supported programs such as Community Development Block Grant (CDBG) and HOME; and the National Association of Local Housing Finance Agencies (NALHFA), which represents local housing finance agencies.

[5]Additional details on the results of our survey are available on the Internet at www.gao.gov/cgi-bin/getrpt? GAO-04-211SP.

202, Section 221(d)(3) BMIR, and Section 236. A portion of the units in properties developed under these production programs received rental assistance under programs such as Rent Supplement, Rental Assistance Payments (RAP), and project-based Section 8 in order to reach lower-income tenants.[6]

In the early 1970s, questions were raised about the production programs' effectiveness: many moderate-income tenants benefited from federal assistance, while lower-income families did not; federal costs of producing housing exceeded the private-sector costs to produce the same services; and allegations of waste surfaced.[7] Interest in a more cost-effective approach led Congress to explore options for using existing housing to shelter low-income tenants. The Housing and Community Development Act of 1974, a major overhaul of housing laws, included both approaches—a project-based new construction and substantial rehabilitation program and a tenant-based rent certificate program for use in existing housing (currently named the Housing Choice Voucher program)—all referred to as Section 8 housing. Project-based and tenant-based Section 8 assistance is targeted to tenants with incomes no greater than 80 percent of area median income, and tenants generally pay rent equal to 30 percent of adjusted household income.

Beginning in the late 1980s, owners of some subsidized properties began to be eligible to leave HUD programs by prepaying their mortgages or opting out of their project-based Section 8 rental assistance contracts. Once these owners removed their properties from HUD programs, they were no longer obligated to maintain low rents or accept rental assistance payments. In response, in 1996, among other things, Congress created a special type of voucher, known as an enhanced voucher, to protect tenants from rent increases in these properties. Enhanced vouchers differ from regular tenant-based housing vouchers in two ways. Enhanced vouchers may provide a greater subsidy (that is, be used to rent more expensive units) and give tenants a right to remain in their unit after conversion to market rent, thus creating an obligation for the owner to accept the voucher. So long as the rent remains reasonable, the tenant's portion of the rent should

[6]HUD has converted most of the original Rent Supplement and RAP contracts to the project-based Section 8 program.

[7]For example, see U.S. Department of Housing and Urban Development, *Housing in the Seventies: A Report of the National Housing Policy Review* (Washington, D.C.: 1974).

not increase.[8] If the tenant elects to move, the voucher becomes a "regular" housing voucher and is subject to the program's standard rent limits.

Not all property owners repay mortgages as originally scheduled. For example, an owner may refinance the mortgage to pay for improvements to the property. Other owners may experience financial difficulties and default on their mortgages. From January 1993 through December 2002, for example, HUD data show that the agency terminated the insurance on 231 mortgages. About 14 percent were due to mortgages that matured; other reasons included owners' prepayment of the mortgage (37 percent) and foreclosure (22 percent).

Funds provided by other federal programs can be used by states and localities to subsidize housing for low-income tenants. The CDBG program, authorized by the Housing and Community Development Act of 1974, distributes grants to local and state governments for community development activities. Rehabilitation and other housing activities now consistently represent the largest single use of CDBG funds. Other funds for housing production have been made available through the HOME program, authorized by the Cranston-Gonzalez National Affordable Housing Act of 1990, which awards block grants to state and local governments primarily for the development of affordable housing. Under the Low-Income Housing Tax Credit Program, authorized by the Tax Reform Act of 1986, state housing finance agencies provide tax incentives to private investors to develop housing affordable to low-income tenants.

In addition to using their HOME and CDBG allocations as well as tax credits, some states and localities have established housing trust funds and other financial mechanisms, which have helped organizations acquire subsidized properties that may leave HUD's programs. Further, the states and localities may use other tools and incentives, such as offering property tax relief, to encourage owners to keep serving low-income tenants.

[8]There are instances where tenants could encounter problems with the issuance and use of enhanced vouchers. These include (1) tenants having to pay a higher security deposit, (2) tenants undergoing a rescreening for voucher eligibility under new selection criteria—thereby disqualifying some tenants who previously received project-based subsidies, and (3) owners electing not to rent the unit.

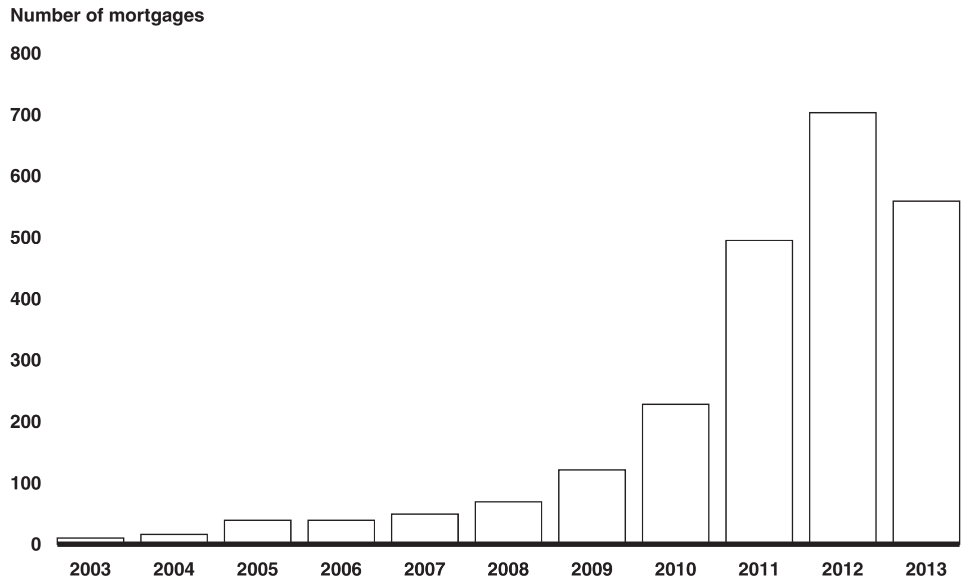
About One-Fifth of HUD's Mortgages Are Scheduled to Mature through 2013

Nationwide, 21 percent (2,328) of the 11,267 subsidized properties with HUD mortgages are scheduled to mature through 2013. The percentage varies significantly by state: from 7 percent in Alabama, to 53 percent in South Dakota. Nearly all of these 2,328 properties were financed under the Section 236, Section 221(d)(3) BMIR, and Section 221(d)(3) programs, and about three-quarters of these mortgages are scheduled to mature in the last 3 years of the 10-year period. The remaining 79 percent of HUD's outstanding mortgages in subsidized properties are scheduled to mature after 2013.

Scheduled Mortgage Maturities through 2013 Vary by Year and Program

Of the 11,267 subsidized properties (containing 914,441 units) with HUD mortgages, 21 percent (2,328 properties) have mortgages that are scheduled to mature through 2013. The remaining 79 percent of these mortgages are scheduled to reach maturity outside of the 10-year period. Additionally, the bulk of these mortgages (about 75 percent) are scheduled to mature in the latter 3 years of the 10-year period (see fig. 2). This concentration in the latter part of the 10-year period is attributable to the 40-year Section 221(d)(3) BMIR and Section 236 mortgages that HUD helped finance in the late 1960s and 1970s, respectively.

Figure 2: HUD Mortgages Scheduled to Mature Annually through 2013



Source: GAO analysis of HUD data.

As table 1 shows, about 57 percent of the properties with mortgages scheduled to mature in the 10-year period were financed under Section 236, 22 percent under Section 221(d)(3) BMIR, and 19 percent under Section 221(d)(3). Section 202, Section 221(d)(4), and Section 231 accounted for only 3 percent of these properties.

Table 1: Subsidized Properties with HUD Mortgages by Program Scheduled to Mature through 2013

Financing program	Number of properties	Percentage of properties	Total units	Units assisted with project-based Section 8[a]
HUD subsidized mortgage				
Section 236	1,333	57%	139,769	78,139
Insured	1,333	57%	139,769	78,139
Noninsured[b]	0	0%	0	0
Section 221(d)(3) BMIR	502	22%	56,573	18,810
Section 202	41	2%	3,208	871

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Financing program	Number of properties	Percentage of properties	Total units	Units assisted with project-based Section 8[a]
HUD unsubsidized mortgage				
Section 221(d)(3)	431	19%	35,263	34,711
Section 221(d)(4)	14	[c]	1,239	1,146
Section 231	7	[c]	598	410
Noninsured rent supplement	[d]	[d]	[d]	[d]
Total	**2,328**	**100%**	**236,650**	**134,087**

Source: GAO analysis of HUD data.

[a]Also included are units that receive RAP or Rent Supplement. Project-based Section 8, however, is the dominant form of rental assistance across all financing programs. The Section 8 Moderate Rehabilitation program is not included in this table because HUD's multifamily database does not track this program.

[b]No mortgage was scheduled to mature in this period.

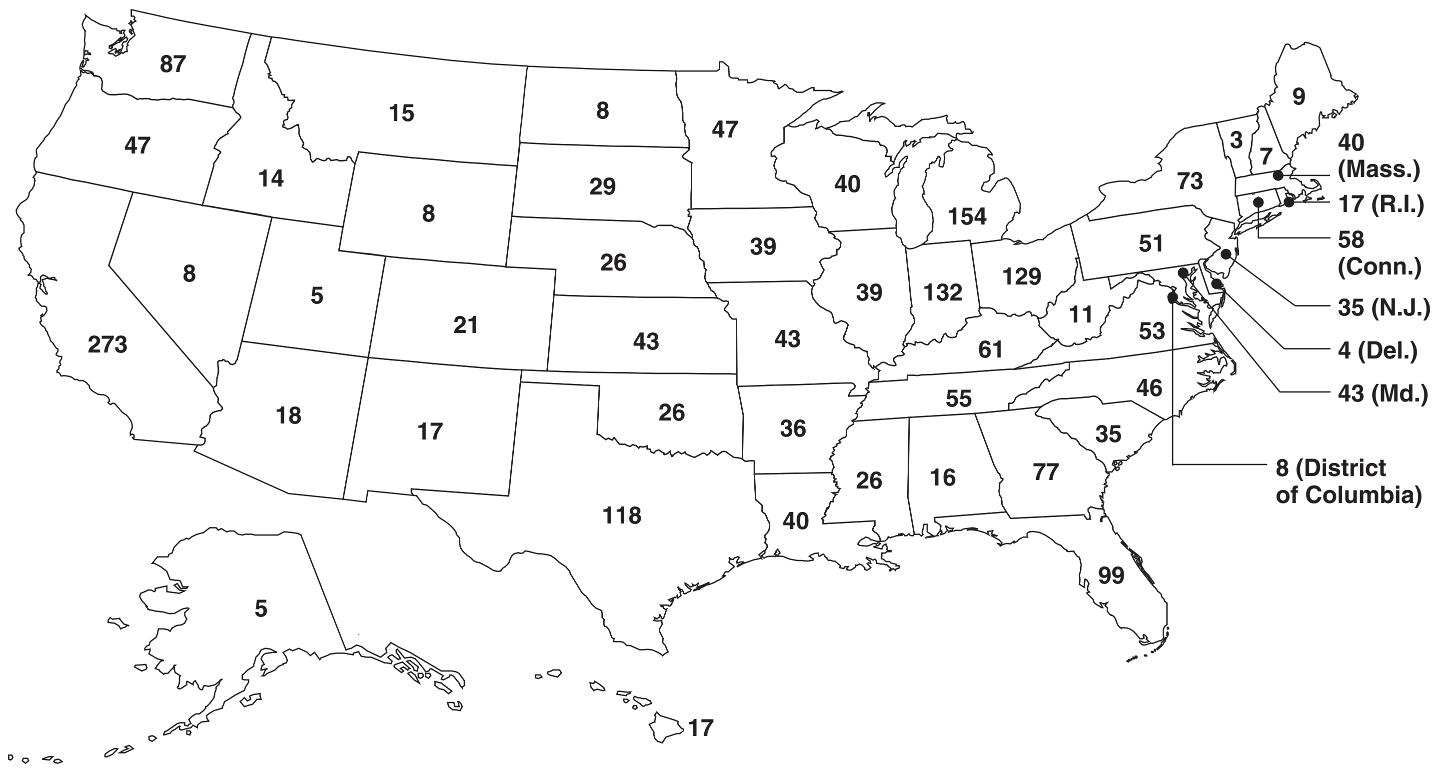
[c]Less than 1 percent.

[d]Since properties with noninsured rent supplement do not carry a HUD mortgage, HUD does not track mortgage-level data on these properties.

Number of Mortgages Scheduled to Mature through 2013 Also Varies by State

The number of mortgages scheduled to mature through 2013 varies greatly by state (see fig. 3). Although the average is 46 per state (including the District of Columbia), the number ranges from a high of 273 maturing mortgages in California, to 3 in Vermont.

Figure 3: Subsidized Properties with HUD Mortgages Scheduled to Mature through 2013, by State

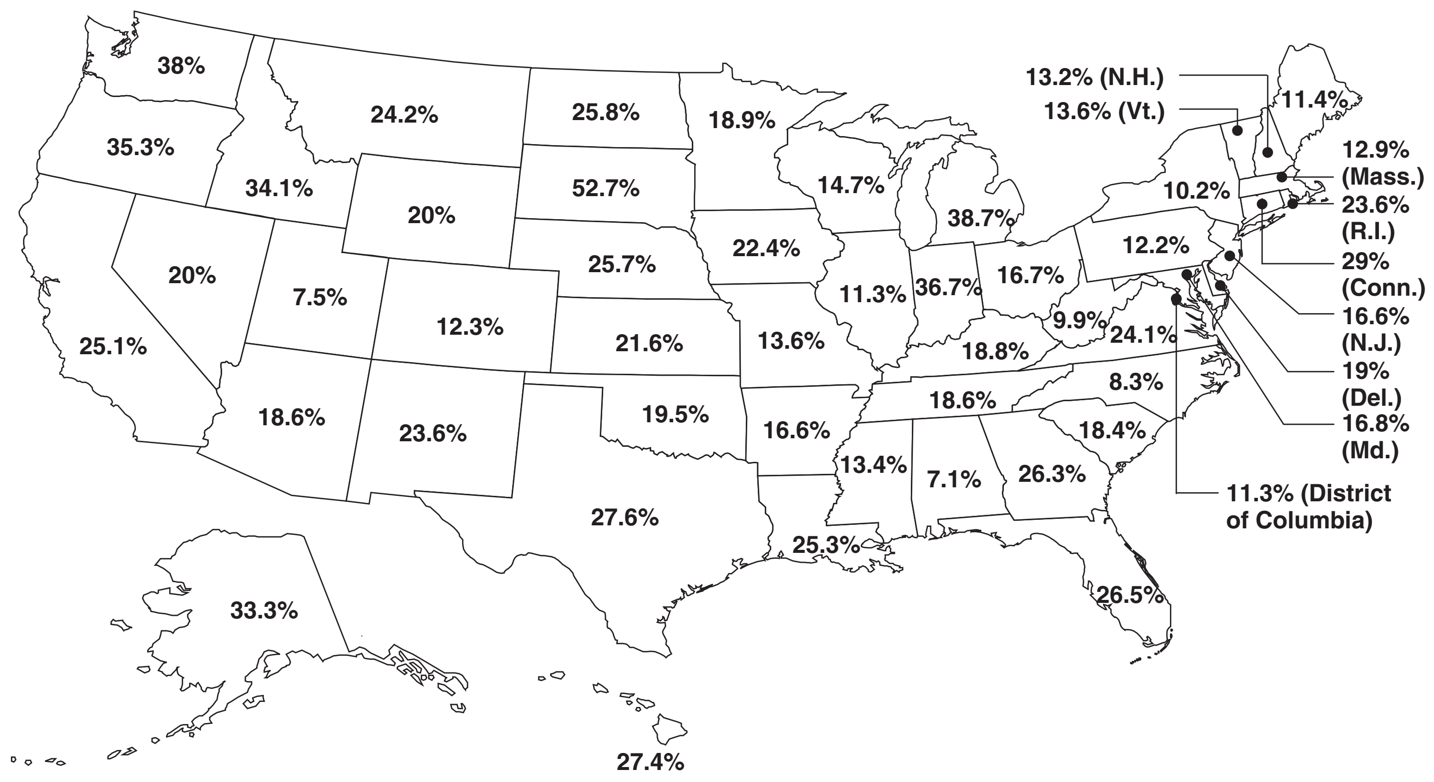


Source: GAO analysis of HUD data.

Note: The map shown here includes 2,311 of the 2,328 properties in our analysis—excluded are properties in territories of the United States, such as Puerto Rico and Guam.

Further, while 21 percent of HUD mortgages on subsidized properties nationwide are scheduled to mature through 2013, individual states have significantly different shares of these mortgages. Figure 4 shows the proportion of each state's inventory of properties with HUD mortgages scheduled to mature in the 10-year period. The percentage varies significantly by state: from 7 percent in Alabama, to 53 percent in South Dakota. The CD-ROM that accompanies this report provides detailed property-level data that allows the users to perform similar analyses to track mortgage maturity by state or other location (congressional district or metropolitan area), as well as by other variables such as property category or rental assistance program.

Figure 4: Percentage of HUD-Subsidized Mortgages within Each State Scheduled to Mature through 2013



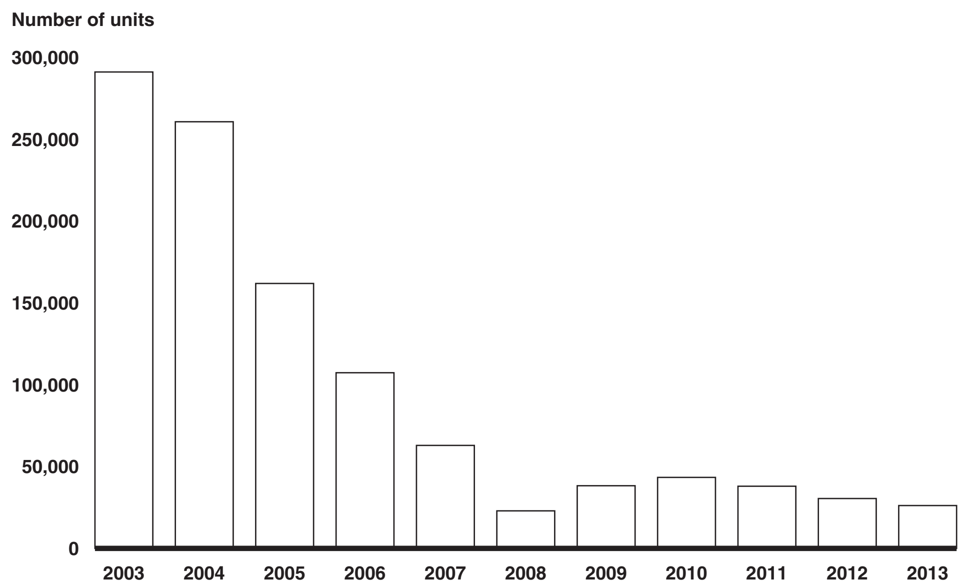
Source: GAO analysis of HUD data.

More HUD Mortgages Are Scheduled to Mature after 2013

Over 8,900 properties, containing almost 680,000 units, have outstanding HUD mortgages scheduled to mature after 2013. Most of these mortgages were financed under the Section 202, Section 221(d)(4), and Section 236 programs. About 85 percent of the 680,000 units receive rental assistance. Many of these rental assistance contracts will be expiring through 2013. Specifically, 8,166 properties with HUD mortgages have rental assistance contracts expiring through 2013, affecting about 530,000 assisted units. Thus, while mortgages are not scheduled to mature during the period, these properties have tenants who could potentially face rent increases.

According to HUD data, in the next 10 years, rental assistance contract expiration will affect a total of 18,048 properties—10,382 with HUD mortgages and another 7,666 without HUD mortgages—containing almost 1.1 million assisted units. Most of these long-term contracts are set to expire in the near future—before the end of 2007 (see fig. 5).

Figure 5: Expiring Rental Assistance Contracts, 2003 through 2013



Source: GAO analysis of HUD data.

Note: The data only reflect long-term contract expirations and not expected annual renewals of these contracts.

When long-term rental assistance contracts expire, HUD may renew them. Currently, HUD generally renews expiring long-term contracts on an annual basis but may go as long as 5 years, and in some cases, 20 years. According to HUD, during the late 1990s, about 90 percent of the property owners renewed their contracts, thereby continuing to provide affordable housing. A 2001 publication by AARP reported that if past trends continue, 85 to 90 percent of contracts will be renewed.[9] The extent to which the trend continues will depend on the availability of program funding and housing market conditions.

[9]AARP Public Policy Institute, *Section 8 Project-Based Rental Assistance: The Potential Loss of Affordable Federally Subsidized Housing Stock* (Washington, D.C.: February 2001).

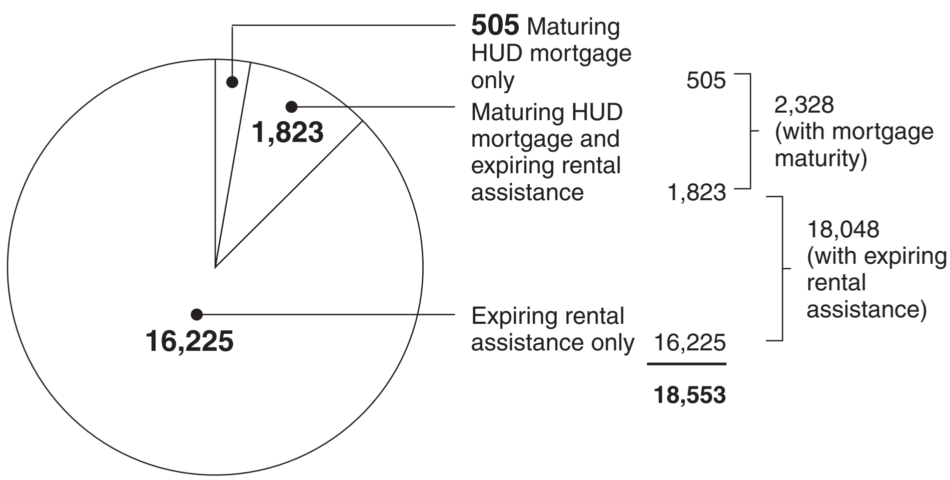
As shown in figure 6, mortgage maturity and rental assistance contract expiration will affect a total of 18,553 properties through 2013:

- 505 properties will be affected by maturing mortgages only (480 of these are not covered by rental assistance contracts, and the remaining 25 have rental assistance contracts that expire outside of our 10-year window).

- 1,823 properties will be affected by both events (because they have rental assistance contracts set to expire and HUD mortgages scheduled to mature by 2013).

- 16,225 properties will be affected by expiring rental assistance contracts only (8,166 of these have HUD mortgages, but the mortgages are not scheduled to mature until after 2013).

Figure 6: Properties with Mortgages Scheduled to Mature and/or Expiring Long-Term Rental Assistance Contracts, 2003 through 2013

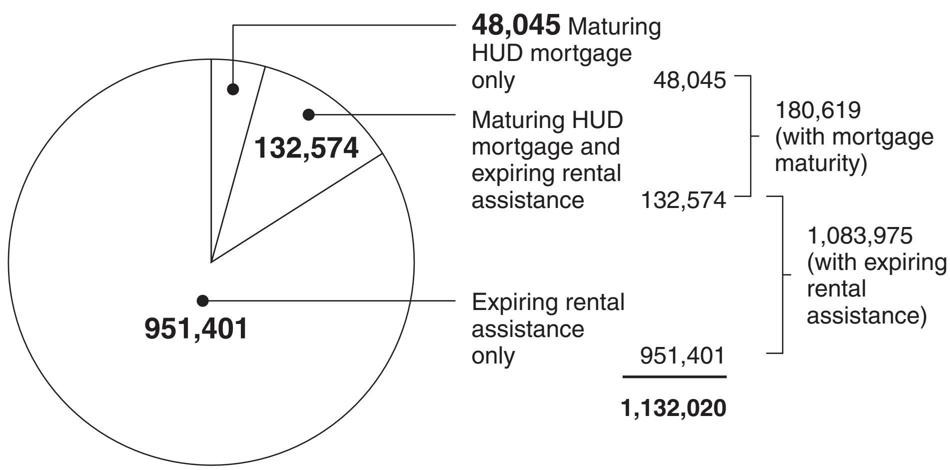


Source: GAO analysis of HUD data.

Note: The 18,553 properties represent about 81 percent of the 23,051 HUD-subsidized properties.

There are about 1.1 million assisted units in those properties with mortgages maturing or rental assistance expiring in the 10-year period. These units make up nearly 81 percent of all assisted units in HUD's inventory. As figure 7 shows, about 48,000 units are in properties with maturing mortgages only, about 951,400 assisted units are in properties that have expiring rental assistance only, and about 132,600 assisted units (out of the approximate 188,600 total units) are in properties with both mortgages maturing and rental assistance expiring in the 10-year period.

Figure 7: Assisted Units in Properties with Mortgages Scheduled to Mature and/or Expiring Long-Term Rental Assistance Contracts, 2003 through 2013



Source: GAO analysis of HUD data.

Note: 48,045 units with maturing HUD mortgages only are not assisted.

Tenant Impacts Depend on Protections and Property Owners' Decisions

Over the next 10 years, low-income tenants in over 101,000 units may have to pay higher rents or move to more affordable housing when HUD-subsidized mortgages reach maturity. This is because no statutory requirement exists to protect tenants from increases in rent when HUD mortgages mature and rent restrictions are lifted. Over the next 10 years, 480 subsidized properties that do not have rental assistance contracts are scheduled to reach mortgage maturity. Unassisted tenants in some of these properties are at risk of not being able to afford their units if rents are raised. The remaining 1,848 subsidized properties with HUD mortgages scheduled to mature through 2013 have rental assistance contracts, and the protections against rent increases offered under the rental assistance programs will apply. However, not all units in these properties are covered by the rental assistance contracts, thus limiting the number of tenants protected. A number of factors may affect owners' decisions regarding the continued affordability of their properties after mortgages mature, including neighborhood incomes, physical condition of the property, and owners' missions. While experience with mortgage maturity has been limited, 16 of the 32 subsidized properties that reached mortgage maturity in the past 10 years are still serving low-income tenants through project-based Section 8 rental assistance contracts. Additionally, at least 10 of the remaining properties that reached mortgage maturity over the past 10 years are still serving low-income tenants.

HUD Does Not Offer Protection for Unassisted Tenants in Properties with Maturing Mortgages

There is no statutory requirement for HUD to offer tenants special protections, such as enhanced vouchers, when a HUD mortgage matures. However, tenants who receive rental assistance in properties with maturing mortgages would be eligible for enhanced vouchers under rental assistance programs such as project-based Section 8.

Of the 2,328 subsidized properties with mortgages scheduled to mature through 2013, 480—containing 45,011 units—do not have rental assistance contracts (see table 2). While the remaining 1,848 properties are subsidized with rental assistance, not all units within the properties are covered. According to HUD data, about 30 percent of the units in these properties are not covered—a total of 57,552 units with tenants who do not receive rental assistance. Altogether then, the tenants in a total of 102,563 units are not protected under the rental assistance programs. Of these, 101,730 units under Section 202, Section 221(d)(3) BMIR, and Section 236 could face higher rents after mortgage maturity when the rent restrictions under these programs are lifted.

Table 2: Subsidized Properties with HUD Mortgages Scheduled to Mature through 2013, by Rental Assistance Program

Number of properties

		Rental assistance program[a]			
Financing program	**None**	**Project-based Section 8**	**Rent Supplement**	**Other[b]**	**Total**
HUD subsidized mortgage					
Section 236	166	1,123	40	4	**1,333**
Insured	166	1,123	40	4	**1,333**
Noninsured[c]	0	0	0	0	**0**
Section 221(d)(3) BMIR	294	206	2	0	**502**
Section 202	20	14	5	2	**41**

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Number of properties

Financing program	None	Rental assistance program[a] Project-based Section 8	Rent Supplement	Other[b]	Total
HUD unsubsidized mortgage					
Section 221(d)(3)	0	403	28	0	**431**
Section 221(d)(4)	0	14	0	0	**14**
Section 231	0	6	1	0	**7**
Noninsured rent supplement	[d]	[d]	[d]	[d]	**[d]**
Total	**480**	**1,766**	**76**	**6**	**2,328**
Percent of total	21%	76%	3%	<1%	**100%**

Source: GAO analysis of HUD data.

Note: Percentages may not add due to rounding.

[a]The Section 8 Moderate Rehabilitation program is not included in this table because HUD's multifamily database does not track this program.

[b]Includes contracts for service coordinators.

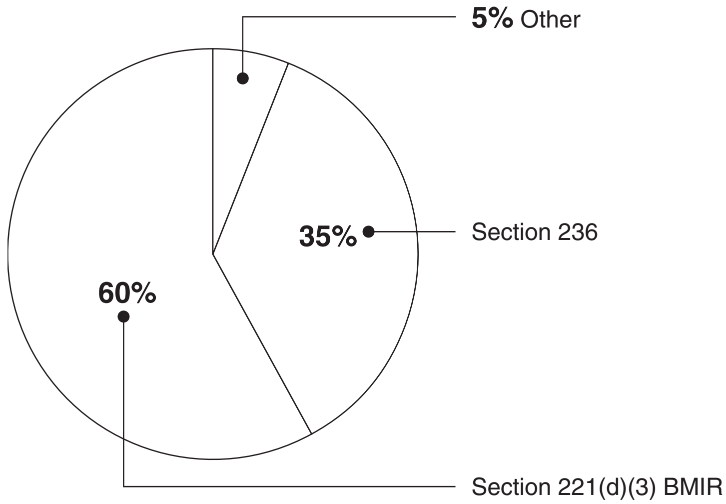
[c]No mortgage was scheduled to mature in this period.

[d]Since properties with noninsured rent supplement do not carry a HUD mortgage, HUD does not track mortgage-level data on these properties.

These unassisted tenants are mostly housed in properties financed under Section 221(d)(3) BMIR and Section 236 (see fig. 8). According to a HUD study, tenants in properties with mortgages under these programs have an average household income somewhat greater than that for tenants who receive rental assistance; thus, they may be somewhat more able to afford higher rents.[10] Properties financed under the Section 221(d)(3) BMIR program allow tenants with incomes of up to 95 percent of area median income; in comparison, project-based Section 8 does not serve tenants earning more than 80 percent of area median income.

[10]In a 1998 HUD study, tenants in Section 221(d)(3) BMIR units without rental assistance had an average household income that was 83 percent greater than that for tenants in Section 221(d)(3) BMIR units with rental assistance. Households in Section 236 units without rental assistance had an average household income that was 30 percent greater than that for tenants in Section 236 units with rental assistance.

Figure 8: HUD Mortgages Scheduled to Mature on Properties without Rental Assistance



Source: GAO analysis of HUD data.

Note: Total of 480 subsidized properties.

Tenants in units covered by a rental assistance program—there are 134,087 units in the properties with HUD mortgages scheduled to mature through 2013—will continue to benefit from affordable rents, regardless of when the mortgage matures, as long as the rental assistance contract is in force. If a rental assistance contract expires prior to mortgage maturity and the owner opts not to renew it, assisted tenants would be eligible for enhanced vouchers.

Tenants could potentially be affected by the length of time given to them to adjust to rent increases as well as by the amount of the increase. Property owners are not required to notify tenants when they pay off their mortgage at mortgage maturity. In contrast, property owners electing to prepay their mortgage or opt out of their Section 8 contract are required to notify tenants. For example, when owners opt out of the Section 8 project-based program, they are required to notify tenants 1 year in advance of the contract expiration. In cases where owners prepay their mortgages under the Section 236 or Section 221(d)(3) BMIR programs, tenants must be given notice at least 150, but not more than 270, days prior to prepayment. Some locations have established even more stringent notification requirements.

A Number of Factors Influence an Owner's Decision to Keep a Property Affordable upon Mortgage Maturity

Many factors can influence an owner's decision to keep a property in the affordable inventory or convert to market rate rents upon mortgage maturity. For a profit-motivated owner, the decision may be influenced by the condition of the property and the income levels in the surrounding neighborhood. If the surrounding neighborhood has gentrified and if the property can be upgraded at a reasonable cost, it may be more profitable to turn the building into condominiums or rental units for higher income tenants. If repair costs are substantial or if high-income residents are not present in the surrounding area, it may be more profitable to leave the property in the affordable inventory. Tools and incentives offered by state and local agencies may also influence this decision. In addition, because most of these owners have had the right to prepay their mortgages and opt out of their Section 8 contracts for a number of years, the economic factors that drive a decision to convert to market rate are not unique to mortgage maturity.

HUD data show that nonprofit organizations own about 38 percent of the properties with mortgages scheduled to mature in the next 10 years.[11] For a nonprofit owner, the decision would likely be motivated by cash flow considerations since, in theory, these owners are not primarily motivated by economic returns. Since mortgage maturity results in an improvement in property cash flow, reaching mortgage maturity by itself would not necessarily trigger removal from the affordable inventory. For example, at 1 of the 16 properties (nonprofit ownership) whose mortgages matured in the past 10 years and that do not currently have project-based Section 8 assistance, the property manager told us that no longer having to pay the mortgage left money for repairs needed to keep the units affordable for their low-income senior tenants. Additionally, a nonprofit organization would be more likely to keep the property affordable to low-income tenants because to do otherwise could conflict with its basic mission of providing affordable housing.

Another factor is the loss of the interest rate subsidy that occurs when the mortgage matures. When interest rate subsidies were first paid to properties built in the 1960s and 1970s, they represented substantial assistance to property owners. Over time, inflation has substantially reduced the value of this subsidy. For example, the average interest rate

[11]This is based on information in HUD's database for 2,237 of the 2,328 properties. For the remaining 91 properties (4 percent of the total), HUD's database did not indicate the ownership type.

subsidy payment for a Section 236 property with a mortgage maturing in the next 10 years is $66 per unit per month. The level of prices has roughly quadrupled since 1970, so to have the same purchasing power would require about $260 in today's dollars. Section 8 and similar project-based rental assistance now provide the bulk of the assistance to these subsidized properties—75 percent of the assistance versus about 25 percent that derives from the Section 236 interest-rate subsidy. Furthermore, inflation will continue to erode the value of the interest-rate subsidy until mortgage maturity, while the rental assistance subsidy is adjusted annually to account for increases in operating costs.

Most Properties with HUD Mortgages That Reached Maturity Are Offering Rent Affordable to Low-Income Tenants

Our review of HUD's data showed that HUD-insured mortgages at 32 properties matured between January 1, 1993, and December 31, 2002.[12] Sixteen of the 32 properties are still serving low-income tenants through project-based Section 8 rental assistance contracts. For 13 of these 16 properties, the rental assistance covers 100 percent of the units (799 assisted units), and for the remaining 3 properties, it covers 54 percent of the units (174 assisted units).

Using HUD's archived data for inactive properties, we attempted to contact the property managers of the remaining 16 properties (consisting of 1,997 units) to determine if the properties currently offer rents affordable to low-income tenants. We were able to obtain rent information for 10 properties.[13] We found that all 10 (none of which have project-based rental assistance contracts) are offering rents that are affordable to tenants with incomes below 50 percent of area median income.[14] According to HUD's database, only 2 of these properties ever had Section 8 project-based contracts, and both expired in early 2000. We could not obtain actual tenant incomes since property managers told us that they are not required to maintain such

[12]In addition, we examined the properties with mortgage insurance that originated from 1959 through 1962. The mortgage maturity dates for these properties had passed, but we found that only 8, or 11 percent of the 76 properties, had reached mortgage maturity.

[13]Of the remaining 6 properties, we did not include 2 because they are skilled nursing facilities and do not charge traditional rents. We could not obtain information on the others because there was insufficient contact information in HUD's archived database with which to locate current owners or managers, or the owners or managers who were not required to provide us with information did not respond.

[14]Rent is generally considered affordable if it does not exceed 30 percent of tenant's gross income.

information for properties without federal use restrictions. Using the reported average rent for a 2-bedroom unit, we estimated the income needed to afford the reported rent (that is, the income needed if no more than 30 percent of gross income would be used for rent). We then compared this estimated income to the area's median household income for 2003. The rent affordability percentages in table 3 express the estimated income needed as a percentage of the area median income. Thus, numbers less than 50 indicate that the unit is affordable to households with incomes 50 percent or less of the area median income. The available data for the 16 properties is summarized in table 3. Because of the variety of factors that can influence owners' decisions, however, these properties are not necessarily indicative of what will happen to other properties as their HUD mortgages mature.

Various property managers we contacted also provided information about their efforts to keep their properties affordable. For example, a senior complex (nonprofit ownership) continues to generally charge residents about 30 percent of their income for rent as they did when they were in HUD's subsidized portfolio. According to the property manager of two of the properties (for-profit ownership), he unsuccessfully sought incentives from HUD in 2002 to keep the properties in the inventory when the mortgages reached maturity, and both properties left HUD's multifamily portfolio. However, both properties are accepting tenant-based vouchers, and the rents in both properties are affordable to very low-income tenants.

Table 3: Data for 16 Properties with Matured HUD Mortgages and without Project-Based Rental Assistance Contracts

Property	Prior FHA mortgage program	Mortgage maturity date	Total units	Number of voucher holders	Average rent for 2-bedroom unit	Rent affordability	Ownership
1.	Section 221(d)(3) BMIR	July 1998[a]	16	3	$500	39%	For-profit
2.	Section 231	August 2001	73	0	$525[b]	39%	Nonprofit
3.	Section 221(d)(3) BMIR	June 2002	82	N/A	N/A	N/A	Nonprofit
4.	Section 221(d)(3)	October 2002	43	0	$185[c]	15%	Co-op
5.	Section 221(d)(4)	October 1999[a]	32	N/A	N/A	N/A	Limited dividend[d]
6.	Section 221(d)(3) BMIR	February 2002	103	10	$695	39%	For-profit
7.	Section 231	July 2000	76	0	[e]	[e]	Nonprofit
8.	Section 221(d)(3) BMIR	April 2000	114	3	$519	29%	For-profit
9.	Section 221(d)(3) BMIR	May 1998	15	N/A	N/A	N/A	N/A

(Continued From Previous Page)

Property	Prior FHA mortgage program	Mortgage maturity date	Total units	Number of voucher holders	Average rent for 2-bedroom unit	Rent affordability	Ownership
10.	Section 221(d)(3) BMIR	May 2000	477	38	$550	44%	Nonprofit
11.	Section 221(d)(3) BMIR	April 2002	70	10	$710	40%	For-profit
12.	Section 221(d)(3) BMIR	May 2002	135	80	$565	45%	For-profit
13.	Section 231	April 2002	557	61	$340[b]	41%	Nonprofit
14.	Section 231	January 2001	72	0	[e]	[e]	Nonprofit
15	Section 221(d)(3) BMIR	June 2002	80	0	$285[c]	11%	Co-op
16.	Section 221(d)(3) BMIR	November 2000	52	N/A	N/A	N/A	N/A

Source: GAO analysis of information from property managers and HUD.

Note: N/A means not available.

[a]Both of these properties also had project-based Section 8 contracts that opted-out in early 2000.

[b]Average rents for these properties are for 1-bedroom units.

[c]Since these are cooperatives, the rents (monthly fees) only reflect carrying charges, which include such expenses as real estate taxes and insurances but not any individual mortgage payments that a co-op member may have.

[d]For limited dividend owners, the distributions of income are restricted by state law or the Federal Housing Administration (FHA) Commissioner.

[e]These properties are skilled nursing facilities and do not charge traditional rents.

Tools and Incentives Are Available to Help Keep Properties Affordable, but Are Not Specifically Designed to Deal with HUD Mortgage Maturity

HUD does not offer any tools or incentives to keep properties affordable after HUD mortgages mature, although it does offer incentives to maintain affordability for properties that also have expiring rental assistance contracts. According to officials from the four national housing and community development organizations we contacted, because few HUD mortgages have matured to date, their member state and local agencies have not experienced the need to develop programs to deal with mortgage maturity. They noted that their member agencies can offer tools and incentives, such as loans and grants, that might be used by owners to keep properties affordable after mortgage maturity. However, about three-quarters of the state and local agencies that responded to our survey reported that they do not track the maturity dates on HUD mortgages, and none provided examples of tools or incentives used to keep units affordable after mortgage maturity.

The agencies indicated that funds available through HUD's HOME and CDBG programs and the Low-Income Housing Tax Credit program are effective means for preserving the affordability of HUD-subsidized housing. They also identified financial assistance to nonprofit organizations to aid them in acquiring HUD-subsidized properties as an effective tool. However, over 50 percent of the agencies reported that they have no tracking system in place to systematically identify properties that could potentially leave HUD's affordable housing programs and thus might be candidates for affordability preservation assistance.

HUD Does Not Offer Incentives to Keep Properties Affordable after Mortgage Maturity

HUD does not offer property owners any specific incentive to keep properties affordable to low-income tenants after maturity of their HUD mortgages. During the 1990s, HUD established incentive programs to deal with the loss of affordable units because owners were prepaying their mortgages and opting out of their Section 8 contracts. These incentives are as follows:

- *Mark-up-to-Market* allows owners to increase the rents for units subsidized under the project-based Section 8 rental assistance program up to market levels in exchange for keeping the units in the Section 8 inventory for a minimum of 5 years.

- *Section 236 Decoupling* can be activated when the owner prepays a Section 236 mortgage and obtains conventional financing. By agreeing to keep the property affordable for at least another 5 years beyond the original term of the mortgage, owners can keep the interest rate reduction payments that they were receiving when they had a HUD-financed mortgage.

- *Section 202 Prepayments* allow owners to prepay their HUD loans and obtain other financing, but they must keep the affordability use restriction until the maturity date of the original loan.

These incentives do not directly address the termination of the affordability requirements resulting from mortgage maturity. Rather, they can extend, under certain circumstances, the affordability period beyond the original term of the mortgage, as in the Section 236 Decoupling incentive, or allow property owners to be better positioned financially to continue providing affordable housing, as in the case of Section 202 Prepayments and Mark-up-to-Market.

State and Local Agencies Identified Tools and Incentives to Preserve Affordable Housing, but Not Specifically for Covering Mortgage Maturity

The 226 state and local agencies that responded to our survey commented on the effectiveness of 18 tools and incentives as a mean to preserve HUD's affordable rental housing. Of the 18, 6 were funded directly by the federal government, while 12 were administered by state and local governments and were not directly federally funded. However, there was no evidence that they have been used to protect properties when HUD mortgages mature. This may be because relatively few mortgages have matured to date.

State and local tools and incentives include housing trust funds used to make loans and grants, financial assistance to nonprofit organizations to aid them in acquiring HUD-subsidized properties, and property tax relief to owners of HUD-subsidized properties. These state and local agencies identified several incentives that they believe are the most effective in preserving the affordability of housing for low-income tenants. For example, over 60 percent of the 62 state agencies that responded identified the 4 percent tax credit and HOME programs as effective means for preserving the affordability of HUD-subsidized properties. Of the 76 local agencies that responded, over 70 percent identified HOME as effective, and over 60 percent identified CDBG as effective.[15]

Fewer Than Half of State and Local Agencies Identify and Track Properties That May Leave HUD Programs

Over 50 percent of the survey respondents reported that they have no system in place to identify and track properties in their states or localities that could leave HUD's subsidized housing programs. Further, about three-quarters reported that they do not track the maturity dates of HUD mortgages. Awareness of the potential for a HUD mortgage to mature or rental assistance to end does not guarantee that state or local agencies will take action to preserve the assisted units' affordability to low-income tenants. However, knowing when properties will be eligible to leave HUD's programs could better position state and local agencies to use available tools and incentives at mortgage maturity. Several respondents to our survey noted that it would be helpful to them if HUD could provide information about properties that might leave HUD's programs. Their comments included the following:

[15] Additional details on the results of our survey are available on the Internet at www.gao.gov/cgi-bin/getrpt? GAO-04-211SP.

- “It would be helpful if HUD would provide local governments periodic reports on the status of HUD properties in the locality.”

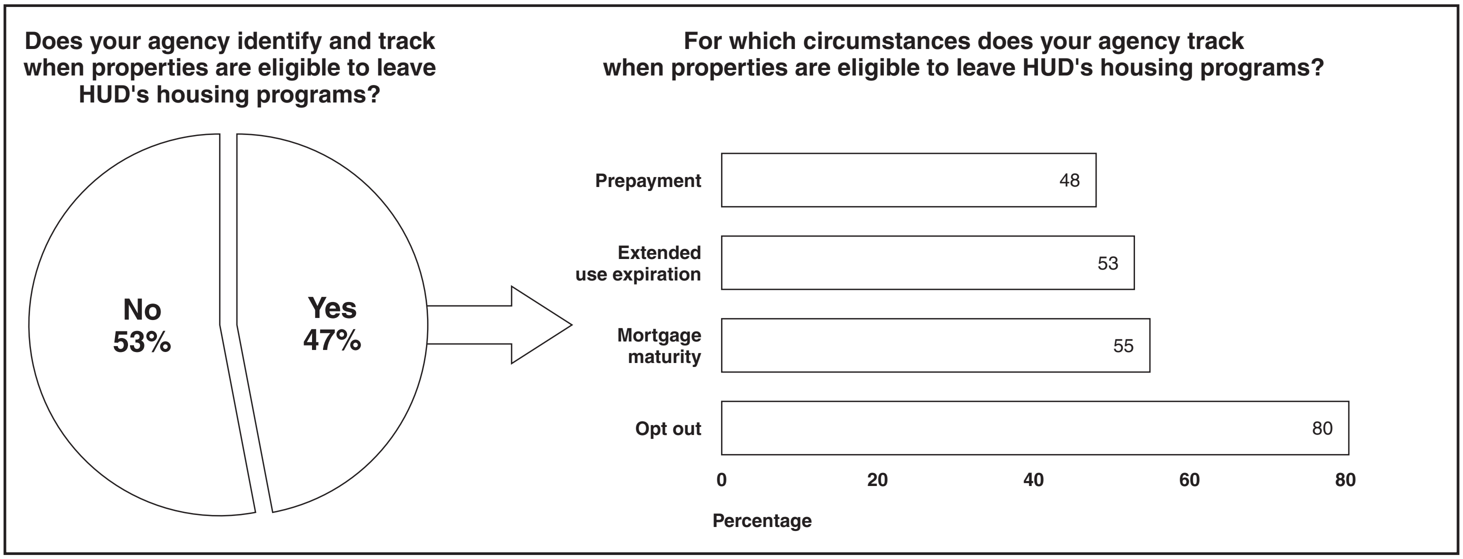
- “I believe a lot of CDBG entitlement agencies would be willing to track properties that could leave HUD’s affordable housing programs if HUD would provide them with a listing of the properties.”[16]

- “Communication between project-based property owners, HUD, and local public housing authorities is not very effective.”

Of the 102 agencies that indicated they identified and tracked properties, 56 (55 percent) said that they monitored the scheduled maturity dates of HUD mortgages on local properties (see fig. 9). More agencies (82 or 80 percent) reported that they identified and tracked properties that might opt out of HUD project-based rental assistance contracts.

[16]“Entitlement agencies” refers to agencies in entitlement communities that are eligible to receive CDBG funding. These communities must meet certain population thresholds and must develop their own programs and plans, with priority given to low- and moderate-income persons.

Figure 9: State and Local Agencies' Efforts to Identify and Track Properties That May Leave HUD Programs



Source: GAO.

Note: "Extended use expiration" refers to the expiration of the use-agreement period, when owners must continue to keep their tax credit properties affordable to low-income tenants after the initial 15-year affordability period required by the Internal Revenue Code has ended. The length of this extended period of affordability is 15 years or more, depending on individual state requirements.

HUD officials noted that they make property-level information available to the public on HUD's multifamily housing Web site.[17] This Web site contains detailed property-level data on active HUD-insured mortgages and expiring rental assistance contracts.[18] However, according to our survey, some state and local agencies perceive that the information is not readily available. One problem may be that these data are in a format that may not be sufficiently "user-friendly" for these agencies. The data must be accessed using database software, which requires users to be proficient in these types of software.

HUD officials agreed that the agency could provide more "user friendly" information because the data are not as accessible to state and local

[17]See www.hud.gov/offices/hsg/mfh/mfdata.cfm.

[18]Since only insured mortgages are included in this database, direct loans under the Section 202 program are not included.

agencies as they could be. They also noted that these agencies could benefit from a "watch list" that identifies properties that may leave HUD subsidy programs in their jurisdictions, such as upon mortgage maturity, especially if such data were updated annually and readily available online so that agencies would have the information needed to prioritize and fund efforts to preserve low-income housing in their jurisdictions.

Conclusions

HUD's rental housing programs have developed subsidized properties for low- and moderate-income tenants that carry rent affordability requirements for a fixed period. As a result, HUD has focused on keeping these properties affordable for at least that period, and its tools and incentives have mainly addressed mortgage prepayments and rental assistance contract expiration, not mortgage maturity. While a share of the properties with HUD mortgages are scheduled to reach maturity over the next 10 years, it is uncertain how many of these properties will attempt to convert to market-rate housing and raise rents, making the units in these properties unaffordable for many tenants. While state and local agencies might be able to play an important role in maintaining the affordability of properties eligible to leave HUD programs because of mortgage maturity or other reasons, these agencies need to know in advance which properties are eligible to leave HUD's programs, and when, in order to use tools and incentives that can help keep the properties affordable. Even though HUD makes property-level data available to the public on its Web site, state and local agency responses to our survey suggest that HUD data may not be as readily accessible, and therefore as useful, as they could be. HUD officials responsible for maintaining the data on the subsidized properties agreed.

Recommendations for Executive Action

To help state and local housing agencies track HUD-subsidized properties that may leave HUD's programs upon mortgage maturity or for other reasons, we recommend that the Secretary of HUD solicit the views of state and local agencies to determine (1) the specific information concerning HUD-subsidized properties that would be most useful to their affordability preservation efforts and (2) the most effective format for making this information available, and then use the results to modify the current means of conveying the data on these properties to make the data more widely available and useful.

Agency Comments and Our Evaluation

We provided a draft of this report to HUD for its review and comment. In a letter from the Assistant Secretary for Housing (see app. III), HUD agreed with the report's findings, conclusions, and recommendations. HUD also noted that while it believes that a wide array of public and private entities concerned about preserving the affordable housing stock are using the databases currently available through HUD's Web site, it could improve the format and modify the current means of conveying the data on these properties to make the data more readily available. In its letter, HUD also provided technical comments, which we incorporated as appropriate.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to interested Members of Congress and congressional committees. We also will send copies to the Secretary of the Department of Housing and Urban Development and the Director of the Office of Management and Budget and make copies available to others upon request. The report will be available at no charge on the GAO Web site at http://www.gao.gov. A CD-ROM (GAO-04-210SP), which includes property-level data for subsidized properties with mortgages scheduled to mature or expiring rental assistance contracts, will accompany this report and can be ordered at www.gao.gov/cgi-bin/ordtab.pl. The results of our survey of state and local agencies (GAO-04-211SP) will also be available on the GAO Web site at www.gao.gov/cgi-bin/getrpt?GAO-04-211SP.

Please contact me at (202) 512-8678, or Andy Finkel at (202) 512-6765, if you or your staff have any questions concerning this report. Key contributors to this report are listed in appendix IV.

David G. Wood

David G. Wood
Director, Financial Markets and
Community Investment

Scope and Methodology

To develop a state-by-state inventory of multifamily properties with HUD mortgages scheduled to mature and to identify the properties' characteristics, we analyzed and combined information from several HUD databases. We used data from HUD's Real Estate Management System (REMS), which contains information on active properties in Datamart, as well as from the Tenant Rental Assistance Certification System (TRACS), which contains information on Section 8 contracts. We also incorporated data from HUD's Real Estate Assessment Center (REAC) and—through the Office of Multifamily Housing and Restructuring (OMHAR)—data from the Annual Financial Statements submitted to HUD by property owners. To ensure the HUD data were reliable, we performed internal checks to determine (1) the extent to which the data were complete and accurate, (2) the reasonableness of the values contained in the data fields, and (3) whether any data limitations existed in the data we relied upon to do our work. Based on our reliability assessment, we concluded that the data were reliable for purposes of this report. The data obtained from HUD are as of April 15, 2003. To have 10 full years of data, our analysis covered the period from April 15, 2003, through December 31, 2013.

For the properties with existing HUD mortgages, we identified those that also have project-based rental assistance contracts. We then separately identified properties that do not have HUD mortgages, but have project-based rental assistance contracts that are also due to expire through 2013. To obtain occupancy data relating to the individual properties, we used the system containing the financial statements that are prepared and submitted annually to HUD by property owners. For each property, we obtained the following information:

- property identification number,
- property name,
- address,
- city,
- state,
- zip code,
- metropolitan area,

- congressional district,
- total number of units,
- total number of assisted units,
- name of HUD financing program,
- property category,
- mortgage maturity date,
- name of rental assistance program,
- rental assistance expiration date,
- number of rental assistance contracts,
- rental assistance contract status,
- type of client (tenant) served,
- type of property ownership,
- economic occupancy rate,
- subsidy utilization rate, and
- property inspection score (REAC score).

We also used HUD's database to identify properties whose mortgages have matured over the last 10 years. To determine how many properties are still serving low-income tenants, we first identified those that are covered by rental assistance contracts. For 14 of the 16 properties without current rental assistance contracts, we obtained contact information from HUD's archived database (the database did not have sufficient complete information on the other 2). We then contacted these properties via telephone to determine if the management was still serving low-income tenants.

We reviewed HUD regulations to determine the potential impact on tenants when HUD mortgages mature. In particular, we reviewed the eligibility of tenants to receive enhanced vouchers and other protections against increases in rents when properties leave HUD's programs. We discussed these regulations with appropriate HUD officials and also requested that HUD identify protections available to tenants under the various housing programs.

To identify the incentives that HUD, the states, and localities could offer owners under existing laws and regulations, we interviewed HUD, state, and local officials and reviewed available literature. Because there are no nationwide data available on the utilization of tools and incentives at the state and local level and no single agency is responsible for administrating the various incentives for any state, we surveyed state and local housing and community development agencies via the Internet. We identified the survey participants through lists provided by four national housing industry organizations. Specifically, we surveyed members of the National Council of State Housing Agencies (NCSHA), which represents state housing finance agencies; the Council of State Community Development Agencies (COSCDA), which represents state housing and community development agencies; the National Community Development Association (NCDA), which represents local communities that administer federally supported programs such as CDBG and HOME; and the National Association of Local Housing Finance Agencies (NALHFA), which represents local housing finance agencies. The survey covered (1) their experiences in preserving affordable housing, (2) the incentives used and their effectiveness, and (3) the extent to which they identify and track properties that could leave HUD's programs.

In developing the survey, we met with officials at the four national organizations to gain a better understanding of the issues and modified our questions based on their comments. We then pretested with several state and local agencies throughout the country, such as the Department of Community Development in Amarillo, Texas; the Department of Neighborhood Development in Boston, Massachusetts; and the Ohio Housing Finance Agency. During these pretests, we observed the officials as they filled out the survey over the Internet. After completing the pretest survey, we interviewed the respondents to ensure that (1) the questions were clear and unambiguous, (2) the terms we used were precise, (3) the survey did not place an undue burden on the agency officials completing it, and (4) the survey was independent and unbiased. On the basis of the feedback from the pretests, we modified the questions as appropriate. Information about accessing the survey was provided to a contact person at each of 327 state and local housing and community development agencies in 50 states, the District of Columbia, and Puerto Rico. The survey was activated on May 12, 2003; it was available until September 5, 2003. To ensure security and data integrity, we provided each agency with a password to access and complete the survey.

We originally included 373 potential respondents in our survey, but eliminated 46 for various reasons, including those agencies having no authority over affordable housing and those with no HUD properties in their jurisdictions. As a result, 327 potential respondents remained—46 from NCSHA, 65 from COSCDA, 130 from NCDA, and 86 from NALHFA. From the 327, we obtained 226 usable responses—38 from NCSHA, 47 from COSCDA, 83 from NCDA, and 58 from NALHFA—for an overall response rate of 69 percent.

Questions from December 10, 2002, Letter from the House Committee on Financial Services

We would like the following questions answered in this General Accounting Office report:

1. *This letter includes a list of the privately owned, publicly assisted multifamily housing mortgage programs.*

- *221(d)(3)*
- *Market rate with rent supplement*
- *Below Market Rate Interest Rates (BMIR) with rent supplement or section 8*
- *236:*
  - *Insured and Noninsured*
  - *Rental Assistance Projects (RAP)*
  - *Rent Supplement*
  - *Section 8*
- *221(d)(4) with all or partial Section 8*
- *202s with rent supplement or Section 8*
- *231s with rent supplement*
- *Section 8 moderate rehabilitation (not funded through HUD, maybe PHA)*
- *Noninsured rent supplement projects (12 projects only in NY and Minnesota)*

Please update the list if there are other programs that should have been included and include any omitted programs in your answers to the other questions requested in this report.

We did not identify any programs to add to the list. The report encompasses all of these programs with the following exceptions: (1) HUD does not collect mortgage information on noninsured rent supplement properties because the properties do not use HUD financing. HUD does have data on the rent supplement contracts alone, which we included in the CD-ROM; (2) Section 8 Moderate Rehabilitation properties are excluded because HUD does not track these properties in its multifamily database and maintains no aggregate data on properties in the program.

2. *What is the potential impact on the renewal of those Section 8 contracts in projects where FHA mortgages mature, the principal is paid off entirely, and the affordability restrictions attendant to the mortgages expire?*

The impact of a matured HUD mortgage, by itself, on an owner's decision to renew a Section 8 contract is uncertain because there are a number of other factors that can affect the decision. For a profit-motivated owner, the decision to renew would likely be influenced by the condition of the property and the income levels in the surrounding neighborhood. If the surrounding neighborhood has gentrified and if the property can be upgraded at a reasonable cost, it may be more profitable to turn the building into condominiums or rental units for higher income tenants. If repair costs are substantial or if high-income residents are not living in the surrounding area, it may be more profitable to keep the property in the affordable inventory by renewing the Section 8 contract. Tools and incentives offered by HUD, state, and local agencies may also influence these decisions.

For a nonprofit owner, the decision would likely be motivated largely by cash flow considerations since, in theory, these owners are not primarily motivated by economic returns. HUD data show that nonprofit organizations own about 36 percent of the properties with mortgages scheduled to mature in the next 10 years. Since mortgage maturity results in an improvement in property cash flow, reaching mortgage maturity would not by itself necessarily trigger removal from the affordable inventory. Additionally, a nonprofit organization would be more likely to keep the property affordable to low-income tenants because to do otherwise would conflict with its basic mission of providing affordable housing. Thus, nonprofit owners would likely continue to renew Section 8 contracts.

3. *We request an inventory, in chart form, of all the units that will reach maturity in the next 10 years. The inventory should include:*

- *Property name, city, and state*

- *Property MSA (metropolitan statistical area)*
- *Month and year of mortgage maturity*
- *Type of multifamily program for each development*
- *Number of units for each development*
- *Expiration date of Section 8 contract for each development (if any)*
- *Contract status of Section 8 contract for each development (if any)*
- *Number of section 8 units for each development (if any)*
- *Total number of units covered under each of the programs and their location by state*
- *Total number of units for all developments*
- *Total number of units that are occupied*
- *Total number of section 8 units*
- *Type of families housed, i.e. families, elderly, etc.*
- *Whether the unit is owned by a profit or nonprofit organization*

All the data elements cited above are included in the CD-ROM that accompanies this report. Data on property inspection scores, subsidy utilization rates, street addresses, and the congressional district in which the property is located are also included.

4. *What will happen to the units and hence the families occupying the units once the mortgages expire? What rights, if any, do these tenants have regarding their rent costs subsequent to the expiration of the mortgage term and pay off of the entire mortgage principal?*

Provided there is no other subsidy, owners of properties whose HUD-subsidized mortgages have matured are generally no longer required to charge reduced rents to tenants that meet HUD's income limits, and the tenants do not have any rights or protections. Depending on the owner's decision, tenants could face higher rents and, if they were unable to afford them, would have to move. However, if the units are covered by a rental assistance contract, the tenants would not be affected by the mortgage maturity. As long as the rental assistance is in force, these tenants would continue to benefit from subsidized rents.

5. *Under existing laws and regulations, are there Federal government incentives that HUD could offer the owners of the multifamily housing developments to keep properties affordable upon maturity of the FHA mortgage and pay off the principal? Under existing law and regulations, what types of incentives are available for each state and the District of Columbia that could be made available to the owners of the multifamily housing developments? Have they been successful?*

HUD does not offer property owners any specific incentive to keep properties affordable to low-income tenants after maturity of their HUD mortgage. During the 1990s, HUD established incentive programs to deal with the loss of affordable units because owners were prepaying their mortgages and opting out of their Section 8 contracts. These incentives include the Mark-up-to-Market program, Section 236 Decoupling, and Section 202 Prepayments. These incentives do not directly address the termination of the affordability requirements resulting from mortgage maturity. Rather, they can extend, under certain circumstances, the affordability period beyond the original term of the mortgage, as in the Section 236 Decoupling incentive, or allow property owners to be better positioned financially to continue providing affordable housing, as in the case of Section 202 Prepayments and Mark-up-to-Market.

State and local agencies identified tools and incentives to preserve affordable housing, but not specifically for addressing maturing HUD mortgages. The 226 state and local agencies that responded to our survey commented on the effectiveness of 18 tools and incentives as a mean to preserve HUD's affordable rental housing. Of the 18, 6 were funded directly by the federal government, while 12 were administered by state and local governments and were not directly federally funded. However, there was no evidence that they have been used to protect properties when HUD mortgages mature. This may be because relatively few mortgages have matured to date.

6. *What are the possible effects if the Section 8 contract maturity date is shorter than the FHA mortgage maturity date?*

The effects depend largely on the owner's decision about the future use of the property. As noted in our response to question 2, an owner's decision to renew a Section 8 contract can be influenced by a number of factors, such as neighborhood incomes, the condition of the property, and owner's mission. Consideration of these factors would likely also apply to properties where the Section 8 contract expiration date is earlier than the scheduled maturity date on the HUD mortgage.

When mortgage maturity is imminent, an owner may also consider what the impact of losing the interest rate subsidy as well as paying off the HUD mortgage will be on the property's cash flow. When interest rate subsidies were first paid to properties built in the 1960s and 1970s, they represented substantial assistance to property owners. Over time, inflation has substantially reduced the value of this subsidy relative to the rental assistance subsidy, which is adjusted annually to account for increases in operating costs. Project-based rental assistance now provides the bulk of the assistance to these subsidized properties. Therefore, it is possible that, under certain circumstances, such as where a surrounding neighborhood has gentrified and the property can be upgraded at a reasonable cost, a for-profit owner may decide to forgo the remaining interest rate subsidy payments and prepay the mortgage at the time the project-based contract expires. However, because most owners have had the right to prepay mortgages and opt out of their Section 8 contracts for a number of years, the economic factors that drive the decision to convert to market rate when mortgages mature are no different than in the past.

From the tenant's perspective, if the owner elects to enter into a new Section 8 contract, the tenants in assisted units will be protected for the duration of the contract. If the owner elects not to enter into a new Section 8 contract with or without prepaying the mortgage, the tenants in the units that previously received rental assistance would receive enhanced vouchers. Enhanced vouchers give the tenants the right to stay in their units and generally protect them from rent increases in the properties after the Section 8 contract expires, regardless of the maturity date of the HUD mortgage.

7. *For those mortgages that have reached mortgage maturity or are soon to do so, what actions, if any, have been taken by state, local, or other bodies to ensure that affordability has been maintained after the FHA mortgages are extinguished or are about to be paid off in their entirety? Have the efforts been successful?*

According to officials from the four national housing and community development organizations we contacted, because relatively few HUD mortgages have matured to date, their member state and local agencies have not experienced the need to deal with mortgage maturity. They noted that their member agencies can offer tools and incentives, such as loans and grants, to owners to keep properties affordable after mortgage maturity. However, about three-quarters of the state and local agencies that responded to our survey reported that they do not track the maturity dates on HUD mortgages, and none provided examples of tools or incentives used specifically to keep units affordable after mortgage maturity.

8. *Please provide data on how many units/developments have already reached mortgage maturity, the current status of those units/developments, and whether those units/developments are still serving low-income families.*

Our review of HUD's data showed that HUD-insured mortgages at 32 properties matured between January 1, 1993, and December 31, 2002. Sixteen of the 32 properties are still serving low-income tenants through project-based Section 8 rental assistance contracts. For 13 of these 16 properties, the rental assistance covers 100 percent of the units (799 assisted units), and for the remaining 3 properties, it covers 54 percent of the units (174 assisted units).

Using HUD's archived data for inactive properties, we attempted to contact the property managers of the remaining 16 properties (consisting of 1,997 units) to determine if the properties currently serve low-income tenants. We were able to obtain rent information for 10 properties.[1] We found that all 10 (none of which have project-based rental assistance contracts) are still primarily serving low-income tenants and that the current rents are affordable to tenants with incomes below 50 percent of area median income. According to HUD's database, only 2 of these properties ever had Section 8 project-based contracts, and both expired in early 2000. We could not obtain actual tenant incomes since property managers told us that they are not required to maintain such information for properties without federal use restrictions.

[1]Of the remaining 6 properties, we did not include 2 because they are skilled nursing facilities and do not charge traditional rents. We could not obtain information on the others because there was insufficient contact information in HUD's archived database with which to locate current owners or managers, or the owners or managers who were not required to provide us with information did not respond.

9. *The provision of enhanced vouchers does not currently apply to Section 236 or Section 221 (d) (3) mortgages that mature. What is the impact on the current tenant population upon mortgage maturity?*

There is no statutory requirement for HUD to offer tenants special protections, such as enhanced vouchers, when a HUD mortgage matures. However, tenants who receive rental assistance in properties with maturing Section 236 or Section 221(d)(3) mortgages would be eligible for enhanced vouchers under rental assistance programs, such as project-based Section 8. Depending on property owners' decisions, tenants in these properties who do not receive rental assistance could face higher, possibly unaffordable, rents.

10. *What recommendations does GAO propose to address or alleviate the potential loss of affordable housing arising from FHA mortgage maturations?*

Awareness of the potential for a HUD mortgage to mature, while not a guarantee of action, could help state or local agencies' ability to use available tools or incentives for preserving properties' affordability to low-income tenants. Therefore, to help state and local housing agencies track HUD-subsidized properties that may leave HUD's programs upon mortgage maturity or for other reasons, we are recommending that the Secretary of HUD solicit the views of state and local agencies to determine (1) the specific information concerning HUD-subsidized properties that would be most useful to their affordability preservation efforts and (2) the most effective format for making this information available, and then use the results to modify the current means of conveying the data on these properties to make the data more readily available.

Comments from the Department of Housing and Urban Development

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

October 17, 2003

Mr. David G. Wood
Director, Financial Markets and Community Investment
United States General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Wood:

Thank you for this opportunity to review and provide comments on the draft report, Multifamily Housing: More Accessible HUD Data Could Help Efforts to Preserve Housing for Low-Income Tenants (GAO-04-20). The report contains GAO's determination of the numbers of HUD properties that are scheduled to reach mortgage maturity or rental assistance expiration in the next ten years, the potential impact on tenant rents, and an assessment of what HUD and others can do to keep these properties affordable.

The Department would concur in the "Results in Brief" comments (draft report, pages 3-6) that "HUD and state and local housing and community development agencies provide a variety of tools and incentives to owners of low-income multifamily properties to keep them affordable to low-income tenants upon mortgage maturity or the expiration of rental assistance contracts." The Department would also concur that in the "Conclusions" (draft report, page 24) that state and local agencies play an important role in maintaining the affordability to low-income tenants of HUD-subsidized properties that become eligible to leave HUD's programs due to mortgage maturity, rental assistance contract expiration, or other reasons and need to know in advance which properties are eligible to leave HUD's programs and when, in order to use the tools and incentives that can keep the properties affordable to low-income tenants."

The draft report has one recommendation:

To ensure that state and local housing agencies have timely and accessible information to track HUD-subsidized properties that may leave HUD's programs, GAO recommends that the Secretary of HUD solicit the views of state and local agencies to determine the (1) specific information concerning HUD-subsidized properties that would be most useful to their affordability preservation efforts and (2) most effective format for making this information available, and use the results to modify the current means of conveying the data on these properties and make the data widely available.

The Department's response:

Over the last few years, our experience with providing information and various data on a variety of HUD programs to the public has taught us that posting downloadable databases on the worldwide web is the most efficient and practical means to provide such information. The Department currently posts information and applicable data regarding expiring rental assistance contracts on the Office of Housing's Multifamily Housing web page. This information and data is used by a wide array of public and private entities that are concerned about low-income housing and the preservation of that housing stock. Also in our experiences, the Department has found that in particular, any local or state agency interested in obtaining this information and data does have the capacity to access the web page in today's computer environment.

However, to the extent that additional information or data about the Department's inventory is needed by these entities, the Department can provide additional information and or data on the web page.

As one of HUD's priorities is to preserve affordable housing, the Department can also continue to improve the format for making this information available and if necessary, modify the current means of conveying the data on these properties to make the data more widely available.

Please note that the draft report does contain inaccurate descriptions of the programs and the use of subsidies, however, the Department will limit additional comments to the following clarifications:

1) The Note on page 12 should be clarified and restated to say:

   Under certain conditions, a lender may transfer or "assign" to HUD the mortgage note. Section 221(g)(4) allows a lender to assign certain 20-year old, current, HUD mortgages to HUD and the Department assumes the role of mortgagee and services the mortgage. Lenders may also assign defaulted mortgages per the terms of the mortgage insurance contract. With the exception of 221(g)(4), the mortgage insurance protects the lender from losses in the event the owner fails to pay the mortgage.

2) On page 18, first paragraph, last sentence should be clarified and restated to say:

   If the rental assistance contract is in force, residents will continue to receive the benefits of project-based rental assistance. If the contract terminates, the residents will be eligible to apply for regular or enhanced vouchers.

3) On page 31, the chart should omit the Section 202 with capital advance and PRAC programs as these programs are not subjects of this report.

4) On page 4, the last bullet of the Statement of Facts should be clarified to say:

   Although HUD is not required to protect tenants from rent increases due to mortgage maturity, most of these tenants would nonetheless be eligible for enhanced vouchers under rental assistance programs, such as Section 8 tenant-based subsidy, if property owners opted out of the expiring rental assistance contract.

5) On page 6, the bullet regarding the Section 236 Decoupling should be clarified to say:

3

Section 236 Decoupling can be activated when the owner prepays the HUD mortgage and obtains conventional financing. By agreeing to keep the property affordable for another five years, the owners can keep the interest rate reduction payments that they were receiving when they had a HUD financed mortgage.

Thank you again for the opportunity to provide comments on this draft report and if additional information can be provided to you, please feel free to contact Beverly Miller, Director of Multifamily Asset Management (202) 708-3730.

Sincerely,

John C. Weicher
Assistant Secretary for Housing –
Federal Housing Commissioner

GAO Contacts and Staff Acknowledgments

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Staff Acknowledgments

In addition to those named above, Mark Egger, Daniel Garcia-Diaz, Nadine Garrick, Curtis Groves, Austin Kelly, John McDonough, John McGrail, Luann Moy, Barbara Roesmann, William Sparling, Thomas Taydus, and James Vitarello made key contributions to this report.

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