



News Release

October 26, 2007

Contact: Todd Nedwick, 202-333-8931 x28, tnedwick@nhtinc.org

**FUNDING SHORTFALL THREATENS 500,000 PROJECT-BASED SECTION 8
APARTMENTS**

*HUD CFO admits fiscal year 2008 appropriations bills will not provide enough funds to
guarantee twelve months of payments to Section 8 property owners*

WASHINGTON, D.C.-- More than 500,000 project-based Section 8 apartments- many of them occupied by elderly and disabled Americans- are at serious risk of being lost from the nation's affordable housing stock because the Department of Housing and Urban Development (HUD) and Office of Management and Budget (OMB) failed to request enough funds to meet the program's obligations in fiscal year 2008, the National Housing Trust announced today. The National Housing Trust has appealed to Congress to fully fund the program and avert a housing crisis that will affect tens of thousands of working families and seniors. (A letter to congressional appropriators on behalf of more than 50 organizations representing affordable housing lenders, state and local housing agencies, investors, tenant groups, and owners, is enclosed).

Congress is poised to pass an appropriations bill with a project-based Section 8 funding shortfall of \$2.5 billion. If full funding is not provided, HUD will be unable to guarantee a full year of payments to Section 8 property owners. Without such a guarantee, thousands of property owners who can economically leave the Section 8 program will do so at the first opportunity, leaving working families and seniors facing substantially higher rents or displacement.

“The Administration is proposing to cut this program at a time when communities all across America are facing critical affordable housing shortages,” said Michael Bodaken, NHT president. “Ultimately it is the millions of families and elderly facing critical housing needs who will be impacted.”

The bipartisan supported project-based Section 8 program provides affordable housing to more than 1.3 million families with an average household income of less than \$11,000 per year in nearly every county in the country. More than 40 percent of residents are elderly.

The program’s 2007 budget of \$5.9 billion was \$1.2 billion short. As a result, thousands of property owners have received late Section 8 payments, forcing them to use reserves to cover operational costs. Since most owners have reserves that are inadequate to compensate for this funding shortfall, owners have been forced to cut back on paying for essential services. Despite this funding shortfall, HUD’s budget request for 2008 is *less than* what was appropriated in 2007, even though the funding needs will increase.

Instead of requesting from Congress the necessary funds, HUD Chief Financial Officer, John W. Cox, has stated that HUD will *partially fund* Section 8 contracts in 2008. Mr. Cox explained HUD’s position at an October 17th hearing of the House Subcommittee on Housing and Community Opportunity.

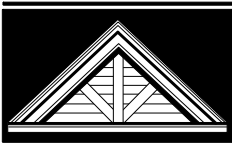
Not guaranteeing a full twelve months of payments to property owners will force many owners to leave the program. According to the National Housing Trust’s analysis of HUD data, approximately 500,000 Section 8 apartments receive subsidies below the fair market rent for the geographic area in which they are located. Private owners of these apartments could opt-out and receive higher rents in the private market.

“If the government breaks its promise, we will lose thousands of apartments affordable to very low income families and seniors and thousands of households will be displaced,” asserted Bodaken. “We will never be able to get this housing back.”

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About the National Housing Trust

The National Housing Trust preserves and revitalizes affordable apartments to better the quality of life for the families and elderly who live there. We believe preserving and safeguarding existing affordable homes is the essential first step in solving our nation's housing dilemma. We are the only national nonprofit engaged in housing preservation through public policy initiatives, real estate development, and lending.



NATIONAL
HOUSING
T R U S T

October 10, 2007

To: Senator Patty Murray
Chair, Senate THUD Subcommittee of the Appropriations Committee
173 Senate Russell Building
Washington, D.C.

Senator Christopher Bond
Ranking member, Senate THUD Subcommittee of the Appropriations Committee
274 Senate Russell Building
Washington, D.C.

Representative John Olver
Chair, House THUD Subcommittee of the Appropriations Committee
1111 Longworth House Office Building
Washington, D.C.

Representative Joseph Knollenberg
Ranking member, House THUD Subcommittee of the Appropriations Committee
2349 Rayburn House Office Building
Washington, D.C.

Dear Chairmen and Ranking Members:

The undersigned 50 organizations, representing affordable housing lenders, state and local housing agencies, investors, tenant groups, and owners, are writing to inform you of a critical situation currently threatening federal government contracts on thousands of affordable housing properties subsidized through the U.S. Department of Housing and Urban Development (HUD). Congress is poised to provide an insufficient amount of money to fully fund all project-based Section 8 contracts in fiscal year 2008.

In order for federally assisted housing to stand the test of time, the federal government must act as a fair and consistent partner by honoring the contracts it has entered into with property owners. If Congress fails to provide a full year's funding for Section 8 it's a "lose-lose-lose" situation: owners will choose the unregulated private market and the federal investment in this housing will have been squandered; residents will be displaced; and communities will suffer the loss of an essential source of affordable housing.

We appreciate your already expressed interest in this issue. As you are aware, the current funding dilemma stems from HUD and OMB's failure to request adequate funds to renew all project-based Section 8 contracts. Over the last decade, a number of accounting maneuvers have been used, such as including "rescissions" in appropriations bills and borrowing from state housing finance agency long-term contracts, to distort the actual funding needs for contract renewals. This has led us to our present situation.

If there is an issue under the Antideficiency Act with one-year section 8 renewal contracts that cross fiscal years and are not fully funded by the initial year's appropriations, the problem can be solved by statutory authority in the FY 2008 T-HUD appropriations Act that specifically authorizes the Secretary to enter into these one-year contracts even if a portion of the payments are paid through future appropriations. This is not an uncommon practice. We recognize that the congressional budget process puts some constraints on this practice, but exceptions or waivers can be obtained.

To clear up any confusion on this matter, we suggest language be included into the FY'08 T-HUD appropriations bill as follows:

"Notwithstanding any other provision of law, the Secretary of Housing and Urban Development may enter into a renewal contract for section 8 project-based assistance that obligates the Secretary to make assistance payments for one year, notwithstanding that some portion of these payments may be funded from future appropriation Acts."

Background

In response to HUD's FY'07 request, Congress appropriated \$5.9 billion for Section 8 project-based contract renewals, an amount that has proven to be \$1.2 billion less than what was actually needed. As a result, thousands of property owners have received late Section 8 payments, forcing them to use reserves to cover operational costs. Since most owners have reserves that are inadequate to compensate for this funding shortfall, owners have been forced to cut back on paying for essential services.

Despite this funding shortfall, HUD's budget request for FY'08 is *less than* what was appropriated in FY'07, even though the number of contracts up for renewal will increase. If the Administration's current FY'08 budget request is accepted, the FY'08 shortfall will be \$2.5 billion.

The Administration's response to this crisis is to propose funding "stub" contracts. Under this plan, HUD will require owners to renew their contracts multiple times throughout the year and will not guarantee a full year of payments to property owners, as is contractually required.

Loss of Investor Trust

The Section 8 contract has already been devalued by sustained talk of inadequate funds, widespread late payments in 2007, and the inability of HUD to provide one-year extension contracts due to insufficient funds. **The following are just some of the anticipated consequences if HUD's "stub" contract solution is approved for FY'08:**

- (1) If a property receives insufficient, legally obligated funding to operate, the low-income residents, many of them elderly and disabled, may well be displaced, and a scarce housing resource will be lost.
- (2) Lenders will be less willing to make long-term loans for refinancings or purchases of Section 8 properties, transactions that are key to the rehabilitation and preservation of the our nation's affordable housing stock.
- (3) Investors will be less willing to purchase low income housing tax credits, which are key to the sale and rehabilitation of these properties.
- (4) Owners who can opt out of the Section 8 program will do so at the first opportunity.
- (5) Owners will select the highest income tenants they legally can select in order to mitigate the effect of missed or reduced assistance payments.
- (6) The cost of enhanced vouchers and other tenant protection vouchers will soar, or, alternatively, not all tenants will be protected if there is an opt-out.
- (7) There will be an increase in defaults on FHA-insured mortgages.
- (8) Affordability use restrictions that have been restructured in the mark-to-market program, which run 30 years, will be converted to permit higher income tenants to be served.
- (9) For those remaining in the Section 8 program, there will be an increase in deferred maintenance, depletion of replacement reserves, and little likelihood of obtaining tax credits for rehabilitation.
- (10) The lack of sufficient Section 8 funds will thwart the refinancing of older Section 202 housing for the elderly and disabled that have Section 8 subsidies. Many of these are 20 to 30 years old and can be preserved for another long period with recapitalization and rehabilitation, but lenders and investors will be wary of participating.

It is inappropriate for HUD or OMB to suggest a program of partial funding. This approach distorts the actual funding need, without addressing a critical funding shortfall.

Further, the continued delay in providing year long contracts without partial payments undermines the confidence of owners, resulting in owners' terminating such contracts. It is simply not acceptable that the nation's most vulnerable people, many of them elderly and disabled, will be put out on the street because the Administration requested insufficient funds to meet its contractual obligations.

We can ill afford to lose this unique housing resource.

Please support the appropriation of sufficient funds to renew for 12 months all Section 8 project-based contracts in FY'08.

If you have any questions, please contact Michael Bodaken at 202-333-8931, ext. 11.

Sincerely,

National Housing Trust, joined by:

Investors and Lenders

Community Capital of Maryland
Community Economic Development Assistance Corp. (MA)
Enterprise Community Investment, Inc.
Great Lakes Capital Fund
MMA Financial
National Affordable Housing Trust
National Association of State and Local Equity Funds
National Equity Fund
SunAmerica Affordable Housing Partners
National Association of Local Housing Finance Agencies

Housing Finance Agencies

National Council of State Housing Agencies
Florida Housing Finance Corporation
Maryland Department of Housing and Community Development
MassHousing
New York State Housing Finance Agency
North Dakota Housing Finance Agency
Ohio Capital Corporation for Housing
Oregon Housing and Community Services
Vermont Housing Finance Agency
Washington State Housing Finance Commission
Wisconsin Housing and Economic Development Authority

Local Governments

City of Boston
City of New York
City of Portland
City of San Francisco
City of Seattle

Developers

Affordable Housing Management, Inc.
American Capital Advisors, Inc.
Chicago Community Development Corporation
Community Development Trust
Evergreen Partners (national)
Gill Park Cooperative (IL)
Homes for America (MD)
Lake View Towers Residents Association (IL)
Leasing and Management Company (IL)
Mercy Housing
Mulford Square Preservation Corporation (IL)
National Housing Trust/Enterprise Preservation Corporation
Realty & Mortgage Co. (IL)
St. James Capital, LLC (MI)

Intermediaries and Advocates

Affordable Housing Tax Credit Coalition
California Housing Partnership
Community Alliance of Tenants (OR)
Enterprise Community Partners
Gideon Court Residents Council (IL)
Housing Preservation Project (national)
Local Initiatives Support Corporation
National Housing Conference
National Housing Law Project
National Low Income Housing Coalition
Stewards of Affordable Housing for the Future (SAHF)
Tabernacle Senior Citizens Project (IL)
850 West Eastwood Tenants Association (IL)