Affordable Housing Preservation: This refers to the successful recapitalization of affordable rental housing in order to:

- Safeguard long-term rental assistance for current and future generations;
- Improve and Modernize properties through capital repairs; and
- Stabilize properties by placing them on solid financial footing.

Budget-Based Rent Increase: Many HUD-assisted properties have rents that are approved by HUD (or by a CONTRACT ADMINISTRATOR) based on the estimated costs to operate the property, under the budget-based rent increase procedures documented in HUD Handbook 4350.1 Chapter 7. Other rent adjustment methods include the OPERATING COST ADJUSTMENT FACTOR (OCAF) method.

Capital Improvements: A capital improvement is an outlay of funds for the improvement of a fixed asset that extends the life or increases the productivity of the asset. In the context of a building, capital improvements typically refer to replacement of major structural elements and mechanical equipment. Capital improvements are typically paid for from a RESERVE FUND FOR REPLACEMENTS or through loan proceeds. Also see CAPITAL REPAIRS.

Note: Terms that appear fully capitalized in definitions are also defined terms within this Glossary.

Note: Where the U.S. Department of Housing and Urban Development (HUD) Office of Multifamily Housing Programs (Multifamily) definition and the standard industry definition differ, this document uses the HUD Multifamily definition.
**Capital Needs Assessment (CNA):** A CNA is a report on a property that estimates its repair and replacement needs over an extended period of time, often analyzing the way in which resources need to be accumulated to pay for these needs (reserve analysis). A CNA is also known as a Physical Needs Assessment (PNA), Physical Condition Assessment (PCA), reserve study, HUD Comprehensive Needs Assessment (CNA), or capital plan. In August 2014, HUD announced a new CNA e-Tool suite of software that will become the standard platform for capital needs assessments for HUD and for the Department of Agriculture’s Rural Housing Service.

**Capital Repairs:** Sometimes a distinction is made between capital improvements (adding a new feature to a property, or replacing a major building system when it has reached the end of its useful life) and capital repairs (repairs made to a building system during its useful life, to extend its useful life, or to improve its efficiency, or to cure a maintenance issue). Also see CAPITAL IMPROVEMENTS.

**Cash Flow:** Cash flow is cash that property investors or owners receive after deducting operating expenses, replacement reserve deposits, and debt service payments from the EFFECTIVE GROSS INCOME (gross rental income less vacancy and bad debt loss plus miscellaneous income) for a rental property.

**Contract Administrator:** Each Section 8 HOUSING ASSISTANCE PAYMENTS (HAP) Contract is funded by HUD and administered by a CONTRACT ADMINISTRATOR who usually is a third party. Most HAP Contracts are administered by statewide PERFORMANCE BASED CONTRACT ADMINISTRATORS, most others are administered by “Traditional Contract Administrators,” and a few are administered directly by HUD. Typically, Traditional Contract Administrators gained a long-term right to be the contract administrator at the time the HAP Contract was originally funded.

**Contract Expiration:** Section 8 HOUSING ASSISTANCE PAYMENT Contracts, and contracts for other types of rental assistance, specify the ending date for the contract, also called the “contract expiration date.” HUD’s Section 8 Renewal Policy Guide discusses owners’ options for renewing expiring Section 8 contracts. Expiring contracts for other types of rental assistance (for example, RENT SUPPLEMENT (Rent Supp), RENTAL ASSISTANCE PAYMENTS (RAP), and SECTION 8 MODERATE REHABILITATION (MOD REHAB)) typically are not eligible for renewal, but can be converted to project-based vouchers under the 2nd component of the RENTAL ASSISTANCE DEMONSTRATION (RAD) Program.

**Contract Rent:** Rental assistance contracts, such as Section 8 HOUSING ASSISTANCE PAYMENTS Contracts, specify the total rent that the owner may collect. Contract Rent is the total rent paid by the tenant plus rental assistance paid by HUD under the contract, and it does not include any tenant-paid UTILITY ALLOWANCE (see GROSS RENT). The Contract Rent is specific to the property and typically varies by unit type.

**Critical Repairs:** A needs assessor who is preparing a CAPITAL NEEDS ASSESSMENT identifies needed repairs as “critical” or “non-critical.” Typically, critical repairs must be completed prior to initial/final closing of an FHA-insured mortgage and/or RAD conversion.

**Davis-Bacon:** The Davis-Bacon Act of 1931 established a requirement to pay the local prevailing wages for public works projects. Many HUD programs require Davis-Bacon compliance; for example, substantial rehabilitation carried out in connection with an FHA-INSURED 221(d)(4) loan is subject to Davis-Bacon prevailing wage requirements. HUD’s Office of Labor Relations oversees Davis-Bacon compliance.

**Debt Service:** Debt service is payment of interest and principal on a debt (such as a mortgage), typically made on a monthly basis. For FHA-INSURED loans, debt service also includes the monthly mortgage insurance premium.

**Effective Gross Income:** Effective Gross Income is the gross income of a property if fully rented, less an allowance for estimated or actual vacancy, plus miscellaneous income, such as laundry revenue and tenant late charges.
Emergency Low Income Housing Preservation Act (ELIHPA): The ELIHPA statute authorized the first federal affordable housing preservation program in 1987, and was active from 1987 – 1992. ELIHPA was codified in response to Congress’ concern that the mortgages of most HUD-assisted multifamily housing properties (i.e., SECTION 236 and 221(d)(3) Below Market Interest Rate loan (BMIR)) were reaching the 20-year point, signaling owners’ rights to prepay their mortgages and abandon their property’s affordability restrictions. Under ELIHPA, owners could receive certain federal incentives for maintaining the property as affordable housing. ELIHPA was replaced by the LOW-INCOME HOUSING PRESERVATION AND RESIDENT HOMEOWNERSHIP ACT (LIHPRHA). Typical ELIHPA Use Agreements expired at the originally scheduled maturity date of the underlying mortgage loan; accordingly, most ELIHPA Use Agreements have already expired.

Enhanced Vouchers: See TENANT PROTECTION VOUCHERS (TPVs), INCLUDING ENHANCED VOUCHERS (EVs)

Excess Income: In HUD’s SECTION 236 program, some residents pay a rent that is higher than the Section 236 Basic Rent. The portion of rent above the Basic Rent is called “excess rent.” The Section 236 program requires owners to make a monthly report to HUD detailing all excess rent and calculating the total excess rent that is to be repaid to HUD (this total is called “excess income”). Owners can retain excess income, with HUD permission, under certain circumstances.

Expiring Use Restrictions (EUR): Expiring use restrictions are low- and moderate-income affordability requirements associated with subsidized mortgages under the SECTION 221(d)(3) BMIR and SECTION 236 programs, which terminate when/if the mortgage is prepaid.

Fair Market Rent (FMR): Each year, HUD’s Office of Policy Development and Research publishes Fair Market Rents for each Metropolitan Statistical Area (MSA), and for each non-MSA county, in the United States. The FMRs represent typical rents paid for units in the middle of the price range in the local market. The primary use of FMRs is to establish maximum rents for various HUD programs, many of which use a percentage of FMR as one factor in determining maximum rents. It is important to recognize that the FMR is an MSA-wide (or county-wide) measurement and does not represent an accurate comparable market rent for any particular property. Recently, HUD has begun to publish FMRs for areas smaller than an MSA or county as well.

FHA-Insured: A mortgage loan that has FHA mortgage insurance is said to be “FHA-insured.” Also see HUD-HELD.

Flexible Subsidy Loan (Flex Sub): This program was part of HUD’s effort to preserve affordable housing originally developed under federal government programs. It provided loans to owners of troubled, federally assisted, low- and moderate-income multifamily rental properties. This program was created in 1978 and was active through the early 1990s. Additionally, a significant amount of Flex Sub funding was used to repair properties damaged by the 1996 Northridge earthquake in California. The Flex Sub program has two distinct direct loan components:

(1) Operating Assistance Program (OAP), which provided temporary funding to replenish property reserves, cover operating costs, and pay for limited physical improvements. An OAP is a non-amortizing “contingent” loan that is repaid from RESIDUAL RECEIPTS or paid in full if the property is sold.

(2) Capital Improvement Loan Program (CILP), which paid for major CAPITAL IMPROVEMENTS when the property reserve was inadequate. CILP assistance was provided in the form of an amortizing loan, generally with an interest rate of six percent.

Gross Income: Gross income is the total income derived from the operation of a property, and is calculated before deducting costs such as routine maintenance, debt service, etc. Also see GROSS POTENTIAL INCOME and EFFECTIVE GROSS INCOME.
**Gross Potential Income:** Gross Potential Income is the total rental income that a property would generate, if all units were occupied, all residents were charged the maximum, scheduled rent, and all rent were collected. It is sometimes also called “Gross Potential Rental Income.”

**Gross Rent:** The Gross Rent includes the CONTRACT RENT plus any tenant-paid UTILITY ALLOWANCE.

**Housing Assistance Payment (HAP):** Section 8 Housing Assistance Payments Contracts (“HAP Contracts”) provide that the resident pays a portion of the CONTRACT RENT (the resident’s portion is limited to a percentage of the resident’s income), with the remainder of the Contract Rent being paid under the HAP Contract as a Housing Assistance Payment. For example, if the Contract Rent is $600 and the resident’s portion is $200, the HAP portion would be $400.

**Housing Choice Voucher (HCV) Program:** This is HUD’s largest program, providing rental assistance to roughly 1.5 million low-income households. Eligible tenants pay 30% of adjusted income toward rent and utilities, and the balance of the CONTRACT RENT is paid by the PHA that administers the HCV program. Most HCVs remain with the tenant after move-out and are called “tenant-based;” others remain with the property / unit after move-out and are called “project-based.”

**Housing Finance Agency:** Each State has a Housing Finance Agency. HFAs are State-chartered, were established to help meet the affordable housing needs of State residents, have statewide authority to finance affordable housing, and typically are governed by a board of directors appointed by the Governor. In addition to the 50 States, the following also have HFAs: the District of Columbia, New York City, Puerto Rico, and the Virgin Islands. Typically, the HFA is the State Allocating Agency for the Low Income Housing Tax Credit (LIHTC) program.

**HUD-Held:** A loan that formerly was FHA-insured, but that is now owned by HUD (as a result of paying an FHA mortgage insurance claim), is said to be HUD-Held.

**HUD Office of Public and Indian Housing (PIH):** HUD’s PIH Office oversees three major program offices: public housing programs, the tenant-based Section 8 Housing Choice Voucher (HCV) program, and the Office of Native American Programs. Through the public housing program, PUBLIC HOUSING AGENCIES (PHAs) own and manage affordable housing for low-income residents. PHAs also operate the HOUSING CHOICE VOUCHER program. PHAs in tribal areas operate programs through the Office of Native American Programs, which ensures that safe, decent, and affordable housing is available to Native American families, and creates economic opportunities for Tribes and Indian housing residents.

**HUD Office of Recapitalization (Recap):** Effective October 5, 2014, the U.S. Department of Housing and Urban Development’s former Office of Affordable Housing Preservation (OAHP) was renamed the Office of Recapitalization (Recap). Recap is responsible for the preservation and recapitalization of federally assisted affordable housing; overseeing and processing financial transactions to ensure the long-term physical and financial viability of affordable rental housing; and ensuring compliance with relevant laws and statutes.

**Interest Reduction Payment (IRP):** In a SECTION 236 property, an Interest Reduction Payment is provided by HUD on a monthly basis to make up the difference between the mortgage DEBT SERVICE at the market rate and the debt service at an effective interest rate of 1 percent. As an example, a MORTGAGE NOTE calls for a loan amount of $1,000,000 at 7.0% for 40 years with 0.5% MORTGAGE INSURANCE PREMIUM; under the note, the monthly debt service would be $6,214.31 for principal and interest, plus the FHA mortgage insurance premium. The monthly principal and interest payment for $1,000,000 at 1.0% for 40 years would be $2,528.56. The monthly IRP is $3,685.75 ($6,214.31 minus $2,528.56) plus that month’s FHA mortgage insurance premium. Accordingly, the effect of the IRP is to reduce the monthly debt service to what it would have been at a 1% interest rate and 40-year term, with no FHA mortgage insurance premium, to facilitate affordable rent levels, as required under the SECTION 236 program.
**Interest Reduction Payment (IRP) Decoupling:** IRP decoupling is a preservation tool to permit owners or purchasers of HUD SECTION 236 properties to retain the remaining monthly INTEREST REDUCTION PAYMENTS (IRPs) after REFINANCING. In return for approving the owner’s decoupling request, HUD requires that the existing use restrictions be extended for five years beyond the originally scheduled maturity date of the SECTION 236 loan.

**LIHTC:** See LOW INCOME HOUSING TAX CREDIT PROGRAM.

**Loan Maturity:** The loan maturity date is the final due date of a note at which point all remaining principal and interest are due and payable. A loan that is scheduled to have a zero unpaid balance at maturity is called a “self-amortizing” loan, and a loan that is scheduled to have a balance remaining at maturity is sometimes called a “balloon” or “bullet” loan.

**Low-Income Housing Preservation and Resident Homeownership Act (LIHPRHA):** LIHPRHA is a 1990 statute enacted to prevent the loss of FHA-insured affordable housing (i.e., SECTION 221(d)(3) and SECTION 236 properties) through PREPAYMENTS of FHA-insured mortgages. HUD provided incentives to owners who agreed to continue the property’s affordability restrictions for the remaining useful life of the property. Incentives included federally insured loans for CAPITAL IMPROVEMENTS, additional Section 8 subsidies or Section 8 rent increases, and Capital Grants. In exchange, HUD required Use Agreements that sometimes restricted owner distributions and refinancings. In 1996, Congress restored owners’ rights to prepay and removed funding for this program. Unlike EMERGENCY LOW INCOME HOUSING PRESERVATION ACT (ELIHPA) Use Agreements, LIHPRHA Use Agreements remain in effect for the remaining useful life of the property.

**Low Income Housing Tax Credit Program (LIHTC):** The LIHTC program was created in the Tax Reform Act of 1986, and it includes both competitively allocated “9 percent” tax credits and non-competitive “4 percent” tax credits. Developer-owners of LIHTC properties can claim credits against their federal income tax liability, for up to ten years after the property is completed and leased up, provided that the property remains in compliance with LIHTC requirements. Typically, a LIHTC property is owned by a limited partnership or limited liability company in which the real estate developer is the general partner or managing member and in which corporate investors hold the remaining ownership interests.

**Mark-to-Market Program (M2M):** Authorized in 1997, M2M was created to preserve FHA-insured or financed multifamily housing by (a) reducing Project-Based Section 8 subsidized rents that were greater than market level down to market rent levels; (b) providing funds for immediate capital repairs; and (c) structuring sufficient reserve deposits for long-term physical viability. These transactions were facilitated through an FHA mortgage insurance claim payment, which paid off any portion of the existing FHA-insured loan that was not supportable at the reduced rents.

**Mark-to-Market Full:** This is a term used to refer to properties that went through the MARK-TO-MARKET (M2M) program and which also required REFINANCING to achieve supportable DEBT SERVICE.

**Mark-to-Market Lite:** This is a term used to refer to properties that went through the MARK-TO-MARKET (M2M) program and which did not require additional debt restructuring in order to achieve supportable DEBT SERVICE.

**Mod Rehab:** See SECTION 8 MODERATE REHABILITATION PROGRAM.

**Mortgage Insurance Premium:** For each FHA-insured mortgage loan, FHA charges an initial mortgage insurance premium at closing plus a monthly mortgage insurance premium over the life of the loan. The mortgage insurance premium amounts are calculated to cover FHA’s risks.
**Mortgage Note:** A mortgage note is a legal document by which real estate is pledged by the owner, without transfer of title, as security for the repayment of a loan. In some states, a deed of trust approach is utilized rather than a mortgage approach.

**Net Operating Income (NOI):** NOI is the income remaining after deduction of all operating expenses of a property for a given period, but before payment of debt service.

**Non-Critical Repairs:** A needs assessor who is preparing a CAPITAL NEEDS ASSESSMENT identifies needed repairs as “critical” or “non-critical.” Typically, non-critical repairs must be completed within one year after initial/final closing of an FHA-insured mortgage and/or RAD conversion. However, there are some exceptions and a period longer than 12 months may be allowed, with HUD approval, for certain non-critical repairs.

**Operating Cost Adjustment Factor (OCAF):** Some Section 8 HOUSING ASSISTANCE PAYMENTS Contracts provide for annual adjustment of the Contract Rents by applying an Operating Cost Adjustment Factor (OCAF). Typically, the OCAF is not applied to the portion of the rent that covers the mortgage payment. HUD's Office of Policy Development and Research publishes OCAFs annually for each state. The OCAFs are based on actual operating expenses for HUD assisted properties in the state.

**Opt-Out:** When a property owner decides not to request renewal of an expiring Section 8 HOUSING ASSISTANCE PAYMENTS (HAP) Contract, the owner is said to have “opted out.” Opt-outs create affordability risks for affected tenants. Also see TENANT PROTECTION VOUCHERS.

**Owner Equity:** This term refers to the market value of real property, less the amount of existing indebtedness. Some HUD programs utilize program-specific definitions, typically for purposes of determining the maximum allowable annual cash flow distribution the owner can earn.

**Performance Based Contract Administrator (PBCA):** Starting in 1999, HUD issued statewide contracts to administer Section 8 HOUSING ASSISTANCE PAYMENTS (HAP) Contracts, to PERFORMANCE BASED CONTRACT ADMINISTRATORS (PBCAs). Accordingly, most HAP Contracts are administered not by HUD, but by PBCAs. PBCA duties include administration of the monthly HAP subsidies, conducting Management and Occupancy Reviews, reviewing and approving adjustments to CONTRACT RENTS, and working with property owners to renew expiring HAP Contracts. Also see CONTRACT ADMINISTRATOR.

**Prepayment:** When a property owner pays off the balance of a mortgage loan prior to maturity of the loan, the owner is said to have “prepaid” the loan. Prepayment of FHA-insured loans requires HUD approval of a correctly prepared prepayment application and HUD’s agreement that the property owner has properly notified residents of the proposed prepayment. In addition, prepayment of some FHA-insured loans requires an additional discretionary HUD approval. Also see SECTION 219 and SECTION 250(a).

**Project Based:** See SECTION 8 PROJECT-BASED RENTAL ASSISTANCE (PBRA).

**Prospective Conversion:** The 2nd component of the RENTAL ASSISTANCE DEMONSTRATION program (RAD) allows for conversion of expiring RENT SUPPLEMENT, RAP, and MOD REHAB contracts to project-based vouchers or project-based rental assistance. The conversion can be “prospective” (when the underlying FHA-insured loan will be prepaid in the future) or “retroactive” (when the underlying FHA-insured loan was previously prepaid). Also see RENTAL ASSISTANCE DEMONSTRATION (RAD).

**Public Housing Agency (PHA):** A PHA is an agency of local (or sometimes state) government, authorized to own and operate affordable housing. Typical PHAs operate a “conventional public housing” program (owning and operating public housing under Section 9 of the U.S. Housing Act) and a HOUSING CHOICE VOUCHER (HCV) program, although some PHAs operate only one of these two programs. HUD’s OFFICE OF PUBLIC AND INDIAN HOUSING (PIH) oversees the conventional public housing and HCV programs. PHAs in tribal areas also operate
programs under HUD’s Office of Native American Programs (ONAP). Some PHAs also own and operate other types of affordable housing.

**RAP:** See RENTAL ASSISTANCE PAYMENT (RAP) PROGRAM.

**Real Estate Assessment Center (REAC):** The objective of REAC is to ensure that all HUD-assisted housing properties are decent, safe, and sanitary for tenants. REAC is responsible for data collection and analysis, involving establishment of a database of comprehensive and objective information about the condition of properties in the HUD portfolio. Trained inspectors conduct physical inspections and the results are compiled, along with other data, to produce a REAC score for each property in the system. The top REAC score is 100. REAC scores are made available to government agencies, property owners, and HUD staff. Property owners are required to complete needed repairs.

**Recap:** See OFFICE OF RECAPITALIZATION.

**Recapitalization:** As applied to real estate, “recapitalization” is a process whereby the type, amount, income, return, or priority of a loan, ownership interest, or other securities of a property are adjusted, restructured, or replaced. With regard to preservation of HUD-assisted multifamily housing, recapitalization refers to REFINANCING or restructuring of FHA-insured outstanding mortgages or other financing.

**Refinancing:** A “refinancing” is the payment of an outstanding or existing debt with funds obtained by securing a new debt, often at a different interest rate and terms.

**Regulatory Agreement:** The Regulatory Agreement is a contract between HUD and a property owner that describes the property that is the subject of the agreement, and that enumerates the roles and responsibilities of the owner regarding how the property is to be managed and maintained, use of the property, sales restrictions, and enforcement, including violations of the agreement and remedies in the event of a default. Many HUD programs require a Regulatory Agreement (sometimes called a USE AGREEMENT).

**Rental Assistance Demonstration (RAD) Program:** Authorized by Congress under the FY12 HUD appropriations act, the Rental Assistance Demonstration (RAD) Program allows public housing agencies (PHAs) and owners of other HUD-assisted properties to convert units from their original sources of HUD rental assistance to project-based Section 8 contracts. The primary benefit of RAD is that properties that convert under this process are no longer restricted from securing private sources of capital financing, and the owners are therefore enabled to address deferred maintenance issues that have caused Public Housing and other HUD rental stock to deteriorate nationwide. Under the “first component” of RAD, properties that are currently funded under the Public Housing and Section 8 MOD REHAB programs convert their assistance to long-term, project-based Section 8 contracts (either PBRA or PBV). Under the “second component” of RAD, the owners of properties funded under HUD’s legacy programs (RENT SUPPLEMENT, RENTAL ASSISTANCE PAYMENT, and SECTION 8 MODERATE REHABILITATION) convert their assistance to SECTION 8 PROJECT-BASED VOUCHERS or PROJECT-BASED RENTAL ASSISTANCE. See also PROSPECTIVE CONVERSION and RETROACTIVE CONVERSION.

**Rental Assistance Payment (RAP) Program:** The RAP program was an early HUD program, similar to Section 8, through which a Rental Assistance Payment (RAP) agreement was made available to SECTION 236 properties that were experiencing escalating operating costs. The RAP agreement allowed low-income tenants to pay an affordable rent based on income and provided a RAP payment to the property owner covering the balance of the SECTION 236 Basic Rent. The program was suspended under the housing subsidy moratorium of January 5, 1973. As rents escalated in the 1980s, contract funds were insufficient to subsidize contract units for the full term of the contract. Most FHA-insured properties and SECTION 202 properties were able to convert their RAP assistance to Section 8 assistance during the 1980s in order to avoid contract amendment problems.
Rent Supplement Program ("Rent Supp"): Rent Supplement is an older HUD project-based rental subsidy program used to assist some SECTION 221(d)(3) and FHA-insured SECTION 236 properties. Each Rent Supp subsidy contract had the same term as the mortgage. Most Rent Supp contracts in FHA-insured properties were converted to Section 8 in the 1970s. The remaining Rent Supp contracts are expiring in the next few years and may be replaced, under certain circumstances, with SECTION 8 PROJECT-BASED VOUCHERS.

Reserve Fund for Replacements (RfR or R4R): As stated in HUD Handbook 4350.3 REV 1, the REGULATORY AGREEMENT for FHA-insured multifamily properties specifies that the borrower must establish and maintain a Reserve for Replacement account, with a specified monthly amount to be deposited, for defraying certain costs of replacing major structural elements and mechanical equipment of the insured property, and for other purposes. The balance in the account is a restricted asset; disbursements can only be made with HUD’s consent.

Residual Receipts: “Residual receipts” refer to certain funds held by borrowers whose mortgages are insured or held by HUD. Residual receipts are calculated after first determining the amount of SURPLUS CASH. Certain borrowers then may make any distributions permitted under the REGULATORY AGREEMENT and other program obligations. For mortgage insurance programs that provide for distributions, Residual Receipts is the term used for the SURPLUS CASH remaining after distributions are paid.

Retroactive Conversion: The 2nd component of the RENTAL ASSISTANCE DEMONSTRATION (RAD) program allows for conversion of expired or terminated RENT SUPP, RAP, and MOD REHAB contracts to project-based vouchers or project-based rental assistance. The conversion can be “prospective” (when the underlying FHA-insured loan will be prepaid in the future) or “retroactive” (when the underlying FHA-insured loan was previously prepaid). Also see RENTAL ASSISTANCE DEMONSTRATION (RAD) and PROSPECTIVE CONVERSION.

Section 8 Moderate Rehabilitation Program (Mod Rehab): The Section 8 Moderate Rehabilitation program provided project-based rental assistance pursuant to a HOUSING ASSISTANCE PAYMENT (HAP) Contract between a PUBLIC HOUSING AGENCY and a property owner, who would rehabilitate a property and rent the units to low-income families. It was an expansion of the existing rental certificate program, and was intended to facilitate moderate levels of rehabilitation to upgrade and preserve rental housing stock. Tenant rent and utility costs were capped at 30 percent of adjusted income. While expiring HAP contracts can be renewed for existing MOD REHAB properties, the program itself was repealed by Congress in 1991.

Section 8 New Construction and Substantial Rehabilitation: Active from 1974 through the mid-1980s, this program stimulated the construction of several hundred thousand units of affordable housing. The program involved a contract between HUD and a private developer or housing authority that agreed to construct or rehabilitate housing units and rent the housing units to eligible tenants. HUD provided long-term (20- to 40-year) Section 8 project-based rental subsidies on behalf of tenants, pursuant to a HOUSING ASSISTANCE PAYMENT (HAP) Contract. Tenants living at these properties pay 30 percent of adjusted income for rent and utilities; subsidies from HUD cover the balance up to a HUD-approved FAIR MARKET RENT. The project-based rental assistance stays with the property when tenants move. This program was repealed by Congress in 1983, but there are still many units that continue to receive these HUD subsidies.

Section 8 Project-Based Rental Assistance (PBRA): A Section 8 HAP contract is called “project-based” if the rental assistance remains with the property when a tenant moves. Section 8 assistance that remains with the tenant is called “tenant-based” (for example, the HOUSING CHOICE VOUCHER program is primarily tenant-based). Also see SECTION 8 PROJECT-BASED VOUCHERS.

Section 8 Project-Based Vouchers (PBVs): A public housing agency may allocate up to 20 percent of its HOUSING CHOICE VOUCHERS to specific housing units by contracting with property owners for a term of up to 15 years, with the possibility of a renewal for up to an additional 15 years. Usually, no more than 25 percent of the units
in a property can have PBVs. Tenants pay 30 percent of their adjusted income for rent and utilities. The Section 8 subsidy stays with the housing unit when a tenant moves.

**Section 202:** The Section 202 program was created in 1959 to provide direct government loans to nonprofits for the purpose of developing affordable rental housing for the elderly, and also for persons with disabilities under subsequent authorizations. The program currently provides interest-free capital advances to finance the construction, rehabilitation, or acquisition (with or without rehabilitation) of structures that will serve as supportive housing for very low-income elderly persons. The program also provides rental assistance subsidies for these properties.

**Section 219 of the 1999 Appropriations Act:** FHA-insured (or HUD-Held) loans that **do not** require a discretionary HUD approval in order to prepay are described in Section 219 of the 1999 Appropriations Act. In summary (and with some exceptions), these loans are for properties that were developed by for-profit developers, that did not accept FLEXIBLE SUBSIDY assistance, and that do not currently have RENT SUPPLEMENT contracts. The Section 219 requirements include a tenant notice requirement.

**Section 221(d)(3) Below Market Interest Rate (BMIR):** The BMIR program was a HUD program that was active from 1963 – 1970 and that accounted for the development of roughly one hundred thousand units of affordable housing. The BMIR program provided mortgage loans at a below-market interest rate (3 percent) and FHA mortgage insurance to private developers of low- and moderate-income multifamily housing. The below-market interest rate was possible because Congress directed Fannie Mae to purchase the loans at the same price that would have been paid for a market-interest-rate loan. In return for a lower overall debt service, HUD required assisted property owners to lease their units to moderate-income families at HUD approved rents for the term of their 40-year mortgage.

**Section 236:** The Section 236 program was active from 1968 – 1975 and accounted for the development of several hundred thousand units of affordable housing. The program’s key feature was a monthly INTEREST REDUCTION PAYMENT (IRP) that reduced the mortgage DEBT SERVICE to the level consistent with a 1.0% mortgage interest rate. Most Section 236 loans were made by private lenders, with FHA mortgage insurance. Other Section 236 loans were made by State housing finance agencies (HFAs), without FHA mortgage insurance. In return for a lower overall debt service, HUD required assisted property owners to lease their units to low- and moderate-income families at HUD approved rents for the term of their 40-year mortgage.

**Section 250(a) of the National Housing Act:** Properties with FHA-insured (or HUD-held) loans that require a discretionary HUD approval are subject to the requirements of Section 250(a) of the National Housing Act. In summary (and with some exceptions), these loans are for properties that were developed by nonprofit developers, or that accepted FLEXIBLE SUBSIDY assistance, or that currently have RENT SUPPLEMENT contracts. The Section 250(a) requirements include a tenant notice requirement; HUD also requires rehabilitation of the property and a Use Agreement that extends at least through the scheduled maturity of the original loan.

**Senior Preservation Rental Assistance Contracts (SPRAC):** The purpose of SPRAC is to prevent the displacement of income-eligible elderly residents of SECTION 202 Direct Loan properties, and otherwise preserve and maintain the affordability of Section 202 Direct Loan properties with original interest rates of 6% or less. Under this program, HUD provides eligible properties with 20-year contracts for project-based rental assistance to subsidize the rents of units not currently assisted under an existing rental assistance contract. The program received $16 million of funding during FY 2012, with awards made in December 2013.

**Single Room Occupancy (SRO):** Single Room Occupancy (SRO) housing means housing consisting of single room dwelling units that are the primary residences of their occupants. HUD’s definition of SRO has been revised to require the unit to contain either food preparation areas or bathrooms (they may contain both) only if the
property consists of new construction, conversion of non-residential space, or reconstruction. For acquisition or rehabilitation of an existing residential structure, neither food preparation nor sanitary facilities are now required to be in the unit. If the units do not contain sanitary facilities, the building must contain sanitary facilities that are shared by tenants.

**Substantial Rehabilitation (HUD Definition):** HUD considers substantial rehabilitation of HUD-assisted multifamily rental housing to occur under one of the following circumstances: 1) when the required repairs, replacements, and improvements involve the replacement of two or more major building components, or 2) the costs of the rehabilitation exceed the greater of 15 percent (exclusive of any soft costs) of the property’s replacement cost (fair market value) after completion of all required repairs, replacements, and improvements; or $6,500 per dwelling unit (adjusted by HUD’s authorized high cost percentage); or 20% of the mortgage proceeds applied to rehabilitation expenses.

**Surplus Cash:** Surplus Cash is the cash (including Section 8 HAP payments earned, but not yet received) remaining after all expenses and obligations of the property are paid for, or funds are set aside for their payment in the current reporting period. Normally, nonprofit owners are required to deposit all surplus cash into their RESIDUAL RECEIPTS account. Limited distribution owners are required to deposit any surplus cash remaining after subtracting their allowable distributions.

**Tenant-Based Voucher:** A Housing Choice Voucher that remains with the tenant after move-out is referred to as “tenant-based;” if the voucher remains with the property or unit after move-out, it is referred to as “project-based.”

**Tenant Protection Vouchers (TPVs), including Enhanced Vouchers (EVs):** These are special HOUSING CHOICE VOUCHERS (HCVs) that are issued to protect low-income tenants who might otherwise face significant rent increases as the result of PREPAYMENT of an FHA-INSURED (or HUD-held) loan, or in certain other circumstances. However, TPVs are not provided when a mortgage matures. ENHANCED VOUCHERS (EVs) are TPVs that are allowed to cover a higher approved rent; EVs are intended to allow tenants to remain in their units even though the market rent for the unit is above the level that a normal TPV would cover.

**Triggering Event:** “Triggering Event” is a term used in connection with TENANT PROTECTION VOUCHERS (TPVs). A Triggering Event is an event, such as a prepayment, that allows HUD to issue TPVs.

**Use Agreement:** A Use Agreement is a contract between HUD and a property owner that binds the owner to specific requirements, including the following:

- The property must be maintained and operated as an affordable multifamily housing property and comply with the program rules of the section of the National Housing Act under which it was originally developed and financed (such as SECTION 236, SECTION 221 (d)(3) BMIR, SECTION 202, etc.) for a specific time period, as specified by HUD.
- The property must maintain any use restrictions imposed by other federal assistance and comply with all applicable federal guidelines (such as civil rights and fair housing legislation).
- The property must comply with habitability standards, maintenance guidelines, requirements for submitting periodic reports to HUD, and any other applicable requirements.

Some HUD programs require Use Agreements; others require REGULATORY AGREEMENTS with similar provisions.

**Utility Allowance:** Utility allowances are estimates of utility costs (except cable television and telephone) for an average family occupying a unit of a particular size in a specified geographic area. Utility allowances apply to HUD-assisted multifamily rental housing that receives rental subsidy assistance, where all or some of the utilities
are paid directly by the resident. In HUD-assisted multifamily rentals with Section 8 contracts, the residents in units assisted with Section 8 may pay no more than 30 percent of their adjusted gross monthly income toward rent and utilities. The balance is covered by the Section 8 payment. Also see GROSS RENT.
Sources:


CPD Notice 94-01, Using HOME Funds for Single Room Occupancy (SRO) and Group Housing, at http://www.hud.gov/offices/cpd/lawsregs/notices/priorto95/cpd9401.pdf

HUD Handbook 4660.1, REV 1, Chapter 4, Rehabilitation at http://portal.hud.gov/hudportal/documents/huddoc?id=44601c4HSGH.pdf