HUD Section 202 Program
Supportive Housing for the Elderly

Questions and Answers

This position paper seeks to explore conceptions and misconceptions about the U.S. Department of HUD's longest running and most successful program. Facing elimination within the 2011 President's Budget, the goal is to inform and educate the reader about both the strengths and weaknesses of the program in an effort to not only continue the program, but improve upon it.

Program Overview

HUD's Section 202 Capital Advance program helps expand the supply of affordable housing with supportive services for the elderly. It provides very low-income persons 62-years and older with the opportunity to live independently in an environment that provides the support they need. In addition to funding the construction, acquisition, and rehabilitation of multifamily developments, HUD's Section 202 program subsidizes the rents of senior citizens so they can limit their housing costs to only pay 30 percent of their incomes.

As of 2008, there were approximately 6,200 properties providing Section 202 housing.[1] These included about 4,000 properties developed as Section 202/8 housing, and about 2,200 properties developed under the Section 202/PRAC housing after enactment of the Cranston-Gonzales National Affordable Housing Act of 1990 (NAHA). Tenant data are available on 309,000 households, including 270,000 with a head, spouse or co-head age 62 or older. (The remainder are non-elderly with a disability). There are approximately 176,000 elderly households in the Section 202/8 housing and 94,000 in the Section 202/PRAC housing.

Frequently Asked Questions

In order to better understand the HUD Section 202 program, the following discussion seeks to present and respond to these often-asked questions.

1. The need for housing for very low income elderly is growing (True/False)?

   True: A report from Harvard's Joint Center for Housing Studies concludes that the stock of affordable rental housing has been declining for more than 30 years, and that 1.2 million units were lost from the affordable inventory between 1993 and

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[1] "Section 202 Supportive Housing for the Elderly: Program Status and Performance Measurement (June, 2008)." Data adjusted to include 2007 and 2008 funding awards.

2003.[2] Another report from the Department of Housing and Urban Development found that in 2003, there were 5.18 million renter households with "worst case" housing needs (defined as very low-income renters without housing assistance, paying more than half their income toward housing or living in severely substandard housing). Of this total, 1.13 million were headed by someone age 62 or older. In fact, among households with very low incomes, older households were more likely than other family types with comparable incomes to have worst case needs.

2. Demand for housing at HUD 202 projects is high (True/False)?

True: Vacancy rates for units in Section 202 projects are considerably lower than for the other types of rental housing.[3] For instance, the overall vacancy rate for units in Section 202 housing for older persons stood at an average of 2.6 percent in 2006, and 64 percent had no vacancies at all. By comparison, the national vacancy rate for all rental units in the United States (most of which are not subsidized) was 9.6 percent in the second quarter of 2006. The waiting lists for subsidized housing are typically very long. Approximately 90 percent of Section 202 properties for older persons maintained a waiting list.[4] On average, there were 50 applicants waiting for a unit to become available in a Section 202 property and in many cases, waiting lists were so long that the lists were closed to any new applications. Approximately nine percent of Section 202 properties for older persons that maintained a waiting list had closed it to any new applications. Property managers report that the average number of months spent on a waiting list by people applying for Section 202 housing for older persons was 13.4 months. Forty-three percent of these property managers reported that the typical applicant spends a year or more on the waiting list.

3. Residents often do not reside at HUD Section 202 properties for a lengthy period (True/False).

False: Property managers reported that the average length of stay for residents in Section 202 housing was 7.8 years.[5]

4. Residents move into HUD Section 202 projects as soon as they are eligible at the age of

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2 "Developing Appropriate Rental Housing for Low Income Older Persons. A Survey of Section 202 and LIHTC Property Managers." AARP Public Policy Institute, December, 2006.

3 (See note #2 above)

4 (See note #2 above)

5 (See note #2 above)

62 (True/False).

False: In 2006, the median age of Section 202 residents was 74 years, and 31 percent were age 80 or older. [6]

5. There have been a decline in the number of HUD Section 202 units being constructed (True/False).

True: The decline in funding over the past several years, together with inflationary pressures, has led to a decrease in construction of new units for older persons. Between FY 1995 and FY 2004, the number of new units funded declined by 29 percent, and production in FY 2004 was 58 percent of the production level of the early 1980s. The importance of this decline will become more pronounced as the number of persons age 62 and older increases. [7]

6. The HUD Section 202 Program has low default rates (True/False).

True: In a 2008 report prepared by the U.S. Department of Housing and Urban Development Office of Policy Development and Research, it notes that sponsor screening and rental subsidies have resulted in fewer defaults and greater financial stability in the Section 202 program than in most other federal housing programs.

7. Construction costs associated with HUD Section 202 projects are higher than other type of housing (True/False).

False: The National Association of Homebuilders (NAHB) Research Center, under contract with HUD, conducted a cost evaluation of the Section 202 and Section 811 Supportive Housing programs. The primary purpose of this study was to determine the accuracy and reasonableness of the project development cost limits used in the programs. The NAHB Research Center study found that actual average costs for Section 202/811 projects were reasonable in that they generally were below R.S. Means estimated per square foot costs. Further, the maximum, HUD-allowed Section 202 costs per unit are, on average, approximately equal to R.S. Means estimated Total Construction and Development Costs, exclusive of land.[8]

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[6] "Section 202 Supportive Housing for the Elderly: Program Status and Performance Measurement (June, 2008)." Data adjusted to include 2007 and 2008 funding awards.

[7] "Section 202 Supportive Housing for the Elderly." AARP Public Policy Institute, March 2006.

[8] "Section 202 Supportive Housing for the Elderly: Program Status and Performance Measurement (June, 2008)." Data adjusted to include 2007 and 2008 funding awards.

8. The HUD Section 202 residents have never worked and have been on public assistance most of their lives (True/False).

False: Section 202 residents have been more likely than voucher holders to have been in the labor force when they were younger, or part of a household with a worker. Section 202 tenants were nearly twice as likely as elderly users of housing vouchers to receive income from a pension (23 vs 14 percent). Social Security was the most frequent primary source of income for all groups.[9]

9. Residents at HUD Section 202 are healthy, independent and do not need supportive services (True/False).

False: The amount of frailty reported by managers has been increasing. In general, as the age of the facility increases, the percentage of residents that are frail also increases. Managers reported that about a third of residents had trouble getting out of chairs and getting to and from places. Approximately one quarter had difficulty doing housework; one-fifth had difficulties doing laundry; and nearly one-fifth had difficulties performing personal care, taking medications and preparing meals.[10] This trend toward increasing frailty is re-confirmed in a 2006 survey done by AARP, in which property managers of Section 202 units for older persons indicated that an average of 36 percent of residents age 62 and older were frail or disabled.[11]

10. The HUD Section 202 program does not represent a cost-effective approach toward housing for very low income elderly (True/False).

False: Many states are currently diverting potential nursing home-eligible individuals to home and community-based services, in an attempt to reduce nursing home utilization. The Section 202 program contributes to this effort by providing quality/affordable housing and by utilizing service coordinators to link project residents with services available in the community. The *Fiscal Year 2009 Annual Performance Plan* (APP) notes that this achieves significant medical care-related savings.[12] Over two years, the cost of providing Section 202 housing plus a full range of assisted living services for residents of Section 202 is $7.21 billion. However, supportive services do not necessarily need to be as extensive as those

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9 "Section 202 Supportive Housing for the Elderly: Program Status and Performance Measurement (June, 2008)." Data adjusted to include 2007 and 2008 funding awards.

10 (See note #9 above)

11 "Section 202 Supportive Housing for the Elderly." AARP Public Policy Institute, March 2006.

12 "Section 202 Supportive Housing for the Elderly: Program Status and Performance Measurement (June, 2008)." Data adjusted to include 2007 and 2008 funding awards.

typically provided in assisted living facilities in order to effectively reduce institutionalization. With a less intensive level of supportive services, the cost of providing Section 202 housing with services is $4.83 billion. Over this period of time, Section 202 costs are roughly equivalent to the cost of institutionalization. This scenario assumes no targeting of the program to high risk or already institutionalized elders. Currently, an estimated two-thirds of Section 202 residents are <u>not</u> at risk of institutionalization. The costs discussed previously are for <u>all</u> 202 residents, with associated benefits (good housing, safe neighborhoods, and improved quality of life). So, even without targeting, the savings associated with reduced institutionalization of frail elderly in the program are almost enough to pay for the entire cost of providing Section 202 housing.

11. The leveraging of HUD Section 202 funds with other funding, such as with the tax credit program, has been successful (True/False).

False: While a good concept, the blending of the two programs have proved time-consuming and problematic. Through 2006, a total of forty-six (46) projects have been funded under this program and ten (10) have gone to closing, or only one per year. Prior to an endorsement to move Section 202 funding to tax credit projects, one should understand the deficiencies and problems currently facing tax credit projects, which include; 1) Because rents at tax credit projects are often not significantly below market rate and in some instances actually over market rate, vacancy rates at tax credit projects are increasing; 2) In order for tax credit applications to be competitive, the set-aside units for low, very low, and extremely low income residents have increased, however the ability for the project to subsidize these rentals is diminished as the projects are unable to generate sufficient income; 3) Due to the weakened financial positions of tax credit projects, defaults have been increasing; 4) Because of the financing structure and absence of project-based rental subsidies, tax credit projects have difficulty in providing units to very low and extremely low income residents; and 5) As the universe of potential buyers for tax credits has decreased (Fannie Mae and Freddie Mac were at one time the largest buyer), the equity generated from the sale of these credits is approximately 50 to 60 percent of what was earned just a few years ago. Although continued efforts should be made to integrate these two programs, a red flag should be raised to dispel the idea that this is a panacea to produce more units for the very-low and extremely low-income elderly.

12. HUD has not improved the delays in processing Section 202 projects from that noted in a 2003 GAO report (True/False).

False: The backlog of 118 Section 202 projects had been essentially eliminated. HUD provided training in the processing of Section 202 applications to field staff, and initiated a study on development cost limits. HUD also conducted a data cleanup of its Development Application Processing (DAP) system, in order to help support more effective monitoring. The average number of days from time of funding award to time of initial closing clearly has fallen in the past few years. HUD's goal for Fiscal Year 2009 is to bring 90 projects containing a total of 3,600 units to initial closing.[13]

13. The Administration cites the need to suspend the HUD Section 202 program, so as to allow for the implementation of several stated goals. The following is a summary of these stated goals and corresponding response to the reality that now exists;

Goal 1: Encourage or require partnerships with HHS and other services funding streams to create housing that, while not medically-licensed, still effectively meets the needs of very low-income elderly.
Reality: Partnerships have long been considered and encouraged via assigning of points during the competitive application process. As a result, 202 projects have put in place extensive community supports to enable residents to age in place.

Goal 2: Establish demand to ensure meaningful impact of dollars awarded.
Reality: Meaningful impact now exists in that Section 202 funding prevents premature institutionalization and saves the taxpayers money. In addition, program monitoring criteria is now being used to quantify the overall impact of the program.

Goal 3: Raise the threshold for sponsor eligibility to ensure the award of funds only to organizations with unique competency to achieve the program goals.
Realty: The competitive application process awards points to experienced sponsors, thus insuring funding to competent organizations.

Goal 4: Streamline processing to speed development time frames;
Realty: The process has already been standardized so that the backlog of unfunded projects has been significantly reduced.

Goal 5: Broader benefits of program dollars achieved by Providing All-inclusive Care for the Elderly (PACE) / All Services in One Location model services.
Realty: Many 202 projects now offer an all-inclusive provision of support services through the efforts of support coordinators and existing local partnerships with service providers.

Summary

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13 "Section 202 Supportive Housing for the Elderly: Program Status and Performance Measurement (June, 2008)." Data adjusted to include 2007 and 2008 funding awards.

While governmental programs, such as HUD's Section 202 program, should be continually evaluated and refined so as to best serve the intended elderly population and utilize taxpayer funding efficiently, suspending this program to insure this effort is misguided. The program has a proven track record of serving very poor elderly residents - a population that would have fallen through the cracks. Congress should continue seek to support this effort by fully funding the program so that we can continue to serve this vulnerable population.