



April 22, 2025

The Honorable E. Scott Turner
Secretary
U.S. Department of Housing and Urban Development
451 Seventh Street, SW
Washington, DC 20410-0500

Dear Secretary Turner:

The National Council of State Housing Agencies (NCSHA)¹ congratulates you on your recent confirmation as the 19th Secretary of the U.S. Department of Housing and Urban Development (HUD). We strongly support your goal of increasing the supply of affordable housing and maximizing the efficacy of HUD programs so that the Department can achieve its mission to create strong, sustainable, inclusive communities and quality affordable homes for all.

NCSHA is a national nonprofit, nonpartisan organization that represents the nation's state housing finance agencies (HFAs). State HFAs have collectively delivered more than \$800 billion in financing to make possible the purchase, development, and rehabilitation of over 8.3 million affordable homes and rental apartments for low- and middle-income households.

NCSHA commends the Trump Administration for its focus on streamlining regulations that needlessly impede the ability of the private sector, community-based groups, and state and local governments from meeting the nation's worsening affordable housing challenges. While many barriers are at the state and local levels, there are also numerous opportunities to cut costs, contradictions, and complexities from federal regulations to better facilitate the production of affordable housing and improve HUD programs.

In addition to removing regulatory barriers, we recommend that HUD delegate authority for certain activities to state HFAs when possible. HUD often is unable to sign off on various actions in a timely manner, leading to costly production delays. This challenge will be exacerbated if and when HUD undertakes major reductions in forces as the Trump Administration and its Department of Government Efficiency have proposed.

NCSHA's recommendations herein would simplify program administration, reduce delays, lower costs, and allow HFAs to optimize the administration of HUD programs. Our recommendations—focusing

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on both individual HUD programs and onerous cross-cutting requirements that impede affordable housing developments broadly—identify those we believe will have significant near-term payoffs. They provide direction to help this administration take substantive actions to reduce red tape that will directly lead to more affordable housing.

Cross-Cutting Requirements

Often when asked to identify burdensome program regulations, HFAs point first to cross-cutting federal requirements that are applied to HUD programs, including Davis-Bacon labor rules, environmental reviews, the Uniform Relocation Act, Build America Buy America, and other regulatory interpretations of statutes that all have laudable goals, but in practice present excessive burden and create major delays in moving housing development through the pipeline to fruition, driving up program costs.

Davis-Bacon (29 CFR Parts 1, 3, and 5)

Much can be done to reduce the complexity, time, and cost of compliance with the Davis-Bacon Act to better deliver high-quality affordable housing, while also supporting the workforce that delivers that housing. Unfortunately, Davis-Bacon requirements are so onerous that HFAs report developers often do not want to accept HUD program funds if the use of such funds triggers Davis-Bacon requirements. The reason is not necessarily because Davis-Bacon wages are too high, but rather that the paperwork associated with ensuring compliance is needlessly complex and time-consuming. In practice, it is often only the larger, most sophisticated developers that will undertake projects subject to Davis-Bacon, while smaller and moderate-sized developers cannot compete because Davis-Bacon compliance is cost-prohibitive.

Not long ago, NCSHA provided detailed [comments](#) to the Department of Labor (DOL), which has primary jurisdiction over Davis-Bacon, on how Davis-Bacon's application to federal housing programs could be simplified.

Recommendations: Coordinate with DOL to enact the reforms we have suggested, which include:

- Establishing a single residential wage decision for multifamily housing construction or substantial rehabilitation projects based on the overall residential character of the project rather than requiring “split-wage decisions;”
- Applying the wage rate in effect on the date a project sponsor applies for a firm commitment rather than requiring projects to revise the wage rate throughout the process to reduce disruptions and provide greater certainty for developers;
- Allowing for the adoption of state or local wage determinations as the Davis-Bacon prevailing wage where specified criteria are satisfied; and
- Streamlining Davis-Bacon compliance to provide flexibility in wage reporting timelines, revise on-site interview requirements, and improving interagency coordination.

NCSHA further recommends that where possible, HUD should adjust the threshold at which Davis-Bacon is triggered—whether that be a unit or dollar threshold—to reduce the number of developments to which Davis-Bacon applies. Moreover, HUD should not apply Davis-Bacon to properties solely due to application of project-based vouchers, as these funds are not used for construction and do not enter the project until development or rehabilitation is completed and the project is operational.

Environmental Review (24 CFR Part 50 and 58)

Affordable housing developments that receive funding from certain HUD programs—such as the HOME Investment Partnerships program, Community Development Block Grant (CDBG), and Section 8 project-based vouchers, among others—must undergo an environmental review. Until that process is complete and HUD signs off on the review, HUD regulations prohibit all participants in the development process, including the developer, the design team, and the contractor, from taking any so called “choice-limiting actions.” Acquisition of property, signing a construction contract or abatement contract, purchasing construction materials; or starting demolition or abatement activities are all considered choice-limiting actions, and thus prohibited until the environmental review is completed and certified by HUD. Unfortunately, the environmental clearance often takes a year or longer to complete and achieve HUD certification.

The environmental review adds significant time to the development process, leading to unnecessary costs, as developers are precluded from making a deposit and locking in pricing for materials, and puts affordable housing developers at a market disadvantage for acquiring land and undertaking predevelopment activities.

Moreover, if a project sponsor seeks additional HUD resources to fill a financing gap after their project has already undergone an environmental review, the use of the additional resource(s) triggers a subsequent, duplicative environmental review, restarting the entire process and putting any further activity on hold until it is cleared a second time.

While undertaking an environmental review is important for any new construction project to ensure its development will not result in negative environmental outcomes, HUD regulations also apply environmental review requirements to existing housing when it is recapitalized with HUD resources for purposes of rehabilitation and preservation.

Recommendations: HUD could ease the burden of environmental reviews by making the following common-sense changes to its regulations:

- Allow developers to undertake certain activities—such as signing a conditional purchase and sales agreement contingent on the project clearing the environmental review; limited demolition and/or environmental abatement actions; and procurement of certain materials, particularly those for which there are supply chain challenges which may require a lengthy wait for delivery—prior to the completion of the environmental review. Developers that choose to undertake such actions prior to environmental clearance would do so at their own risk should the project not pass the

environmental review. Allowing developers to move forward before clearance would minimize delays, result in better pricing, and put affordable housing developers on level footing with market-rate competitors that are not subject to environmental review requirements.

- Allow developers to incorporate federal resources into the capital stack after a project has completed an environmental review without triggering a subsequent, duplicative environmental review.
- Eliminate environmental review requirements for existing projects undergoing rehabilitation.
- Reduce the 30-day public comment period for the environmental review to no more than 15 days.
- Provide state HFAs with authority to certify the environmental reviews for developments they finance so developers do not have to wait for HUD approval to move forward.

Build America, Buy America (2 CFR Part 184)

The Infrastructure Investment and Jobs Act included “Build America, Buy America” (BABA) provisions to encourage the use of domestically sourced materials in major infrastructure projects. While not required by the statute, the Biden Administration applied BABA requirements to affordable housing developments financed in part with HUD federally funding sources, such as HOME, the Housing Trust Fund, CDBG, and other programs.

While BABA’s goal – to support U.S. industry through domestic sourcing – is laudable, its application to affordable housing production unnecessarily raises development costs and constrains the ability of the affordable housing sector to increase supply. Not only does it require developers to purchase higher cost materials, but it adds bureaucratic hurdles for developers and contractors as they seek to ascertain the provenance of materials and requires increased documentation, recordkeeping, and reporting to ensure compliance.

While HUD has recommended using a domestic vendor search agency to make it easier to find domestically sourced materials, this has not alleviated BABA delays. Moreover, BABA introduces yet another public comment period into the housing development process, compounding the challenges. These delays often lead to significant added cost.

One state HFA recently reported to NCSHA that BABA compliance is resulting in delays of approximately 2.5 months per component, and that each project requires hundreds, if not thousands, of construction components. Delays like this are untenable and are already resulting in developers avoiding the use of HUD funding in their projects because BABA compliance is too costly.

Recommendation: Exempt affordable housing development and rehabilitation, including homeownership repair and development and construction, from BABA requirements.

Section 3 (24 CFR Part 75)

Section 3 of the Housing and Urban Development Act of 1968 mandates that recipients of HUD funding prioritize employment, training, and contracting opportunities for low-income individuals and businesses within their communities. In 2020, HUD issued new regulations for Section 3 to increase its

impact and streamline and update HUD reporting and tracking requirements. While the goals of the Section 3 rule are commendable, implementation of these requirements is resulting in unnecessary cost and administrative burdens, often with negligible benefits to low-income workers.

The rule requires that all rehabilitation, housing construction, and other public construction projects that receive at least \$200,000 in HUD program funds comply with Section 3. Section 3 workers must work at least 25 percent of the total number of labor hours of all workers in a project, and targeted Section 3 workers (a subset of overall Section 3 workers) must work at least 5 percent of the total number of labor hours worked by all workers. Grantees must ensure that developers and contractors on these projects are hiring workers that meet the Section 3 worker and targeted worker requirements and track workers' hours to ensure these benchmarks are satisfied.

These requirements are burdensome, particularly for projects that would not otherwise be subject to Davis-Bacon requirements, which also requires grantees to ensure workers' work hours are tracked. Moreover, as most developers and contractors already have employees in place, it does not make sense for them to bring on new workers just to adhere to Section 3 qualifications. Section 3 can be a disincentive for contractors to work on HUD-financed properties, particularly as there is already an insufficient supply of qualified contractors in many communities. Additionally, with the exception of the elderly and persons with disabilities that prevent them from working, many low-income people already have jobs, but they are not earning enough at those jobs to afford market-rate housing.

Recommendations: Apply Section 3 requirements only to projects that both exceed the \$200,000 threshold and are already required to comply with Davis-Bacon. HUD should also waive Section 3 requirements for projects for which the grantee certifies that it tried but was unable to meet the Section 3 benchmarks.

HUD Planning Requirement: Consolidated Plan and Annual Action Plan (24 CFR Part 91)

HUD requires grantees administering certain programs, including HOME, CDBG, and the Housing Trust Fund (HTF), to develop a five-year Consolidated Plan (ConPlan) to guide their use of these resources. The ConPlan process consists of a needs assessment, a five-year plan, annual action plans, and annual reporting. The time it takes to complete a ConPlan and their financial cost are significant. Grantees, including HFAs, must use limited program administrative fees to perform this work and are not awarded additional funds dedicated to completing this process.

Creating both a five-year ConPlan and annual action plans is duplicative. The five-year plan and annual performance reports should be sufficient to identify the intended use of the federal funds and the grant period performance.

Recommendation: Eliminate annual action plan requirements.

HOME Investment Partnerships Program

The HOME Investment Partnerships (HOME) program is HUD's flagship affordable housing production program, providing states and localities with a flexible resource to meet their most pressing low-income rental and homeownership needs. Since its creation more than 30 years ago, HOME has successfully helped finance more than 1.39 million affordable homes, in addition to making homes affordable for hundreds of thousands of families with direct rental assistance.

Repayment Requirements (24 CFR 92.252(e))

The HOME repayment regulations go beyond statutory requirements by directing Participating Jurisdictions (PJs) to repay all HOME funds if at any point during the affordability period a property in which those funds were invested falls out of compliance with program rules, regardless of how long the development was in compliance. PJs do their best to recapture HOME funds from noncompliant properties to repay HUD; however, sometimes it is impossible for those properties to repay the funding, and PJs are left with the repayment responsibility.

Moreover, requiring the repayment of all invested HOME funds in a property if the property goes out of compliance at any point during the affordability period is a disincentive for undertaking certain types of development, which may have more risk associated with them. For example, deeply targeted developments, such as permanent supportive housing, may be riskier than developments that charge rents at or just below the HOME program rent limits. Therefore, the repayment requirement may act as a disincentive to finance priorities such as permanent supportive housing.

Recommendation: Allow proration in HOME's repayment requirement in the regulatory section cited above. Proration would better align these programs with the Low Income Housing Tax Credit (Housing Credit) program. If a Housing Credit property falls out of compliance within the first 15 years of the affordability period, the IRS may recapture Housing Credits from investors on a prorated basis.

Minimum Property Standard Exemptions (24 CFR 200.926)

HUD requires PJs to ensure that all properties receiving HOME funds for rehabilitation of any kind meet strict Minimum Property Standards (MPS). However, this standard makes it difficult to use HOME to assist in disaster recovery situations. Moreover, it is duplicative when applied to homebuyer activities, as such housing typically undergoes an inspection by licensed home inspectors. Therefore, it is redundant to require the PJ to also ensure the property meets MPS.

Recommendation: Exempt emergency repairs from MPS standards, allowing HOME to be a more efficient tool to use in disaster recovery situations. Furthermore, we recommend exempting HOME homebuyer activities from the MPS requirement.

Violence Against Women Act Requirements (24 CFR 92.359)

HOME, like many HUD programs, is subject to the Violence Against Women Act (VAWA), which is intended to protect survivors of domestic violence and other crimes from losing their housing assistance. Unfortunately, HUD's VAWA regulations require the PJ to approve an external transfer when a tenant seeks to move to another property to be safe.

Recommendation: HUD should expedite this process by allowing building owners to approve external transfers rather than requiring action by the PJ. There is no need to also require the PJ to sign off, especially as the survivor's safety may require a speedy transfer.

Housing Trust Fund

Targeted mostly to extremely low-income households, the Housing Trust Fund (HTF) provides affordable housing and promotes independent living and self-sufficiency for our nation's poor families. With its administration entrusted to state agencies, HTF is part of the strong and proven state delivery system that also successfully administers other key housing programs, including HOME and the Housing Credit.

In general, NCSHA urges HUD to work with grantees to streamline HTF regulations to allow for easier coordination of it with other affordable housing production programs, minimize unnecessary administrative burden, and provide state agencies as much flexibility as possible in program administration. Coordination and streamlining are especially important because HTF resources have been considerably less than HUD originally anticipated when it published the HTF interim rule in December 2015.

HTF Allocation Plans and Rehabilitation Standards (24 CFR 93.100)

Each HTF grantee must prepare an annual allocation plan showing how it will distribute HTF resources based on the priority housing needs identified in the state's Consolidated Plan. The allocation plan process is cumbersome and often duplicative of other planning efforts. Further, certain aspects of the HTF allocation plan requirements are so burdensome they deter grantees from using HTF funds for specific purposes.

In particular, HTF requirements related to rehabilitation standards differ from other rehabilitation standards and have proven to be excessively complex for practical application. Due to this complexity, some grantees have opted not to include rehabilitation standards in their allocation plans, thus foregoing any rehabilitation activities with HTF.

Recommendation: Streamline the HTF allocation plan process, including sections related to the rehabilitation standards (Interim § 93.301). This would relax recipient planning requirements and better align HTF with other HFA-administered programs, such as HOME and the Housing Credit.

Affordability Period (24 CFR § 93.302 (d))

HTF's interim rule imposes a 30-year period during which a property must meet the regulation's occupancy and rent restrictions. However, the statute authorizing HTF does not set an affordability period of any length; instead, the statute requires states to select projects based, in part, on the duration of the affordability period.

Recommendation: Eliminate the 30-year affordability requirement and instead allow states to determine the appropriate affordability period for HTF dollars according to the project in which they are investing. This will also allow states to align affordability periods with other affordable housing programs they are using to finance specific developments, including HOME and the Housing Credit.

Repayment Requirements (24 CFR 93.403)

The HTF program follows many of HOME's regulatory requirements, including the requirement that the grantee repay all funds invested in a property if at any point during the affordability period the property falls out of compliance with program rules, regardless of how long the development was in compliance. Similar to HOME, this serves as a disincentive for undertaking certain types of developments that may have more risk associated with them, including permanent supportive housing. This is exacerbated by HTF's lengthy 30-year affordability requirement.

Recommendation: Allow HTF grantees to prorate repayments based on the proportion of the affordability period the property has completed. Proration would better align HTF with the Housing Credit program. If a Housing Credit property falls out of compliance within the first 15 years of the affordability period, the IRS may recapture Housing Credits from investors on a prorated basis.

Income Targeting (24 CFR §§ 93.250–93.251)

The HTF statute requires that at least 75 percent of a grantee's HTF allocation be used to house extremely low-income (ELI) households. However, the Interim Rule restricts income targeting flexibility beyond the statutory requirement by mandating that grantees use 100 percent of their HTF allocations to house ELI households if the total allocation is under \$1 billion. This lack of flexibility has made it more difficult to use HTF in certain situations; for example, in rural areas where incomes are especially low and the market is limited, and for permanent supportive housing when some potential residents may have incomes slightly above the ELI threshold.

Recommendation: Align the HTF income targeting requirement with the statutory language, providing state grantees more flexibility.

HTF Environmental Reviews (24 CFR §§ 93.301(f))

While the HTF statute does not include environmental requirements, HUD developed environmental provisions under the HTF Property Standards at 24 CFR § 93.301(f) for new construction and

rehabilitation. HTF environmental standards differ from Part 58 environmental reviews, which state and local grantees must undertake under the HOME program. While some aspects of the HTF environmental standards are preferable to Part 58, there are also some significant drawbacks. Specifically, HTF environmental standards are too restrictive in terms of allowable activities. For example, HTF environmental standards do not allow for certain mitigation activities permitted under Part 58.

Furthermore, HTF environmental standards strictly prohibit new construction on farm lands (as defined by USDA). However, in some states, most undeveloped land is considered farm land by USDA; thus, HTF environmental standards severely limit new construction in these states.

Recommendation: Replace the HTF environmental requirements with Part 58 reviews done by state and local governments, reformed and streamlined as suggested in the “Cross-Cutting Requirements” section above.

Section 8 Project-Based Rental Assistance

Section 8 Project-Based Rental Assistance (PBRA) is a critical federal housing program, allowing vulnerable low-income households to access decent, safe, and sanitary housing at rents they can afford. PBRA contracts are administered by HUD and state and local public housing agencies (PHAs).

Many contract administrators are Section 8 Performance-Based Contract Administrators (PBCAs) under a program HUD developed to assign some contract administration duties to state and local housing agencies, while maintaining HUD oversight. PBCAs provide direct oversight and monitoring of the financial and physical conditions of project-based Section 8 properties. They conduct on-site management reviews of assisted properties; adjust contract rents; and review, process, and pay monthly vouchers submitted by owners.

While there are regulatory modifications that could help improve the PBRA program and streamline its administration, the most important action HUD can take to protect and preserve this program relates to the upcoming procurement process for rebidding PBCA contracts.

Specifically, as NCSHA has communicated to HUD on several occasions, HUD must uphold its statutory duty under the Housing Act of 1937 to contract only with PHAs to administer federal rental assistance contracts. State HFAs, which are considered PHAs for purposes of the Section 8 program, have a proven track record of administering PBRA contracts effectively. They are mission-driven entities devoted to the same affordable housing objectives as HUD. We also recommend HUD seek legislative authority to proceed with a state-by-state rebidding procedure that avoids the unnecessary, counter-productive, and unworkable elements inherent in the bureaucratic and controlling traditional procurement process under the Federal Acquisition Regulation.

Rent Comparability Studies (Chapter 9 of the Section 8 Renewal Policy Guidebook)

In 2016, HUD implemented a new Rent Comparability Study (RCS) review policy that requires a state-certified appraiser to perform all substantive reviews. This requirement has created an undue financial burden for some PBCAs because they incur the costs for forwarding every RCS to state-certified appraisers, rather than just RCSs that need professional reviews, as they had done previously. On the other hand, some states lack sufficient internal capacity to perform every RCS and elect to contract out this work.

Recommendation: Allow PBCAs to determine the most efficient and cost-effective manner to perform RCS work, either internally or by contracting with third parties.

Mark-to-Market (Chapter 3 of the Section 8 Renewal Policy Guidebook)

A Renewal guidebook requirement makes developments with “use restrictions that cannot be unilaterally eliminated by the owner” ineligible for contract renewal. Option 1A (Section 3-3B) makes it very difficult for developments with long-term restrictions, such as Housing Credit use agreements, to be eligible for market-rate increases. Such increases help to maintain adequate cash flow to these properties without unduly burdening tenants. While the introduction of Option 1B was helpful in this regard, it covers a limited number of situations and target populations.

Recommendation: Eliminate this requirement, possibly including additional safeguards to ensure long-term preservation and capital investment in a property.

Risk-Based Monitoring and Occupancy Reviews for Section 8 Housing Programs (24 CFR Parts 880, 881, 883, 884, 886, and 891)

Risk-based monitoring for Section 8 Housing Programs went into effect with baselines set in October 2022. The intent of risk-based monitoring is to streamline the review process and reward well-managed owners and operators of affordable housing by reducing the frequency of Management and Occupancy Reviews (MOR) from annually to every two or three years for high performers. This framework was initially well-received but several problems in its implementation have since been identified.

While reviews may be less frequent for high performers, HUD procedures still require review of every certification since the previous MOR and corrections of any issues identified. This does not reduce compliance burden.

HUD also requires the MOR to be completed within six months of an owner or management agent change at a property. When a PBCA performs an MOR within the first six months of the change, most likely they are reviewing files reflective of the prior owner or management.

Finally, HUD has eliminated the option to perform certain aspects of the MOR remotely. While the remote MOR option does not replace the need to physically visit and evaluate the property, the audit portion of an MOR can be done remotely, saving both time and resources.

Recommendations: HUD should make the following changes to its risk-based monitoring requirements:

- Only require review of certifications from the final year of a two- or three-year review period for high-performing properties.
- Require review only of the last full certification (or in the alternative, a random selection of one of the certifications within the lookback period) for each household; if discrepancies are identified, further review should be required.
- Require an MOR within a year of a change of owner or management agent, rather than within six months.
- Reinstate the option to perform elements of the MOR that do not require physical or visual inspection of the property remotely to promote efficiency. This is particularly important for properties in rural areas where travel to properties may have significant costs.

Housing Choice Voucher Program

Section 8 Management Assessment Program (24 CFR Part 985)

HUD requires PHAs administering the Housing Choice Voucher (HCV) program to self-report to HUD using the Section 8 Management Assessment Program (SEMAP). HUD's Office of the Inspector General (OIG) in a 2023 report found that the information reported by PHAs in SEMAP may not accurately reflect their performance and HUD's process for verifying the information does not effectively assist HUD in evaluating and identifying PHAs' HCV programs that need improvement. The OIG recommended that HUD enhance SEMAP or develop a new performance measurement process that would identify PHAs with underperforming HCV programs.

Recommendation: Replace SEMAP with other reporting tools that better monitor PHAs' success and outcomes, as suggested by the OIG.

HCV Waiting List Advertising Requirements

HUD requires PHAs to advertise HCV waiting list openings and closings in local newspapers. This requirement is outdated in our modern media environment. PHAs often spend as much as \$30,000 annually or more on newspaper advertisements to comply with this requirement, and these advertisements often do not effectively reach the intended audience. Outreach on the status of HCV waiting lists is more effectively accomplished through other channels.

Recommendation: Allow PHAs instead to communicate the status of HCV waiting lists through local engagement, social media, or other modern communication channels, at their discretion, as an alternative to newspaper advertisements.

Local Flexibility (24 CFR Part 982)

HUD's Moving to Work (MTW) program provides PHAs administering public housing and Housing Choice Voucher programs substantial flexibility to modify program rules and procedures. HUD's recent MTW expansion does not provide the same flexibilities. The MTW expansion is helpful but does not go far enough to provide PHAs with regulatory flexibility. More flexibility allows PHAs to tailor their programs to meet local needs and reflect local PHA operations and capabilities.

Recommendation: Allow PHAs to opt into a housing assistance model with flexibilities and program administration authority more similar to the original MTW program.

Section 811 Project Rental Assistance Program

Section 811 Project Rental Assistance (PRA) is an important program for addressing the affordable housing needs of low-income persons with disabilities. Unfortunately, HUD guidance on Section 811 PRA has proven to be excessively burdensome. As a result, some HFAs and property owners have been disinclined to participate in the program.

Capital Program Requirements Applied to Section 811 PRA (24 CFR Part 891)

The Section 811 PRA regulations include onerous environmental provisions and Davis-Bacon Act requirements, which may be appropriate for capital programs that are used to finance the building or rehabilitation of housing but should not be applied to rental assistance such as Section 811 PRA. These requirements are a disincentive for private owners to participate and are unnecessary given the structure of the Section 811 PRA program.

Recommendation: Remove regulatory requirements for environmental reviews and Davis-Bacon compliance, as these are inappropriately applied to Section 811 PRA and deter participation in the program.

Regulatory Conflicts between Section 811 PRA and Other Programs

Section 811 PRA requirements sometimes conflict with other programs that are the primary funding sources for the developments using the PRA, such as the Housing Credit, Rural Development, HUD capital resource programs, or a combination of these programs. For example, Housing Credit income eligibility is based on gross income, whereas the Section 811 PRA program uses adjusted income to determine eligibility. While the Section 811 PRA is essential for many persons with disabilities to afford these homes, the rental assistance is a small source of funding in comparison to the much greater capital investment from other resources.

Recommendation: Allow Section 811 PRA to conform to the requirements of PBRA, the Housing Credit, or whatever funding source is the dominant financing resource in the development.

Single-Family Mortgage Insurance Programs

The Federal Housing Administration (FHA) plays an indispensable role in helping low-income families and other traditionally underserved populations achieve the dream of homeownership. In particular, FHA supports sustainable low down payment lending to borrowers not well-served by conventional lending, such as those often served by HFAs. This is crucial, because one of the biggest impediments to purchasing a home for otherwise responsible borrowers is the cost of a down payment. In recent years, nearly three-quarters of HFA loans were insured by FHA.

FHA Insurance for Manufactured Homes (24 CFR Part 1005.429)

Manufactured housing offers an affordable and safe option for working families to buy a home. As with the market for traditional, site-built homes, the ability of lenders to insure loans used to purchase manufactured homes through FHA fosters liquidity in the market and allows more households to purchase homes.

Current FHA policy requires that, if a mortgage is used to purchase a manufactured home that has been permanently erected on a site for a year or less, it is not eligible for FHA insurance unless the home is installed on a site-built permanent foundation and the “towing hitch or running gear, which includes axles, brakes, wheels, and other parts of the chassis that operate only during transportation, shall have been removed.” Removing the hitch, wheels and axles from a manufactured home is expensive, adding unnecessary costs for the home buyer. Further, it is often difficult to find an installer who is willing to remove those parts.

Recommendation: Rescind the requirement that the hitch, wheels, and axles be removed from manufactured homes for those homes to be eligible for FHA-insured mortgages.

Engagement with Borrowers in Default (Mortgage Letter 2024-24)

On December 4, 2024, FHA released Mortgagee Letter 2024-24, “Modernization of Engagement with Borrowers in Default,” which modernized FHA’s in-person “face-to-face” requirements for meeting with delinquent borrowers by allowing servicers to also utilize electronic and other remote or video conferencing communication methods. While this acknowledgement of the variety of ways that borrowers and servicers are able to communicate today was well-received and needed, ML 2024-24 also added unnecessary and burdensome new requirements. For example, the ML expanded the meeting requirement to all borrowers in default and for properties up to 200 miles away from the servicer, including for the first time, borrowers who do not reside in that property. Moreover, the ML added significantly more and unnecessary process around reaching out to defaulted borrowers and conducting the borrower meetings, including providing the consultation outside of normal business hours in the time zone in which the borrower lives (even if the borrower does not reside in the mortgaged property). The result is increased servicing costs, including staff time.

Recommendation: Rescind all but the updated modes of communication that ML 2024-24 added to HUD Handbook 4000.1.

Servicing Convenience Fees (HUD Handbook 4000.1)

Section III.A.1(f)iii(A) of HUD Handbook 4000.1, “Reasonable and Customary Fees and Charges” requires modernization to include convenience fees, voluntarily-incurred fees, or fees that are charged to a borrower who chooses to use a payment method with an associated, disclosed cost when one or more no-cost options have also been offered. Examples include payments made over the phone and/or using debit cards. Convenience fees have been used by mortgage loan servicers for a number of years and are also customarily used by many organizations offering a payor convenience, such as a pay-over-the-phone option, including utility companies. To offer these extra services, an organization incurs real costs, both in personnel to staff the phone and in fees paid to card processing companies.

Recommendation: Just as FHA has modernized modes of communication with borrowers in default, FHA needs to recognize that over-the-phone payment options also have become commonplace, and that some borrowers choose to make their payments that way vs. other, free-of-fee methods. HUD should explicitly revise its list of “Reasonable and Customary Fees and Charges” to include convenience fees.

Property Preservation Costs for Rural Areas

In cases where an HFA or other servicer is responsible for arranging for property preservation and protection activities until the property is conveyed to FHA or liquidated under the Claims Without Conveyance of Title (CWCOT) program, FHA typically reimburses the servicer for the costs. Examples of such activities include removing snow, making emergency repairs, and changing locks.

In rural areas of the country, it is often expensive to hire contractors to perform such activities because there are so few contractors available and they need to travel long distances. The reimbursements FHA offers do not account for the increased costs and are often insufficient to cover the servicer’s expenses. In such instances, the servicer effectively pays the difference out of pocket.

As public entities, HFAs cannot afford to continually realize losses for required property protection and preservation activities without it significantly hampering their affordable homeownership programs.

Recommendation: Revise FHA reimbursement rates for property preservation and protection activities to take into account the increased costs of such services for properties in rural areas.

Ginnie Mae

Ginnie Mae plays a critical role in expanding homeownership opportunities for working families by providing credit enhancement on securities comprised of loans insured by the Federal Housing Administration (FHA), the United States Department of Agriculture (USDA) and the Department of

Veterans' Affairs. A large majority of HFAs issue Ginnie Mae securities, either directly or in partnership with a master servicer, to help finance their affordable homeownership lending programs.

Ginnie Mae guidelines require issuers of Ginnie Mae loan pools to maintain loan delinquencies below a certain threshold. For most single-family Ginnie Mae issuers, no more than 7.5 percent of the outstanding loans in their Ginnie Mae portfolios can be two or months delinquent or in foreclosure (DQ2 ratio), and no more than 5 percent of loans can be three months or more delinquent or in foreclosure (DQ3 ratio).

While we appreciate the need to ensure that Ginnie Mae sets appropriate DQ2 and DQ3 ratios, the current ratios do not reflect recent market trends and do not account for servicing policies put in place by FHA as well as the HFAs and other servicers. While HFAs' loan portfolios have historically performed strongly, the market has seen an uptick in delinquencies for FHA borrowers. These have been driven by recent economic developments, including unexpectedly high increases in homeowners' insurance and property tax expenses.

Further, while HFAs are working with struggling borrowers to help them keep their homes, these efforts are governed by new loss mitigation standards adopted by FHA, USDA and VA during the COVID-19 pandemic. These include lowered documentation requirements that make it easier for homeowners to participate in loss mitigation programs. While these relaxed documentation requirements are well-intentioned, they can prolong the process, causing homeowners to be delinquent for longer and making it more likely that issuers will exceed the DQ2 and DQ3 delinquency thresholds without the underlying loans posing increased risk.

If issuers exceed the thresholds, they have to purchase some of the delinquent loans from their Ginnie Mae securities to lower the DQ2 and/or DQ3 ratios to the acceptable level. This increases the prepayment speeds on Ginnie Mae pools, which reduces the pool's stability and value to investors. This in turn increases the costs for HFAs other Ginnie Mae issuers and makes homeownership more costly for the working households that FHA and the other federal mortgage insurance programs are intended to assist.

Recommendation: Increase the DQ2 and DQ3 delinquency thresholds to reflect recent market developments, including FHA, USDA, and VA loss mitigation requirements.

Multifamily Mortgage Insurance Programs

FHA-HFA Risk-Sharing Program (24 CFR Part 266)

The FHA-HFA Risk-Sharing Program is an important tool for financing affordable multifamily housing. It provides credit enhancement to HFA bond and debt issuances through FHA mortgage insurance, resulting in lower borrowing costs. The Risk-Sharing program outperforms HUD's traditional FHA multifamily mortgage insurance programs and generates net revenue for the federal government. Thirty-seven HFAs are approved for the Risk-Sharing program and collectively have financed more than 1,868 loans, totaling over \$19.9 billion in principal and supporting more than 219,490 affordable rental

homes. In FY 2024 alone, FHA issued firm commitments to HFAs to finance 95 loans, with a total principal balance of \$1.255 billion, supporting 9,265 rental homes.

Maintaining this effective program is in effect promoting deregulation and simplification. Using the Risk-Sharing program is significantly easier and a more streamlined option than the Multifamily Accelerated Processing (MAP) program and other traditional FHA options. For example, the MAP program generally involves longer processing times, higher transaction costs, and adherence to 875 pages of MAP guidance — all of which limit its utility. The Risk-Sharing program also saves significant FHA staff time, because the lenders are responsible for underwriting and processing the mortgages and resolving any problems. Although HUD monitors the lenders for adherence to their underwriting standards and their continuing financial strength, this is much less staff-intensive than FHA's responsibilities for MAP loans.

Federal Financing Bank (FFB) Financing

Risk-Sharing program loans currently do not have access to Ginnie Mae financing, as do virtually all other FHA-insured multifamily loans. To support more multifamily lending and provide a source of capital for smaller loans, especially in rural areas, HUD and Treasury created a simple and straightforward financing program a few years ago through which Treasury's Federal Financing Bank (FFB) purchased HFA Risk-Sharing loans. FFB financing of Risk-Sharing loans reduces the cost of financing affordable rental developments by approximately one-half of a percent, aligning lending costs more closely with Ginnie Mae-financed FHA-insured loans. The savings produced by FFB financing make projects feasible, improve affordability, and reduce risk. FFB Risk-Sharing enables HFAs to finance the production and preservation of thousands more affordable rental homes than would be possible without it.

HUD and Treasury recently established an "interest rate collar" option to help Risk-Sharing lenders increase housing supply more effectively. The interest rate collar offers greater certainty for forward lending. Unfortunately, there are unnecessary restrictions and requirements associated with this option that should be modified to make it an even more effective tool to increase housing production.

Recommendation: Maintain the Federal Financing Bank option for financing loans made by HFAs under the FHA-HFA Risk-Sharing program and consider ways to improve the recently established interest rate collar option.

Mortgage Subordination

HUD requires state HFAs to subordinate their regulatory oversight documents to HUD documents to protect the federal government's position as mortgage insurer. However, HUD's requirements can duplicate existing HFA policies, such as transfer of ownership policies and affordability requirements under Housing Credit regulations.

Recommendation: Allow state documents to be sufficient where present rather than imposing separate HUD requirements.

HUD Information Technology Systems

HUD requires grantees and private owners to use several old and redundant information technology systems that are administratively burdensome and can disincentivize participation in HUD-assisted housing. HUD's computer systems are often not user-friendly, require extensive training to use, and require a substantial investment in technology for any new users. These systems cause a disincentive for private owners to participate in HUD programs.

Recommendation: HUD should improve its outdated information technology systems as follows:

- Finish modernizing the Tenant Rental Assistance Certification System (TRACS) and Enterprise Income Verification systems to simplify program administration and increase efficiency. This would allow HUD to fully implement changes required by the Housing Opportunity Through Modernization Act (HOTMA), which Congress passed nearly a decade ago to better align income and asset requirements across HUD programs.
- Accelerate the transition for PHAs operating the HCV program to the new electronic Voucher Management System (eVMS) rather than the current VMS reporting system.
- Simplify the process of securing a Unique Entity Identifier numbers and sam.gov verifications, including by implementing an automatic email confirmation so grantees would no longer need to take and store screenshots to verify the changes in sam.gov.
- Ensure NSPIRE IT systems communicate with iREMS for PBRA reporting.

Federal housing programs are critical to the affordable housing work HFAs and other providers perform. Targeted regulatory modifications would strengthen these programs by providing state and local administrators more flexibility, streamlining requirements, increasing efficiency, and expanding their reach. Further, regulatory changes would better align program rules to ease administration when properties rely on multiple sources of funding.

Thank you again for the opportunity to submit these proposals. Please let us know if we can do anything further to help you design and implement positive regulatory changes to federal housing programs.

Sincerely,

A handwritten signature in black ink, appearing to read "Garth Rieman", with a long horizontal flourish extending to the right.

Garth Rieman

Director, Housing Advocacy and Strategic Initiatives