

**BUDGET  
ISSUE PAPER**



**Housing Assistance for  
Low- and Moderate-Income  
Families**

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February  
1977



Congressional Budget Office  
Congress of the United States  
Washington, D.C.

HOUSING ASSISTANCE FOR LOW- AND  
MODERATE-INCOME FAMILIES

The Congress of the United States  
Congressional Budget Office

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PREFACE

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The 95th Congress will be considering expansion of funding for federal programs that provide housing assistance for low- and moderate-income families. This analysis examines the housing problems that these programs address and compares the effectiveness and costs of current housing assistance programs. This report is one of several prepared by the Congressional Budget Office that focus on federal housing policies. Other papers in this series include: The Section 8 Housing Programs: Budget Issues (July 1976), Housing Finance: Federal Programs and Issues (September 1976), Homeownership: The Changing Relationship of Costs and Incomes, and Possible Federal Roles (January 1977), and A Budgetary Framework for Federal Housing and Related Community Development Policy (February 1977).

Housing Assistance for Low- and Moderate-Income Families was prepared by Philip A. Sampson of the Human Resources and Community Development Division of the Congressional Budget Office under the supervision of David S. Mundel and C. William Fischer. Jill Bury typed the several drafts. In accordance with CBO's mandate to provide objective and impartial analyses of budget issues, this report contains no recommendations.

Alice M. Rivlin  
Director

February 1977



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SUMMARY

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For the fiscal year 1978 budget, the principal decisions facing the Congress about housing assistance for low- and moderate-income families will concern the amount of budget authority and the mix of programs to increase the number of families receiving housing assistance. Fiscal year 1978 outlays for housing assistance will be determined largely by the long-term subsidy commitments authorized in prior years. Authorization for several current housing assistance programs will expire at the end of fiscal year 1977, and additional funding authority will be required to expand assistance under other programs.

Housing assistance for low- and moderate-income families is a major component of the federal government's overall housing and community development policy. This component represents \$15.5 billion of the \$22.2 billion in budget authority and \$3 billion of the \$6.2 billion in outlays included in the Second Concurrent Resolution on the Budget for Fiscal Year 1977 for housing and community development activities. Housing assistance for these families is also affected by the estimated \$8.1 billion in outlays from off-budget activities that influence the flow of funds to and within the mortgage market. In addition, a small fraction of the estimated \$12.2 billion in tax expenditures for housing is directed toward assisting low- and moderate-income families.

Federal housing assistance policy for low- and moderate-income households has developed primarily around two major goals:

- t To enable low- and moderate-income families to occupy and afford housing that is decent, safe, and sanitary; and
- To encourage a stable and high level of housing construction and construction employment.

The principal housing problem confronting low- and moderate-income households is "affordability." Approximately 29 million households were eligible on the basis of income for federal housing assistance programs in 1974. Of these, only two million received assistance. Of those who were eligible but did not receive assistance, eight million paid rents greater than 25 percent of their incomes and two million occupied rental housing that was physically substandard or overcrowded according to traditional standards. Information is not available about housing costs for income eligible homeowners who were eligible for but received no assistance, but one million of them occupied physically substandard or overcrowded housing.

Housing construction starts (at a seasonally adjusted annual rate of 1.8 million units in the fourth quarter of 1976) remain below the historical peak level of 1972 and the unemployment rate in the construction sector (only a part of which is devoted to housing) remains high at 13.9 percent in December 1976. However, the overall level of housing construction activity has grown substantially since the winter of 1975, the bottom of the recession. Single-family housing construction has significantly recovered to a seasonally adjusted rate of 1.3 million starts for the fourth quarter of 1976--near the peak of 1.31 million starts in 1972. Multifamily housing construction, however, remains at a low seasonally adjusted rate of 528,000 units started. This compares to the peak of 1.07 million multifamily units started in 1972.

#### EFFECTS OF ALTERNATIVE HOUSING ASSISTANCE PROGRAMS

Housing assistance programs differ **substantially** in the problems they address, the subsidy mechanisms they use, the families **they** assist, and their costs per assisted family. At the present time, five principal federal housing assistance programs are in operation and have been the subject of active Congressional **attention**: (1) the Section 8 New **Construction/** Substantial **Rehabilitation** program, that subsidizes rents in apartments built under the program; (2) the Section 8 existing housing program which subsidizes rents in existing housing chosen by program participants; (3) the Low Rent Public Housing program, which pays debt service and part of the operating

costs of apartments built for **public** housing authorities; (4) the Section 236 program, which subsidizes mortgage interest on privately **built** apartments; and (5) the Revised Section 235 program, which subsidizes mortgage **interest** on new homes.

The alternative programs assist families from different income groups. As shown in the **following** table, the Public Housing program is primarily focused on assisting low-income families. The Section 236 and Section 8 programs can assist both low- and **moderate-income** families with incomes of up to about \$11,000. The Revised Section 235 program can assist middle-income **homebuyers** with incomes of about \$13,000.

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COMPARISON OF INCOME REQUIREMENTS UNDER CURRENT HOUSING ASSISTANCE PROGRAMS

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<u>Program</u>	<u>Income Required for Eligibility (1975 estimates)</u>	
	<u>Maximum (for a Family of Four)</u>	<u>Median Income of Eligible Households</u>
Revised Section 235	\$13,035	\$13,000
Section 236	\$10,975	\$10,000 <u>a/</u>
Public Housing	\$9,330	\$3,400
Section 8-New Construction or Existing Housing	\$10,975	\$5,060

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a/ Estimated income required to afford rents in recently built apartments subsidized only with Section 236 mortgage interest payments. Additional subsidies from other programs would reduce required income (see page 13).

The effects of the alternative programs on construction activity are highly uncertain. The Section 8 Existing Housing program uses existing housing units and has little direct effect on construction activity. Other programs, such as Section 8 New Construction and Public Housing, support new units and thus can have more direct effects on construction activity levels. It is not clear, however, to what extent this direct effect represents net additions or merely substitutes subsidized housing starts for unsubsidized starts that would otherwise have taken place. Low multifamily start rates may be determined principally by underlying factors such as perceived slackening demand for apartments and consequently limited investor interest in financing new apartments. Furthermore, any net impact of new assisted housing construction programs would not occur for several years following increased levels of program authorization because of the long lags involved in planning and processing.

Housing programs are not the only federal activities that affect the need for housing assistance or the level of construction activity. Federal income assistance programs are an alternative way to increase the incomes of low- and moderate-income families and thereby change the families' capacity to afford suitable housing. Federal fiscal, monetary, and regulatory policies--especially monetary policy and banking regulations--influence the overall level and stability of construction activity and employment.

ARE THE SECTION 8 HOUSING ASSISTANCE  
PROGRAMS VIABLE?

The newest of the five housing assistance programs discussed here are the two Section 8 programs. They have been more heavily funded than the other programs in recent years and are, in a sense, competitors with the other programs for future funding.

There has been widespread dissatisfaction with the high costs of the Section 8 programs and the slow rate of approval of funding applications. The question of whether Section 8 is a viable alternative to other housing assistance programs is an important one in designing housing assistance policy.

A **preliminary** assessment of the **viability** of Section 8 programs indicates that: (1) the rate of commitment of funds under the program is **accelerating**; (2) the Section 8 Existing Housing program is beginning to assist significant numbers of households; (3) the current maximum rents allowed by HUD under the Section 8 Existing Housing program are generally high enough to enable participants to choose from about half of the **available** rental units; and (4) the **implementation** problems in the Section 8 New Construction program may be overcome if adequate financing is available either through Government National Mortgage Association (**GNMA**) mortgage purchase authority or continued improvement in the ability of state housing finance agencies to sell bonds.

BUDGET IMPLICATIONS OF ALTERNATIVE  
HOUSING ASSISTANCE PROGRAMS

Housing assistance budget decisions for fiscal year 1978 depend on the number of households to be assisted and the income **levels** for which assistance is stressed. Choices must also be made between **household** assistance goals and construction **goals**. A budget oriented toward serving the **lowest-income** households could include more support for expansion of the Public Housing program. A budget oriented more generally toward the **low- and moderate-income** population **could include** more support for Section 8 activities. A budget that emphasized housing construction activity could include major support for assistance programs for new housing, such as **Public** Housing or Section 8 New Construction. On the other hand, a budget that emphasized increased affordability could include more support for programs using existing housing, such as the Section 8 Existing **Housing** program.

Within a budget level the number of **families** that can be assisted differs among programs because of differing subsidy costs per assisted family. The subsidy costs depend principally on two factors: the income level of the program participants, which determines how much they can afford to pay for housing, and the market cost of the housing, which determines the total funds required jointly from the participant and the government. In **general**, new housing is more expensive than existing housing. The total annual subsidy under any of the programs that subsidize newly constructed housing is more than double the subsidy required to assist a family with similar income in existing housing.

The type of housing assisted, the median income of beneficiaries, and the budget impact of each of the currently available programs are compared in the following table. The budget authority required for units assisted by the alternative programs differs not only because of different annual subsidy outlays but also because of different durations of the subsidy contracts. The appropriate figures to examine for comparing program costs and impact on the federal deficit are subsidy outlays and tax expenditures. A decision to authorize assistance for 100,000 households would require budget authority in fiscal year 1978 of from \$3 billion for the Revised Section 235 program to over \$11 billion for Public Housing.

Of the five programs examined here, the Revised Section 235 program requires the lowest outlays, primarily because the assisted middle-income homebuyers can afford to pay more toward housing costs. Of the programs that assist low- or moderate-income households, the Section 8 Existing Housing program is least expensive, requiring outlays of about \$130 million in fiscal year 1979 growing to about \$170 million by fiscal year 1982. The remaining programs--Section 236, Public Housing, and Section 8 New Construction--cost more because they not only assist families but also support housing construction. Allowing time for planning, processing, and construction, 100,000 households would be assisted by fiscal year 1982 with direct outlays ranging from \$187 million under Section 236, to \$358 million under Section 8 New Construction. Each of these new construction programs also involve indirect costs, principally through tax expenditures for items such as accelerated depreciation or tax-free public housing bonds. These indirect costs are substantial, ranging from about \$29 million in fiscal year 1980 for Section 236 to \$105 million tax expenditures plus \$223 million GNMA tandem subsidies in fiscal year 1981 under Section 8 New Construction.

COMPARISON OF LOWER-INCOME HOUSING ASSISTANCE PROGRAMS

Program and Type of Housing	Median Participant Income Level 1975 (Estimate)	Subsidy Costs to Authorize Assistance in Fiscal Year 1978 for 100,000 Households	Fiscal Years (Millions of Dollars)				
			1978	1979	1980	1981	1982
<u>Revised Section 235</u> -homeowner mortgage interest subsidy (new construction)	Middle Income \$13,000 <u>a/</u>	Budget Authority	3,000	0	0	0	0
		Outlays <u>b/</u>	0	50	100	95	90
<u>Section 236</u> -rental mortgage interest subsidy (new construction)	Moderate Income \$10,000 <u>c/</u>	Budget Authority	7,500	0	0	0	0
		Outlays	0	0	0	94	187
		Tax Expenditures	0	1	29	107	31
<u>Public Housing</u> -rental debt service and operating cost subsidies (principally new construction)	Low-Income \$3,400	Budget Authority	11,037	0	0	45 <u>d/</u>	55 <u>d/</u>
		Outlays	0	0	74	224	331
		Tax Expenditures	0	0	42	101	155
<u>Section 8</u> -rent subsidies							
New Construction	Low- and Moderate-Income \$5,700 <u>a/</u>	Budget Authority <u>e/</u>	9,160	0	0	0	0
		Outlays	0	0	0	173	358
		Tax Expenditures <u>e/</u>	0	1	28	105	31
		GNMA Tandem Costs <u>e/</u>	0	0	0	223	74
Existing Housing	Low- and Moderate-Income \$4,200 <u>a/</u>	Budget Authority	3,700	0	0	0	0
		Outlays	29	127	160	164	168
		Tax Expenditures	0	0	0	0	0

AX

a/ Estimated median income of likely program participants.

b/ Tax expenditures arising from homeowner deductions of mortgage interest and property taxes have not been estimated because the tax status of potential program participants is not known. If all 100,000 participants had been renters before buying the Section 235 home, a rough estimate is that tax expenditures might be as much as \$25 million in fiscal year 1979 and \$50 million in following years.

c/ Estimated tenant income necessary to afford basic rent in 236 project. Income could be lower if additional subsidy were provided through rent supplement or deep subsidy program.

d/ Budget authority provided on an annual basis for operating subsidies.

e/ Costs shown are for private Section 8 projects financed with below-market interest rate mortgages which are bought by GNMA and then resold at a loss. For Section 8 projects sponsored by state or local governments, \$18,320 million budget authority would be required. Estimated outlays would remain as shown. Estimated tax expenditures would be \$1 million in fiscal year 1979, \$29 million in fiscal year 1980, \$180 million in fiscal year 1981, and \$149 million in fiscal year 1982.



Housing assistance for low- and moderate-income families is a major component of the federal government's housing and community development policies. In fiscal year 1977, outlays are estimated to be nearly \$3 billion to assist about 2.5 million families under several housing assistance programs. To date, the Congress has approved \$15.5 billion in budget authority for fiscal year 1977 for long-term commitments to assist about 200,000 additional households. Major decisions about housing assistance for the fiscal year 1978 budget will concern the amount of budget authority and the mix of programs to further increase the number of families receiving housing assistance.

To assist the Congress in making decisions about the level of funding and the mix of programs for providing additional housing assistance, this paper includes:

- t A discussion of the extent and type of housing problems (Chapter I);
- A description of the major federal housing assistance programs and an analysis of their effectiveness in solving housing problems (Chapter II);
- § An examination of the potential viability of the Section 8 programs, the newest housing assistance programs (Chapter III); and
- An analysis of the federal budget impacts of each of the current programs (Chapter IV).

Housing assistance policies and programs have developed around two major goals:

- To enable low- and moderate-income families to occupy and afford housing that is decent, safe, and sanitary; and

- To encourage a stable and high level of housing construction and construction employment. 1/

Within a limited budget, the **potential** conflict b&tween these two goals has been a principal issue in funding decisions during recent years. Most housing assistance programs seek to address both goals by subsidizing housing costs of low- and moderate-income families in housing units built under the programs. One current program (the Section 8 Existing Housing program) is directed only at the first goal and is less costly per assisted family.

#### NEED FOR HOUSING ASSISTANCE 2/

Two principal points about the need for housing assistance can be derived from a review of program and housing data:

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- 1/ These goals are discussed more fully in A Budgetary Framework for Federal Housing and Related Community Development Policy, Staff Working Paper, CBO, February 1977.
  - 2/ Focusing on households with low- and moderate-income is an appropriate strategy for defining the population with need for housing assistance. Presumably, high-income households with housing problems could afford to choose adequate housing. In this paper any household with income up to 80 percent of median family income (with adjustments for family size) is defined as a low- or moderate-income household. This definition closely corresponds to the income eligibility guidelines of the Section 8 housing programs, which are the housing assistance programs under most active recent Congressional attention. This definition uses national median family income, whereas the Section 8 programs use median family income in local areas. In both cases, the percentage of median family income varies by family size from 50 percent for a single person, 80 percent for a family of 4, and up to 100 percent for a family of 8 or more.

1. Approximately 8 million low- and moderate-income renter households have housing problems. <sup>3/</sup> Only 2.2 million of these households are currently assisted by housing programs. However, not all low- and moderate-income households reside in unsound or excessively expensive housing. Thus, one important budget issue is whether additional housing assistance should be targeted more **specifically** towards those with the greatest need or directed to all low- and moderate-income groups **in general**.
2. The principal housing problem is excessive housing costs, not physically inadequate housing units--as measured by lack of plumbing facilities or overcrowding. The number of low- and moderate-income households paying more than one-fourth of their incomes for rent has increased since 1969, but fewer of these households live in physically inadequate housing.

In 1974, there were approximately 29 million low- and moderate-income households (see Table 1). This is about 40 percent of all U.S. households and a much larger group than the 9.9 million families and unrelated individuals with incomes below official poverty levels in 1974. Of the 29 million

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<sup>3/</sup> This paper uses three standards to define a housing problem: (a) housing costs that exceed 25 percent of income, (b) lack of some or **all** plumbing facilities, and (c) overcrowding defined as more than 1.01 persons per room. Such standards provide useful yardsticks, but they are highly subjective. For example, a single standard that housing **should** cost no more than one-fourth of income clearly leaves lower-income households with less to spend for other items. Further, individuals make very different incomes at **different** stages of **life**, and may be expected to pay higher percentages for housing during their early years as independent households and again during **retirement**. In the case of physical housing problems, other characteristics of housing units or neighborhoods may also create housing problems, but there is neither a consensus on what is inadequate, nor data about these characteristics.

TABLE 1. CHARACTERISTICS OF LOW- AND MODERATE-INCOME HOUSEHOLDS AND OF ALL HOUSEHOLDS, 1974  
(Numbers in Thousands)

	Low- and Moderate- Income Households		All Households	
	Number	Percent Distribution	Number	Distribution
<u>Family Type</u>				
Head over age 65	9,611 <u>a/</u>	33%	13,758	20%
Large Families <u>b/</u>	2,252	8	5,743	8
Other	<u>16,954</u>	<u>59</u>	<u>51,330</u>	<u>72</u>
Total	<u>28,817</u>	<u>100</u>	<u>70,831</u>	<u>100</u>
<u>Housing Type</u>				
Renter	13,614	47	25,046	35
Homeowner	<u>15,203</u>	<u>53</u>	<u>45,785</u>	<u>65</u>
Total	<u>28,817</u>	<u>100</u>	<u>70,831</u>	<u>100</u>

Source: Based on Annual Housing Survey, 1974, Part C, Financial Characteristics of the Housing Inventory for the United States and Regions, H-150-74C (Advance), U.S. Bureau of the Census, 1976, Table A-1, pp. 1-3.

a/ Single person households estimated from above source; two or more person households estimated from Money Income in 1974 of Families and Persons in the United States, Series P-60, No. 101, Bureau of the Census, 1976, Table 28, p. 58.

b/ Families with 6 or more persons.

households, an estimated 2.3 million were large families of six or more persons, and 9.6 million were headed by persons 65 years or older. Approximately 13.6 million low- and moderate-income **households--47 percent--were** renters. 4/

Three standards are commonly used to assess the presence of housing problems among low- and **moderate-income** households: (a) excess housing costs (defined as those in excess of one-fourth of a **household's** annual income), (b) structural inadequacy (measured by lack of some or all plumbing **facilities**), and (c) overcrowding (defined as more than 1.01 persons per room).

According to these standards not all of the 29 million low- and **moderate-income** households have housing problems. The most prevalent housing problem is excessive housing cost. Table 2 shows that an estimated 7.8 million low- and moderate-income renters paid more than 25 percent of their income for rent in 1974. 5/ This may be an underestimate because large

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4/ Two limitations of these and the following estimates **should** be noted. First, because income **limits** for current housing programs vary by location and family size, only rough estimates of characteristics of the population **currently** eligible for housing assistance programs can be made **with** available national data. In the estimates included in this paper, income limits are based on the national median family income rather than local area median income. This should not seriously bias the estimate of the total low- and **moderate-income** population. Second, except for the estimates of the total low- and **moderate-income** population, for which detailed family size information is published, the estimates of housing deficiencies on the following pages use income **limits** based on the percent of national median income that **would** apply to a family with the median number of persons in all renter or in **all** homeowner households.

5/ The cost-to-income ratio of low- and **moderate-income** homeowners cannot be determined with available data. The estimates of excess housing costs in this paper focus on renters. **Homeownership affordability** is analyzed in Homeownership: The Changing Relationship of Costs and Incomes, and Possible Federal Roles, CBO, January 1977.

TABLE 2. HOUSING PROBLEMS OF LOW- AND MODERATE-INCOME HOUSEHOLDS AND OF ALL HOUSEHOLDS, 1974, OVERLAPPING CATEGORIES (Numbers in Thousands)

	Low- and Moderate- Income Households	All Households
<u>Renters</u>		
<u>Excess Housing Costs</u>		
Paying more than 25% of income for rent	7,821	9,667
<b><u>Physical Deficiency--Total</u></b>	<b>1,921</b>	<b>2,871</b>
Lacking some or all plumbing	985	1,136
More than 1.01 persons per room	772	1,518
Both deficiencies	164	217
<u>Homeowners</u>		
<b><u>Physical Deficiency--Total</u></b>	<b>1,245</b>	<b>2,841</b>
Lacking some or all plumbing	665	792
More than 1.01 persons per room	486	1,920
Both deficiencies	93	129

Source: Based on: Annual Housing Survey: 1974, Part C, Financial Characteristics of the Housing Inventory for the United States and Regions, H-150-74C (Advance), U.S. Bureau of the Census, 1976, Table A-1, pp. 1-3.

**families** often pay more rent than **smaller families** at the same income level, and this analysis **undercounts** large families with excess rent burdens. As shown in Table 2, the rental units of 1.9 million low- and **moderate-income** households lacked some or **all plumbing facilities**, had more than 1.01 persons per room, or had both problems. Among low- and **moderate-income** homeowners, 1.2 million had these same physical housing problems. These estimates of households with housing problems are not for mutually exclusive categories. For example, many renters in units with physical deficiencies probably **also** pay more than 25 percent of their income for rent.

The number of low- and **moderate-income** households with excess housing cost problems has increased by 13 percent between 1969 and 1974 (7.8 million in 1974 compared to 6.9 million in 1969). Over the same period, the number of **low- and moderate-income** households with physically deficient housing **declined** by 24 percent (3.1 million in 1974 compared to 4.2 million in 1969).

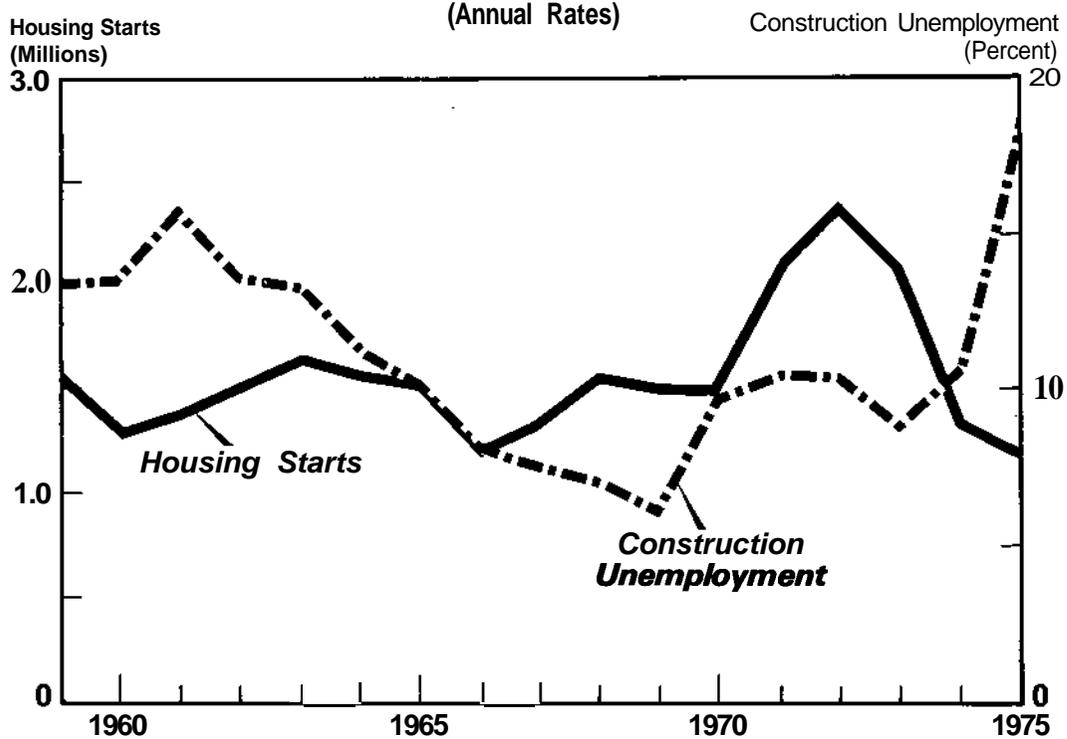
The definition of low- and **moderate-income** and the income **limits** specified by current housing assistance programs are relative standards of need based on a percentage of median income. Thus, regardless of any future increases in **real** income, approximately the same proportion of **all** households would be considered **low- and moderate-income households** (unless the pattern of income distribution shifts). Further, the number of low- and **moderate-income** households will grow at the rate of growth of total households. There were 19 percent more low- and **moderate-income** households in 1974 (28.8 million) than there were in 1969 (24.3 million).

#### HOUSING CONSTRUCTION ACTIVITY PROBLEMS

The second major goal of housing assistance programs has been to maintain a high level of housing construction and employment and to **alleviate** the problem of wide **fluctuations** in construction activity. Housing construction is **highly** cyclical, as shown in Figure 1. Since 1959 there have been four downturns in the rate of housing construction starts. The 1.17 million units started in 1975 was the lowest annual number since 1959. The unemployment rate for construction workers has also varied considerably, with three peaks during the 1959-1975 period. During the recent recession the construction

unemployment rate has generally been twice the overall unemployment rate. The unemployment rate for construction workers in 1975 was 18.1 percent, the highest since 1959.

**Figure 1:  
Construction Activity: Housing Starts and  
Construction Unemployment 1959-1975**



Source: 1959-1974 data from Business Statistics 1975, U.S. Department of Commerce (May 1976), pp. 53 and 69; 1975 data from Survey of Current Business, Vol. 56, No. 10 (October 1976), U.S. Department of Commerce, pp. S-10 and S-13.

Current housing construction activity has begun to rise from the low levels of 1975, but unemployment among construction workers remains high at 13.9 percent, with 634,000 unemployed in December 1976. Housing starts reached a seasonally adjusted annual rate of 1.8 million units in the fourth quarter of 1976. This compares to the 1972 all-time high of 2.4 million units started. But multifamily construction starts, at a seasonally adjusted annual rate of 528,000 units for the fourth quarter of 1976, are extremely low by recent historical standards; the peak level of multifamily construction, also in 1972, was 1.1 million units.

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CHAPTER II      ALTERNATIVE HOUSING ASSISTANCE PROGRAMS AND  
                         THEIR EFFECTS ON THE TWO GOALS

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CURRENT HOUSING ASSISTANCE PROGRAMS

Five principal federal housing assistance programs are currently in operation and have been the subject of active Congressional attention. They differ in the mechanisms they use to lower housing costs for the participants, the depth to which they lower these costs, and, consequently, the household income **levels** for which they make housing affordable. The five programs are: 1/

- (1) The Section 8 New Construction/Substantial Rehabilitation program, which subsidizes the rents in apartments built by developers. The **developers** may be private or public, and the projects may be privately financed or publicly financed through state or **local** housing agencies. The apartments are leased to households chosen by the landlord. Under the **program's** income standards, all households with incomes up to approximately 80 percent of median family

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1/ These programs are all administered by the Department of Housing and Urban Development (**HUD**). Both the Section 8 New Construction and Existing Housing programs were established by the Housing and Community Development Act of 1974 as Section 8 of an amended United States Housing Act of 1937. The Low-Rent **Public** Housing program was authorized by the United States Housing Act of 1937. The Section 236 and **Section** 235 programs were established by the Housing and Urban Development Act of 1968 as Sections 235 and 236 of an amended National Housing Act of 1934. The Section 235 program has since been revised. The Rent Supplement program and "deep subsidy" provisions mentioned with the Section 236 program were authorized by Section 101 of the Housing and Urban Development Act of 1965 and by Section 212 of the Housing and Community Development Act of 1974, respectively.

income in the local area (with adjustments for family size) are eligible for assistance. <sup>2/</sup> In each apartment project, HUD requires the landlord to choose at least 30 percent of the initial tenants from households with "very low incomes" defined as incomes below 50 percent of median family income in the area. Because few projects have been occupied, the likely income of future participants is uncertain. The median income of all households eligible for assistance in 1975 was approximately \$5,060.

- (2) The Section 8 Existing Housing program, which subsidizes rents in housing chosen by participating households who are selected by local public housing authorities. The income limits are the same as for the Section 8 New Construction/Substantial Rehabilitation program, but public housing authorities may be more likely to select tenants with lower incomes than those selected by private landlords in the new construction program.
- (3) The Low Rent Public Housing program, which makes the payments on tax-free bonds issued to finance the construction of apartments owned by local public housing authorities. The apartments are leased to low-income households selected by these authorities. Rents are further subsidized through federal grants to help pay operating costs. Each local housing authority sets income eligibility standards based on the income needed to cause the private market to build an adequate supply of housing in the locality or metropolitan area. These income limits are generally set at about 68 percent of median income for a family of four. Median income of participants in the program in 1975 was approximately \$3,400.

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<sup>2/</sup> The local area encompasses the entire Standard Metropolitan Statistical Area or groups of counties in nonmetropolitan places. See also footnote <sup>27</sup>, page 2, regarding adjustments for family size.

- (4) The Section 236 program, which subsidizes the effective mortgage interest rate to a rate as low as 1 percent on apartments built by private developers and **leased** to households chosen by the private landlord. Rents in these apartments can be further subsidized for **eligible** tenants by two other programs: the Rent Supplement program or the "deep subsidy" provisions of the 236 program. Maximum income **limits** are the same as for the Section 8 programs. Without the additional subsidies from the Rent Supplement or deep subsidy programs, the 236 program **would** reduce rents in recently built units only enough to enable a family of four with an income of at least \$10,000 to stay within the "rent **equals** one-quarter of income" constraint. In 1975, the median income of participants in the Section 236 program was approximately \$5,600. This is lower than the \$10,000 figure because most occupied units were built at lower cost than is possible today and because about 15 percent of the tenants **also** received rent supplements.
- (5) The Revised Section 235 program, which subsidizes the effective mortgage interest rate to a rate as low as 5 percent for buyers of homes built under the program. Even with this subsidy, housing expenses will remain so high that most program participants are expected to have incomes at or near the **eligibility** limits of 95 percent of median income in the local area. In 1975 the eligibility limit for the Section 235 program was approximately \$13,000 for a **family** of four. 3/

EFFECTIVENESS AND COSTS OF  
ALTERNATIVE HOUSING PROGRAMS

Each of these current programs helps meet the goal of assisting families to afford and occupy decent, safe, and sanitary housing. Program regulations specify minimum housing

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3/ Although this program serves **nearly** middle-income families and **is** for homeowners, it is included with rental assistance programs for low- and **moderate-income** families in the "housing assistance" part of budget **Subfunction** 604.

quality and quantity, and program subsidies reduce the expense of such housing for **participants**. **Nevertheless**, the programs vary **considerably** in how effectively and at what cost they alleviate the housing problems of low- and **moderate-income families**.

None of the programs is specifically limited to those families that have both low incomes and housing problems. Only about **one-third** of 29 million low- and **moderate-income** households have readily **identifiable** housing problems. Even so, the Section 8 programs and the Section 236 program (with rent supplements or deep **subsidies**) make all of the 29 million potentially eligible for assistance. Because housing problems occur more frequently among **low-income** than **moderate-income** families, the Low Rent Public Housing program, which is limited to **families with low incomes**, is more **likely** to **assist** households with **housing** problems.

The cost per household of the current housing assistance programs is determined primarily by three factors:

1. The cost of the housing units.
2. The income level of the participating **households**.
3. The required payment for housing from the participants **themselves**. 4/

#### The Cost of the Housing Units

More expensive housing requires larger federal subsidies. Because the major variation in housing costs is between new and existing housing, the **subsidy per family** for any current new construction program is **considerably** higher than the subsidy required for existing housing.

Several recent studies have compared the subsidy for housing assistance under the Public Housing, **Section 8**, and Section 236 programs. While there is disagreement about which

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4/ Other factors **also** influence program costs in particular areas. Rural housing costs are **generally** lower than urban. Differences in management effectiveness **also** account for substantial **variation** in costs.

new construction approach is least costly, the basic conclusion is that the total subsidy to build a housing unit of the same total price is similar under each of the current new construction programs. Assisting households with the same income is at least twice as costly under a new construction program as under the Section 8 Existing Housing program. 5/

For a family of four with an income of \$4,250, the present discounted value of average annual subsidies is about \$2,000 or more under any of the new construction programs, but only about \$1,000 under the Section 8 Existing Housing program. Actual subsidy amounts in any given year will increase because of inflation in operating and other housing costs. Two studies found that first-year subsidies would be about \$3,500 or more under new construction programs and about \$1,500 under the Section 8 Existing Housing program. The results of these studies are summarized in Table 3.

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5/ In A Comparative Analysis of Subsidized Housing Costs (PAD-76-44), the General Accounting Office (GAO) found that for tenants with the same income the structure of rents in some housing markets may make the Section 8 Existing Housing program more costly than new construction under Section 236. In Durham, N.C., estimated long-run costs for the Section 8 Existing Housing program were higher than for the new construction programs because of the local structure of rents. This rent structure is not common in the U.S., nor is it clear that private developers would choose to build an apartment under these circumstances. The GAO did not estimate the costs of the Section 8 Existing Housing program on a national basis.

TABLE 3. SUBSIDY COSTS PER UNIT OF SUBSIDIZED HOUSING SUMMARY:  
OF RECENT STUDIES--TENANT INCOME OF \$4,250 a/

	New Construction		Existing Housing	
	Public Housing	236 (With Rent Supplement)	Section 8	Section 8
<u>Long-Run Comparative Costs</u> (present discounted value)				
General Accounting Office Study <u>b/</u> (ignoring inflation)	\$2,068	\$2,181	\$2,149	n.a.
CBO Study <u>c/</u> (assuming 5% inflation)	n.a.	n.a.	2,359-2,477	1,085-1,203
<u>First-Year Costs</u>				
Congressional Research Service Study <u>d/</u>	3,456	3,461	3,766	n.a.
Department of Housing and Urban Development Study <u>e/</u>	3,749	n.a.	4,184	1,456

- a/ These studies are based on **slightly** different assumptions about tenant income. All have been adjusted to tenant contributions based on income of \$4,250.
- b/ U.S. General Accounting Office, A Comparative Analysis of Subsidized Costs, PAD-76-44, July 1976, p. 20.
- f/ Congressional Budget Office, The Section 8 Housing Programs: Budget Issues, July 1976, p. 21; income assumption adjusted by CBO as in note a/.
- d/ Congressional Research Service, "Comparative Costs of Housing for Low-Income Families Under Several Federally-Assisted Programs," in Committee on Banking, Housing, and Urban Affairs, U.S. Senate, Comparative Costs and Estimated Households Eligible for Participation in Certain Federally Assisted Low Income Housing Programs, May 1976, p. 4; income assumption adjusted by CBO as in note a/.
- e/ Department of Housing and Urban Development, "Costs of Section 8 **FHA-Insured** Housing and Conventional Public Housing: A Comparison of Congressional Research Service and HUD **Comparisons**," included with the statement of **Carla A. Hills**, Secretary of HUD, before the Senate Committee on Banking, Housing, and Urban Affairs, June 23, 1976; income assumption adjusted by CBO as described in note a/.

The Income Level of the  
Participating Households

Because lower-income families contribute substantially less toward actual housing costs, programs which assist them require larger subsidies. For example, the Low Rent Public Housing program requires larger subsidies than the other four programs. It is targeted toward the lowest-income group; the median income of participants was approximately \$3,400 in 1975. The Revised Section 235 program is least expensive because the program serves households with annual incomes of about \$13,000.

The Required Payment for Housing  
from the Participants Themselves

Most current programs require that tenants pay approximately 25 percent of adjusted income for housing. However, differences in adjustments to gross income are permitted for different types of families, so the ratio of **rent-to-gross** income varies. Thus some families require a larger subsidy than other families of the same income **level**.

The subsidy costs of assisting the same number of **households** varies considerably under the different programs because of variations in the factors that determine cost. **Table 4** summarizes the estimated costs **resulting** from a fiscal year 1978 authorization for assistance to an additional 100,000 **households**. Both the direct outlay costs and indirect subsidy costs (principally tax expenditures) are considered. Five fiscal years are shown because costs change **substantially** over time. No fiscal year 1978 costs are shown for programs using new construction because of the considerable time needed for planning and the processing of **applications**.

TABLE 4. SUBSIDY COSTS RESULTING FROM A FISCAL YEAR 1978 AUTHORIZATION FOR ASSISTANCE TO 100,000 HOUSEHOLDS (Millions of Dollars)

Program (Type of Housing and Beneficiaries)	Fiscal Year 1978 Budget Authority	Subsidy Costs in Fiscal Years				
		1978	1979	1980	1981	1982
Revised Section 235 (middle-income buyers of new homes)	3,000	0	50	100	95	90
Section 236 (moderate-income tenants in new rental buildings)	7,500	0	1	29	201	218
Public Housing (low-income tenants in new rental buildings)	11,037	0	0	116	325	486
Section 8 New Construction (low- and moderate-income tenants in new buildings)	9,160	0	1	28	501 <u>a/</u>	463 <u>a/</u>
Section 8 Existing Housing (low- and moderate-income tenants in existing buildings)	3,700	29	127	160	164	168

a/ Estimates shown are for private Section 8 projects financed with mortgages which are bought by the Government National Mortgage Association (GNMA) and then resold at a loss in the same year. If projects could obtain financing without GNMA purchase of the mortgage, subsidy costs would be \$278 million in fiscal year 1981 and \$389 million in fiscal year 1982.

Among the five programs listed in Table 4, the Revised Section 235 program for middle-income homebuyers is least expensive with subsidy costs per 100,000 households growing to \$90 million in fiscal year 1982. This program's low relative cost is largely due to the fact that the middle-income participants can afford to pay more toward their own housing costs. Among the programs that assist low- and moderate-income tenants, the Section 8 existing housing program is least expensive with subsidy costs of \$127 million in fiscal year 1979 growing to \$168 million in fiscal year 1982. The other three programs subsidize newly constructed housing and involve substantial time lags for planning and construction before costs are incurred. Subsidy costs range from about \$218 million in fiscal year 1982 for the Section 236 program to \$463 million in fiscal year 1982 for the Section 8 New Construction program. These higher subsidy costs are required to reach the higher rent levels in new, as opposed to existing, housing. Because of these higher subsidy costs, new construction programs can serve fewer households within a given total subsidy budget. <sup>6/</sup> The tradeoffs involved in funding choices between these housing assistance programs are discussed in the last chapter of this paper.

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<sup>6/</sup> The estimates shown in Table 4 and other estimates of program costs in this paper are estimates of national average costs of modest expansion of current housing programs. The actual costs in various geographical areas would vary considerably because land, construction costs, and private market rents differ significantly. Indirect effects on rents in unsubsidized housing have not been considered. A Section 8 Existing Housing program that subsidized rents for a large portion of an area's lower-income residents could sufficiently increase demand for modest quality housing to raise rents for unsubsidized housing of modest or better quality. The likelihood or magnitude of this indirect effect is uncertain. Even with modest program expansion, however, current federal housing assistance can subsidize only a small portion of households in any single area, so any indirect effect is probably quite small.

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THE EFFECTS OF HOUSING ASSISTANCE  
PROGRAMS ON THE LEVEL OF HOUSING  
CONSTRUCTION

Four of the current housing assistance programs subsidize costs in **newly** constructed housing in order to effect the goal of increasing and stabilizing housing construction activity. 7/ Recent Congressional action on housing programs has reflected concern about the high **levels** of unemployment in the construction industry and the low level of residential construction activity. For example, in the fiscal year 1977 authorization and **appropriation** bills affecting housing assistance programs, more funds have been earmarked for programs that support construction of subsidized housing than were requested in the **President's** budget.

Subsidized housing construction has not been used to counter housing construction cycles. The data in Table 5 show that subsidized **multifamily** housing starts have been a significant share of total **multifamily** starts, averaging 18 percent during the past decade. The **annual** level of subsidized starts increased fairly steadily up to 1970 and has declined since. During this same period total starts peaked in 1968 and 1972.

Little is known, however, about the net impact of housing assistance programs on the stability or total level of housing construction activity. Few studies have been made of the net impact of subsidized housing construction on total housing starts. One study sponsored by the Federal Home Loan Bank Board found **little** impact on overall construction **levels**. 8/ There are complex but **little** understood interactions between housing construction levels and long run factors of

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7/ Like **Section 8** Existing Housing, the Section 23 leasing program used existing housing, but no funding for program expansion has been provided in recent years. Under this program local housing authorities could lease existing **rental** units from private landlords and sublet them at reduced rents to **low-income** tenants.

8/ Craig Swan, Housing Subsidies and Housing Starts, Federal Home Loan Bank Board, Working Paper No. 43, April 1973.

TABLE 5. HOUSING STARTS, 1965-1975 (In Thousands of Units)

Year	Total Starts (Number)	Multifamily		Subsidized Multifamily a/	
		Number	Percent of Total Starts	Number	Percent of Multifamily
1965	1,510	545	36%	48	9%
1966	1,196	416	35	48	12
1967	1,322	477	36	65	14
1968	1,546	646	42	136	21
1969	1,500	689	46	139	20
1970	1,469	654	45	254	39
1971	2,085	932	45	218	23
1972	2,379	1,068	45	161	15
1973	2,058	925	45	90	10
1974	1,353	464	34	42	9
1975	1,171	275	23	37	13
Annual Average	1,599	645	40%	113	18%

SOURCE: HUD-HPMC-FHA, Office of Management Systems.

a/ HUD subsidized multifamily only, under the Public Housing, Rent Supplement, state HFA, and Section 202, 221(d)(3) BMIR, and 236 programs.

household formation, age, and income which influence housing demand. In the short run, interest rates and flows of funds in financial markets appear to have the most influence on construction rates. Currently, the Section 8 new construction program appears to be restricted in part by the limited availability of financing. This program now relies largely on financing through mortgages purchased by the Government National Mortgage Association (GNMA) or through state or local tax-exempt bonds. A recent study of GNMA purchases of mortgages for single-family houses found little net impact on total construction levels. <sup>9/</sup> The impact of GNMA purchases on subsidized multifamily mortgages may be greater but it has not been studied. The net impact of financing subsidized housing through tax-exempt state and local bonds has also not been studied.

<sup>9/</sup> George M. von Furstenberg, "Distribution Effects of GNMA Home Mortgage Purchases and Commitments Under the Tandem Plans," in Journal of Money, Credit and Banking, Vol. VIII, No. 3, August 1976, pp. 373-389.

Even if subsidized housing programs have **little** impact on net housing starts, they may alter the timing of construction activity. Construction of subsidized housing may initially increase total housing construction but result in less construction than would otherwise have occurred in later periods. With such a pattern of effects, subsidized construction programs could be used as a countercyclical policy to provide a short-term boost to housing starts. However, the one-to-two-year lag between program funding and the start of construction activities limits the practical ability to use current housing assistance programs as countercyclical instruments.

The net impact of additional assisted housing construction on employment cannot be accurately estimated given these uncertain net effects on construction activity levels. However, to the extent that subsidized construction creates additional net housing starts, approximately 1 to 1.5 additional jobs are created for one year for each additional housing start. 10/

OTHER POLICIES THAT INFLUENCE  
HOUSING GOALS

This paper focuses on current housing assistance programs because fiscal year 1978 budget decisions will probably involve modifications to or choices among current programs. Other forms of housing assistance for low- and moderate-income families could be considered for longer-run decisions:

1. Programs directed at modest **rehabilitation** could be less costly than new construction programs while at the same time improving the existing housing supply and encouraging neighborhood preservation.
2. The purchase and lease of existing standard housing by cooperatives or **public** housing authorities **could** have the same advantage of lower cost as the Section 8

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10/ CBO estimate derived from Bureau of Labor Statistics, Labor and Material Requirements for Private Multifamily Housing Construction, Bulletin 1892, 1976.

Existing Housing program. In the future this alternative could avoid cost increases due to rising real estate values and be less costly than the Section 8 program.

3. Housing programs could be made more adaptable to local conditions through housing block grants to state or local governments, which would determine the particular housing assistance mechanisms.
4. A housing allowance program could be implemented. It would be similar to the Section 8 existing housing program in that participants could pick their own housing units. However, all households meeting eligibility standards would be entitled to assistance.

One further alternative for making decent housing affordable is to supplement inadequate incomes through general income assistance programs. Income assistance may be of more value to recipients per dollar of federal expenditure than housing assistance because the participants are not restricted to choosing housing over other consumption needs. These programs could also have less complexity and lower administrative costs than current housing assistance programs.

A significant portion of the subsidy under housing programs may not be spent on increased housing expenditures. A household spending more than 25 percent of its income for housing before participating in a housing assistance program will be able to use some of the housing subsidy to reduce its out-of-pocket housing expense and buy other goods. Similarly, part of income assistance subsidies can be spent on additional housing. Therefore, housing assistance programs, with all their special processing, lag time, and expense, may often not be very different from income assistance programs in the degree to which they channel funds into the housing market and increase housing consumption.

There are also alternative ways of meeting the second housing goal of a stable and adequate level of housing construction. Programs that encourage the construction of middle- or upper-income housing could be less expensive than the current programs because the participants can afford to pay more

for housing. A program providing such assistance was authorized by the Emergency Home Purchase Assistance Act of 1974, through which the Government National Mortgage Association buys mortgages with **below-market** interest rates. **Finally**, it should be noted that other federal activities and programs can influence **housing** construction levels. For example, overall fiscal and monetary policies influence the interest rates and **availability** of mortgage funds and these, in turn, influence housing construction activity. 11/

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11/ See Housing Finance: Federal Programs and Issues, Staff Working Paper, CBO, September 1976.



TABLE 6. PROJECTED AND ACTUAL ACTIVITY UNDER SECTION 8 PROGRAMS (Number of Units with Funds Reserved during Period)

Section 8 Program	Fiscal Year 1975		Fiscal Year 1976			Transition Quarter	Fiscal Year 1976 and TQ Combined		Fiscal Year 1977
	Administration Projection a/	Actual b/	Administration Projection			Administration Projection b/	Administration Projection b/	Estimate c/	Administration Projection c/
			Original in 1976 Budget a/	Revised in 1977 Budget b/	Actual c/				
New construction/substantial rehabilitation program	150,000	36,798	300,000	100,000	101,253	25,000	125,000	176,087	116,520
Existing housing program	50,000	55,322	100,000	132,000	127,889	33,000	165,000	203,046	72,555
Property disposition/loan management program d/	n.a.	n.a.	n.a.	88,000	43,884	22,000	110,000	111,448	0
TOTAL	200,000	92,120	400,000	320,000	273,026	80,000	400,000	490,581	189,075

## SOURCE NOTES:

a/ Summary of HUD Budget Fiscal Year 1976, Department of Housing and Urban Development (February 1975), p. St-23.

b/ Summary of the HUD Budget Fiscal Year 1977, HUD (January 1976), p. HPMC-4.

c/ Summary of the HUD Budget Fiscal Year 1978, HUD (January 1977) p. H-4.

d/ An administrative modification of the Section 8 existing housing program which piggybacks Section 8 subsidies with units previously insured by FHA and now in danger of mortgage foreclosure.

Although the rate of fund reservations has increased substantially, progress on other stages of program implementation has been slower. Many other activities must be completed and approved by HUD before tenants occupy housing units and benefit from Section 8 subsidies. Progress on these stages of program implementation is summarized in Table 7.

TABLE 7. PROGRESS TOWARD OCCUPANCY UNDER SECTION 8 PROGRAMS (As of November 30, 1976)

	Units		Cumulative
	Reserved in Fiscal Year 1975	Reserved in Fiscal Year 1976 & Transition Quarter	
<u>New Construction/</u>			
<u>Substantial Rehabilitation</u>			
Fund Reservation <u>a/</u>	36,798	176,087	212,885
Final Proposal Approved <u>b/</u>	419	34,641	35,060
Construction Started <u>b/</u>	373	25,187	25,560
Construction Completed <u>b/</u>	195	6,816	7,011
Under Lease <u>c/</u>	n.a.	n.a.	6,816
<u>Existing Housing</u>			
Fund Reservation <u>a/</u>	55,322	203,046	258,368
Under Lease <u>c/</u>	n.a.	n.a.	54,277
<u>Loan Management</u>			
Fund Reservation <u>a/</u>	0	111,448	111,448
Under Lease <u>c/</u>	0	30,922	30,922

a/ See source notes b and c for Table 6.

b/ Derived from HUD report: "Summary Section 8-Activity Status (U.S.) by Selected Development Stages-Monthly Period Ended November 30, 1976."

c/ As of September 30, 1976. Source: HUD, Office of Assisted Housing Management, Budget Division.

Under the Section 8 Existing Housing program, local housing authorities must, after subsidy funds have been reserved, establish procedures and train staff to solicit and screen program applicants. The applicants must then find existing housing units that meet Section 8 standards, with rents below the HUD-determined maximum. The landlord must be willing to execute a contract with the housing authority and a lease with the applicant that is subject to approval by the housing authority. Approximately 54,000 units were leased under the Section 8 Existing Housing program as of the end of the transition quarter.

Far longer lags between preliminary funding approval and occupancy are likely for Section 8 New Construction projects. After HUD approval of preliminary applications, local zoning approval and financing must be arranged. Then, the final proposals must be approved by HUD. The project must be built, the final subsidy contract executed, and the tenants selected by the project owner. Although funds had been reserved for over 200,000 units by the end of the transition quarter, only 35,060 units had a HUD-approved final proposal as of November 30, 1976. Construction had been started on 25,560 units and completed on 7,011 units. The final subsidy contract had been executed for only 6,816 units.

Available information suggests that many of the preliminary applications with funds reserved in fiscal year 1975 may never result in occupied housing units. As of November 30, 1976, construction had started on 14 percent of new construction units approved in fiscal year 1976, but on only 1 percent of those approved in fiscal year 1975. 1/

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1/ It may be that this slow progress on new construction reservations reflects the inability or reluctance of state housing finance agencies (HFAs) to enter the municipal bond market for financing. HFAs accounted for 94 percent of new construction reservations in fiscal year 1975. Recently several HFA bond issues for Section 8 projects have been sold at favorable interest rates.

PERFORMANCE OF THE SECTION 8  
EXISTING HOUSING PROGRAM

Because most of the housing problems of low- and moderate-income households result from housing that is too expensive rather than physically inadequate, a program that focuses on reducing the rent burden of existing, physically adequate housing units may be appropriate. The Section 8 Existing Housing program uses such an approach and differs from prior federal housing subsidy programs, which subsidized particular housing units usually constructed under the programs.

This approach has been questioned, however, because of the extremely slow initial activity under the program. It seems possible that some of these problems are simply those of any new program, because the Existing Housing program is now gaining momentum. The rents of approximately 54,000 households were subsidized under it as of the beginning of fiscal year 1977. This section will summarize the findings of a HUD study of 2,000 program participants conducted in May 1976 <sup>2/</sup> and will analyze the issue of whether the maximum rents allowed by HUD are so low that private landlords are unwilling to rent to participants.

The basic findings of the HUD field study are that:

- The program is primarily serving very low-income families, one-half of whom are elderly and whose major source of income is income assistance and retirement programs.

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<sup>2/</sup> "Section 8 Housing Assistance Payments Program: Existing Housing, A Field Study," Office of Program Analysis and Evaluation, HUD-PD&R, August 1976. Currently, the HUD study is the only available data source about Section 8 Existing Housing participants. Because the sample size is small, and current and future enrollees in the program may differ from the initial participants, no firm conclusions about the program can be drawn from the study.

- Nearly all participants' monthly housing costs were reduced substantially, and about one-third reported moving from substandard to standard housing.
  - About 40 percent of participants chose housing that met Section 8 standards of quality at rents below the HUD-determined maximums. These participants can contribute less toward rent under a provision known as "shopping incentives," designed to encourage a search for the best housing bargain.
  - Few participants are moving to new neighborhoods and nearly one-half remain in the same housing unit as before the subsidy, thus not changing their housing quality.
  - Local housing authorities must provide participants substantial assistance in finding housing and negotiating with landlords.
- t Rents set for an entire Standard Metropolitan Statistical Area (SMSA) can restrict access to neighborhoods with higher rents. Rent maximums are much too low in some areas, and many housing authorities feel that rents are too low for three-bedroom or larger units.

The adequacy of the maximum rents allowed by HUD (known as fair market rents) is a key factor influencing the performance of the Section 8 Existing Housing program. In simplified terms, the program augments the participants' ability to pay rent by paying the difference between the actual rent up to a maximum and the tenant's contribution of approximately 25 percent of income.

Some observers, including the HUD study team, believe the maximum rents are not adequate to allow participants a wide choice among existing rental units or to encourage landlords to rent to subsidized tenants. A preliminary analysis of the fair market rents indicates, however, that while the maximums may be clearly inadequate in some neighborhoods where rents are substantially above those in the area as a whole, existing

data do not support a conclusion that the fair market rents in **general** are too low.

The best available source of data on rent **levels** in various geographic areas is the 1970 Census. For comparison with 1976 Section 8 rent limits, 1970 rents are updated to current **levels** using the rent component of the Consumer Price Index, which is available for 23 separate SMSAs. For the 23 SMSAs, the current Section 8 limits are compared to the median rent of apartments in the area after adjustment to 1976 by the **area's** rent inflation index. These comparisons are shown in Table 8 for the median rent of two-bedroom apartments in the entire SMSA. (Comparisons were **also** made for other size apartments, for the **central** city separately, and for vacant apartments after similar adjustments for inflation. The results of these latter comparisons are not shown **here.**)

TABLE 8. COMPARISON OF MARKET RENTS TO SECTION 8 EXISTING HOUSING PROGRAM RENT LIMITS IN 23 SMSAs (Two-Bedroom Housing Units, Monthly Gross Rent in **Dollars**)

SMSA	1976 Section 8 Rent Limit <b>a/</b>	Median Rent in 1970 Census Adjusted for Inflation <b>b/</b>
Atlanta, Ga.	\$189	\$147
Baltimore, <b>Md.</b>	201	150
Boston, Mass.	235	188
<b>Buffalo</b> , N.Y.	192	136
Chicago, <b>Ill.</b>	234	174
<b>Cincinnati</b> , Ohio	170	130
Cleveland, Ohio	174	140
Dallas, Texas	181	148
Detroit, Mich.	196	157
<b>Honolulu</b> , Hawaii	289	203
Houston, Texas	170	153
Kansas City, <b>Mo. -Kansas</b>	176	145
Los Angeles-Long Beach, <b>Cal.</b>	202	178
<b>Minneapolis-St. Paul</b> , Minn.	209	192
Milwaukee, <b>Wis.</b>	196	168
New York, <b>N.Y.-N.E.</b> New Jersey	241	176
Philadelphia, Pa.	197	163
Pittsburgh, Pa.	178	123
San Diego, <b>Cal.</b>	202	178
San Francisco-Oakland, Cal.	228	204
St. Louis, Mo.	194	134
Seattle, Wash.	206	185
Washington, D.C.	230	209

**a/** From: "Fair Market Rents for Housing Assistance Payments Program-Amendment of Schedule B Existing Housing," Federal Register, Vol. 41, No. 61, March 29, 1976, pp. 13042-13328.

**b/** CBO calculations based on 1970 Census of Housing, Metropolitan Housing Characteristics-HC(2) report for each SMSA, and on Bureau of Labor Statistics, Consumer Price Index, Residential Rent--Series C-1, unpublished data.

In all of the 23 SMSAs examined, the rents allowed under the Section 8 program are higher than the median rent for the **entire SMSA**, for the central city, for the suburbs, and for vacant units. This is also true for each size apartment for which rent is individually reported. (The Census combines all units with three or more bedrooms so these cannot be compared directly.) It is possible that this analysis understates the rent in units that **would** meet Section 8 program **quality** standards because: (a) the Consumer Price Index (CPI) rent index may not adequately adjust for declines in the **quality** of the apartments sampled; (b) some units included in the 1970 Census sample are physically substandard; and (c) some units in the CPI apartment sample do not include in rent the costs of fuel and utilities, which have risen faster than total rent. However, the Section 8 rent limits are on average 25 percent higher than the **inflation-adjusted** median rent in two-bedroom units. Thus, the available data indicate that a participant in the Section 8 Existing Housing program **could** afford, with the HUD subsidy, the rent in at least half of **all** rental units in an area.

To determine whether the Section 8 rents are "adequate," a basic judgment must be made about the quality and amenity level required in adequate housing. Beyond basic minimum requirements of a roof, space, and sanitary facilities, societal standards for housing are in part set by the housing that **people** do occupy.

Another way to look at the question is to compare the rents to standards of what proportion of income can be spent for housing without creating financial hardship. Under the Section 8 programs, the standard is that households **should** not have to spend more than 25 percent of income (**after** adjustments for several items) for housing. For example, a family of three renting a two-bedroom apartment at the average rent allowed under Section 8, \$179.20 per month, would be considered to have excessive housing costs unless the family had annual income of at least \$8,900. Thus, Section 8 rent levels restrict participant **families** to units renting at **levels** affordable by **unsubsidized** families with incomes of approximately \$8,900.

PERFORMANCE OF THE SECTION 8 NEW CONSTRUCTION/  
SUBSTANTIAL REHABILITATION PROGRAM

Recent concern about the pace of **implementation** and the feasibility of the **Section 8** programs has often focused on the slow rate of construction starts under the New **Construction/Substantial Rehabilitation** program. **Although** applications for preliminary funding approval have increased **substantially**, progress through further stages of project execution remains slow. Factors that will probably determine the eventual progress of the program are (1) whether **HUD-approved** rent **levels** adequately compensate for **additional** development and management costs under the program, and (2) whether mortgage financing is **available**.

Adequacy of New Construction  
Program Rent Levels

The basic concept of the Section 8 New Construction program is that a developer agrees to build an apartment and rent it to a household with income that qualifies under the **program's** eligibility limits. In exchange, HUD agrees to pay the developer the difference between normal market rent and what the household can afford to pay (generally, 25 percent of adjusted income). This idealized program would be advantageous to a developer only if normal market demand is **low** after construction is completed, or if the rent approved by HUD **actually** exceeds normal market rents.

In reality, the Section 8 program presents a much more complex set of advantages and **disadvantages** to prospective developers. The advantages of building under Section 8 as opposed to building **unsubsidized** housing include:

- More prospective tenants, although this may have **little** economic value in a housing market with **few vacancies**.
- Relatively assured payment of the HUD subsidized portion of rent.

- Payment of 80 percent of the full rent for vacant units for up to two months and of mortgage principal and interest costs for an additional 12 months (if the mortgage **is** not insured by **FHA**).
- t Potential automatic increases in rents (and the HUD subsidy) if market rents rise, although the specifics of this provision have not been issued by HUD.

**Disadvantages** to the Section 8 developer include:

- t Numerous additional requirements during the **planning** and construction period, all of which **require** documentation and time for HUD **approval**, such as: **environmental** impact assessment, local government finding of consistency with its housing assistance plan, federally approved wage scales, compliance with equal employment opportunity **provisions**, and building at higher minimum construction standards.
- t Additional requirements after completion of the building, including: affirmative fair housing marketing; selection of at least 30 percent of tenants from lowest income categories; certification of tenant income and subsidy calculations; collection of rent from both HUD and tenants; and continued dealings with HUD over future rent increases.

The potential savings and costs of these factors would vary considerably among projects, but it seems likely that the cost of building and operating a Section 8 subsidized project would be higher than for an identical **unsubsidized** project. Thus a key question is whether HUD allows rents higher than a private renter would pay. Sufficiently detailed data about rents paid for recently built apartments are not available with which to compare private rents to the maximum rents specified by HUD. Furthermore, the maximum rents are to apply for the first year after the **building is** completed several years in the future. Perhaps the best evidence of expected **profitability** may be that **profit-motivated** developers had **applied** for and received preliminary funding approval to build over 130,000 Section 8 New Construction units as of the end of November 1976.

Availability of Financing for Section 8  
New Construction Program

The Section 8 program **provides** no mechanism for **financing** the construction or ownership of subsidized housing. **Preliminary** evidence suggests that private lenders do not currently consider direct **long-term** financing of Section 8 projects as an attractive investment, and that federal or state government-sponsored financing mechanisms are the **principal** sources of mortgage funds required for the program.

A principal source of proposed financing is state **housing** finance agencies (HFAs), which account for 38 percent of **all** Section 8 new construction program units with funds reserved as of the end of November 1976. HFAs obtain funds for mortgage loans by **issuing** state government-backed tax-free bonds. Funds were reserved for HFAs to sponsor nearly 35,000 Section 8 units at the end of fiscal year 1975, but uncertainty over the impact of the New York City fiscal crisis on the tax-exempt municipal bond market made many HFAs delay issuing bonds. Recently, several states have successfully sold bonds for financing Section 8 projects at lower than expected interest rates. It seems possible that tax-free bond financing may become an increasingly viable financing mechanism for Section 8.

The other **principal** source of financing is through federal **government-insured** mortgages, which were requested for about 60 percent of the remaining projects not financed through state housing finance agencies. **3/** Comprehensive data are not available about the expected future financing source for all the proposed government-insured mortgages. However, **prospective** lenders for all those **Section 8 government-insured** projects that had passed the preliminary stage of **insurance** approval by June 30, 1976, have purchased commitments under the Government **National** Mortgage Association (**GNMA**) Emergency Mortgage Purchase Program. GNMA will purchase the eventual mortgage, paying for these purchases by borrowing from the U.S.

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**3/** With the costs of insurance **premiums** and processing delays, government-insured projects may be larger than conventionally financed projects and thus account for more than 60 percent of the proposed housing units.

Treasury. Thus, unless GNMA resells the mortgage to another private investor, the federal government will become the investor in the Section 8 project.

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CHAPTER IV. BUDGET IMPLICATIONS OF CHOICES AMONG ALTERNATIVE LOW- AND MODERATE-INCOME HOUSING ASSISTANCE PROGRAMS

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Federal budget **decisions** regarding low- and moderate-income housing assistance involve **choices** in two areas: the **level** of **funding** relative to funding for other priorities, and the housing goals to pursue through a mix of housing assistance programs.

FUNDING LEVEL

At current levels, the housing assistance programs subsidize less than 10 percent of the 29 **million** low- and **moderate-income households** who are **eligible** on the basis of income for at least one of the programs. Approximately 8 million of these **eligible** households pay more than 25 percent of income as rent. Three million occupy physically inadequate housing. Thus, the goal of **providing** adequate housing for **all** low- and **moderate-income families** has not been met and funding for the housing assistance programs could be expanded if greater progress toward the **achievement** of this goal were desired. In a broader context, this goal reflects concern about the standard of living of lower-income **people**. Improvements in their standard of living could perhaps be achieved more directly by increasing funds for general income assistance rather than for housing programs. Income assistance programs may be of more value to the poor per **dollar** of federal expenditure because the participants in these programs are not restricted to choosing housing over other consumption needs.

The goal of increasing and **stabilizing** housing production and construction employment could be addressed by increased funding for housing assistance activities. But it **could also** be addressed by funding programs that support the construction and **rehabilitation** of **middle-income** housing, such as GNMA tandem assistance for **unsubsidized** housing. Programs directed at **middle-income** housing assistance are less costly to the government per housing unit because the occupant can pay a **larger** portion of his own **total** housing costs.

The net impact on construction activity achieved by subsidizing new housing either for low- and moderate-income households or for middle-income households is highly uncertain.

#### TYPE OF HOUSING ASSISTANCE PROGRAMS

The allocation of funds among different housing assistance programs reflects two choices. A choice must be made between improving the physical condition of housing and **supporting** new construction or increasing the number of households that can afford housing in the **existing** supply. A second choice must be made regarding which **families should be assisted**.

Current housing assistance programs are directed towards **solving** different housing programs for different groups of households. The **subsidy** costs per housing unit and the timing of these costs vary **considerably** from one program to another. Thus, within a given budget **level**, emphasis on one program results in a **substantially different** number of households assisted than emphasis on another program. The income group **assisted**, type of housing, and costs of these programs are shown in Table 9.

The costs shown in Table 9 are based on **authorization** in fiscal year 1978 for assistance to 100,000 households. This **authorization** would be represented as budget authority of from \$3 billion for the Revised Section 235 program to over \$11 **billion** for Low Rent Public Housing. Budget authority reflects both the annual subsidy outlays and the length of the government contract. Because these contracts vary in length (from 15 years for the Section 8 Existing **Housing** program to 40 years for the Public Housing program), and because substantial **indirect** costs are also involved, amounts of budget **authority** alone are not adequate to compare the subsidy costs of **alternative** housing assistance programs. Subsidy costs include the direct outlays and **indirect** tax **expenditures**, which are shown for **fiscal** years 1978 through 1982. For programs **involving** new housing, no costs are shown for fiscal year 1978 because of the time **required** after fund authorization for planning, application processing, and **construction**.

TABLE 9. COMPARISON OF LOWER-INCOME HOUSING ASSISTANCE PROGRAMS

Program and Type of Housing	Median Participant Income Level 1975 (Estimate)	Subsidy Costs to Authorize Assistance in	Fiscal Year 1978 for 100,000 Households				
			Cost Component	Fiscal Years (Millions of Dollars)			
			1978	1979	1980	1981	1982
<u>Revised Section 235-</u> homeowner mortgage interest subsidy (new construction)	Middle Income \$13,000 <u>a/</u>	Budget Authority Outlays <u>b/</u>	3,000 0	0 50	0 100	0 95	0 90
<u>Section 236-</u> rental mortgage interest subsidy (new construction)	Moderate Income \$10,000 <u>c/</u>	Budget Authority Outlays Tax Expenditures	7,500 0 0	0 0 1	0 0 29	0 94 107	0 187 31
<u>Public Housing-</u> rental debt service and operating cost subsidies (principally new construction)	Low-Income \$3,400	Budget Authority Outlays Tax Expenditures	11,037 0 0	0 0 0	0 74 42	45 <u>d/</u> 224 101	55 <u>d/</u> 331 155
<u>Section 8-</u> rent subsidies							
New Construction	Low- and Moderate-Income \$5,700 <u>a/</u>	Budget Authority <u>e/</u> Outlays Tax Expenditures <u>e/</u> GNMA Tandem Costs <u>e/</u>	9,160 0 0 0	0 0 1 0	0 0 28 0	0 173 105 223	0 358 31 74
Existing Housing	Low- to Moderate-Income \$4,200 <u>a/</u>	Budget Authority Outlays Tax Expenditures	3,700 29 0	0 127 0	0 160 0	0 164 0	0 168 0

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a/ Estimated median income of likely program participants.

b/ Tax expenditures arising from homeowner deductions of mortgage interest and property taxes have not been estimated because the tax status of potential program participants is not known. If all 100,000 participants had been renters before buying the Section 235 home, a rough estimate is that tax expenditures might be as much as \$25 million in fiscal year 1979 and \$50 million in following years.

f/ Estimated tenant income necessary to afford basic rent in 236 project. Income could be lower if additional subsidy were provided through rent supplement or deep subsidy program.

d/ Budget authority provided on an annual basis for operating subsidies.

e/ Costs shown are for private Section 8 projects financed with below-market interest rate mortgages which are bought by GNMA and then resold at a loss. For Section 8 projects sponsored by state or local governments, \$18,320 million budget authority would be required. Estimated outlays would remain as shown. Estimated tax expenditures would be \$1 million in fiscal year 1979, \$29 million in fiscal year 1980, \$180 million in fiscal year 1981, and \$149 million in fiscal year 1982.

Among the current housing assistance programs, the Revised Section 235 program is least expensive, with subsidy costs of \$100 million in fiscal year 1980 when all 100,000 households are subsidized. Costs are relatively low for this program because the middle-income participants can afford to pay a **larger** share of **their own housing** costs.

For low- and **moderate-income** households, the Section 8 Existing Housing program is the lowest-cost approach. It also involves the least amount of time between **authorization** and **assistance** to participants because it uses **available** rental units. Estimated subsidy costs for this program would be \$29 million in fiscal year 1978, \$137 million in fiscal year 1979, and nearly \$170 million in fiscal year 1982.

The remaining programs, which involve construction of new **housing** units, are more expensive and require longer delays before participants are assisted or costs **incurred**. The Section 236 program, which assists **moderate-income** households, has the lowest direct outlays of about \$190 million in fiscal year 1982. In the same year, estimated direct outlays are \$331 million to assist low-income households in Low Rent Public Housing, and \$358 million for low- or **moderate-income** households under Section 8 New **Construction**. Each of these new construction programs **also** involves substantial **indirect** subsidies, principally through tax expenditures for items such as tax-exempt public housing bonds or accelerated depreciation. In **fiscal** year 1980, these **indirect** costs would be about \$30 million under **either** Section 236 or Section 8 New Construction. The largest indirect costs in any given year would occur in fiscal year 1981 under Section 8 New Construction with \$105 million in tax expenditures and \$223 million in GNMA tandem subsidies. 1/

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1/ There would be no **indirect** GNMA subsidies if Section 8 New Construction projects secure conventional mortgages or financing from state housing finance agencies. The latter is more likely and tax expenditures for such projects are shown in footnote e/ to Table 9. For a **discussion** of GNMA tandem **subsidies**, see Housing Finance: Federal Programs and Issues, CBO, September 1976.

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APPENDIX

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TABLE A-1. DESCRIPTION AND CHARACTERISTICS OF CURRENT  
LOW- AND MODERATE-INCOME HOUSING ASSISTANCE  
PROGRAMS

APPENDIX TABLE: DESCRIPTION AND CHARACTERISTICS OF CURRENT  
LOW- AND MODERATE-INCOME HOUSING ASSISTANCE  
PROGRAMS

PROGRAM TITLE	PROGRAM DESCRIPTION/ MECHANISM	TYPE OF HOUSING
<u>BUDGET FUNCTION 604</u>		
<u>Major Housing Subsidy Programs</u>		
Low Rent Public Housing	Assist local public housing authority to provide rental housing for low-income tenants. HUD pays annual debt service <b>required</b> for 40-year, tax-free municipal bonds, with which local housing authorities build, or rent <b>housing</b> .	Primarily new construction (96 percent of units assisted through 1975). Primarily <b>multifamily</b> .
Operating Subsidies for Public Housing	Additional assistance to local public housing authorities to cover operating cost deficits.	Same as above.
Section 8 New Construction/Substantial-Rehabilitation Program	Encourage production of lower-income rental housing by subsidizing rents in newly constructed or rehabilitated housing. Developer arranges financing, HUD pays difference between approved rent and tenant contribution of 15-25 percent of income. Contract period is 20 years for private developer, 40 years for projects assisted by state or local housing agencies.	New construction or substantial rehabilitation. <b>Multifamily housing.</b>
Section 8 Existing Housing Program	Subsidize rents of lower-income households in existing housing. Participants select existing <b>housing</b> units with rent up to HUD- <b>determined</b> maximum. HUD pays difference between market rent and tenant contribution of 15-25 percent of income. <b>Administered</b> by local public housing agency under 15-year contract with HUD.	Existing housing. Multifamily or single-family rental housing.

APPENDIX TABLE (Continued)

BENEFICIARIES	TIMING	BUDGET AUTHORITY FOR FISCAL YEAR 1978 ESTIMATE
<p>Low-income families or elderly, handicapped or displaced individuals selected by local housing authority. In FY 1975: \$3,400 median annual income; 43 percent of households were elderly or handicapped; \$874 average subsidy in FY 1976.</p>	<p>From commitment to construction start 6 to 9 months. From construction start to occupancy approximately 1 1/2 to 2 years.</p>	<p>\$110,370 for 40-year contract</p>
<p>Same beneficiaries as above. Average subsidy in FY 1976, \$388 per unit.</p>	<p>Not applicable.</p>	<p>\$480 per unit for one year.</p>
<p>Developer selects families or elderly, handicapped, or displaced individuals with income less than 80 percent of median income in area (adjusted for family size). 30 percent of initial tenants must have income less than 50 percent of median income in area. For a family of four with \$5,000 income, the average subsidy would be approximately \$2,543 in FY 1976.</p>	<p>From fund reservation to construction start approximately 6 to 9 months.</p> <p>From construction start to occupancy--approximately 1 to 2 years.</p>	<p>\$91,600 for 20-year private developer projects.</p> <p>\$183,200 for 40-year housing agency assisted projects.</p>
<p>Same requirements as Section 8 new construction above, but local public housing authority selects participants. For a family of 4 with \$5,000 income the average subsidy would be approximately \$1,106 in FY 1976.</p>	<p>From fund reservation to occupancy approximately 6 to 12 months.</p>	<p>\$37,005 for 15-year contract.</p>

APPENDIX TABLE (Continued)

PROGRAM TITLE	PROGRAM DESCRIPTION/ MECHANISM	TYPE OF HOUSING
<u>BUDGET FUNCTION 604 (Cont.)</u>		
Section 235 Revised	Encourage production of moderate-income, owner-occupied housing by subsidizing mortgage interest costs. HUD subsidy reduces homeowner's mortgage interest rate to as low as 5 percent. Homeowner pays 20 percent of adjusted income for mortgage, insurance, and tax payments.	New construction or rehabilitation.  Single-family, condominium, co-operatives, or mobile homes.
<u>Other Housing Subsidy Programs</u>		
Section 236	Encourage production of moderate income rental housing by subsidizing mortgage interest costs.  HUD subsidy reduces effective mortgage interest rate to as low as 1 percent. Tenants pay "basic rent" or 25 percent of adjusted income, whichever is greater.	New construction or rehabilitation.  Multifamily.
Rent Supplement	Subsidize rent of low-income households. HUD pays difference between HUD-approved rent and 25 percent of tenant income up to maximum subsidy of 70 percent of rent.	Generally linked to multifamily housing units constructed under another HUD subsidy or FHA-insurance program.

APPENDIX TABLE (Continued)

BENEFICIARIES	TIMING	BUDGET AUTHORITY FOR FISCAL YEAR 1978 ESTIMATE
<p>Families and elderly, handicapped, or displaced individuals with income less than 95 percent of median income in area (adjusted for family size). Mortgage insurance and tax payments for a 5 percent mortgage cannot exceed 20 percent of income.</p> <p>Moderate-income families and elderly or handicapped individuals. Selected by developer. In FY 1975: 400,360 units; \$5,623 median annual income; 25 percent elderly.</p> <p>Low-income households with members who are elderly, handicapped, in the armed forces, or displaced. In FY 1975: 148,000 households; \$3,167 median annual income; 28 percent elderly.</p>	<p>From fund reservation to construction: 4 to 9 months.</p> <p>From construction start to occupancy: 9 to 14 months.</p> <p>From commitment to construction start approximately 6 to 9 months.</p> <p>From construction start to occupancy approximately 1 1/2 to 2 years.</p> <p>Same as the program with which rent supplement is linked.</p>	<p>\$30,000 per unit for 30-year contract.</p> <p>\$75,000 per unit for 40-year contract.</p> <p>Not available.</p>