Recent Improvements to the Section 8 Tenant-Based Program

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Over the past 25 years, the Section 8 tenant-based program (now known as the Housing Choice Voucher Program) has helped millions of low-income families afford decent-quality rental housing. Under the program, participating families locate modest-cost rental units of their choice in the private market. Participants typically pay 30 percent of their adjusted income for rent and utilities, with the government subsidizing the balance of the costs up to a locally determined maximum.

Although the broad parameters of the Section 8 tenant-based program have remained constant over time, the details have changed considerably as the U.S. Department of Housing and Urban Development (HUD) and Congress have sought to strengthen the program to better serve families' needs. Over the past 2 years, in particular, there has been a series of significant program improvements that, together with HUD's new policy of targeted increases in the fair market rent (FMR) and HUD's proposed Housing Voucher Success Fund, will substantially increase the proportion of housing voucher recipients that succeed in using their vouchers to rent housing. Many of these initiatives also will help to improve the proportion of allocated Section 8 funds that the State and local public housing agencies (PHAs) responsible for administering the program spend each year.

The following is a brief summary of these recent program improvements:

- **As of October 1, 1999, the Section 8 certificate and voucher programs were merged into a new Housing Choice Voucher Program.** This merger significantly expands the number of rental units available to voucher holders. Prior to the merger, roughly three-fourths of all households with Section 8 tenant-based assistance had certificates rather than vouchers, and were required to find a unit below a set maximum rent. Families with vouchers, by contrast, may choose to pay more than 30 percent of their adjusted incomes to rent higher-cost units.[1]
- **PHAs now have discretion to raise voucher payment standards to 110 percent of the FMR.** This gives PHAs substantial flexibility to raise payment standards where needed to ensure that voucher holders can find affordable units.
- **PHAs can obtain higher payment standards where necessary to enable voucher holders to afford housing.** HUD has adopted procedures for raising payment standards where necessary to ensure that voucher holders can afford to rent apartments

throughout the metropolitan area. Under prior law, exception payment standards could not exceed 120 percent of the FMR. HUD may now approve exception payment standards above this level.

- **PHAs now have discretion to extend the search time of voucher holders beyond 120 days.** Previously, families were forced to give up their vouchers if they did not find housing within 120 days.
- **The Section 8 voucher program now works more like the private rental market.** To expand owner participation, the Quality Housing and Work Responsibility Act of 1998 made a number of significant changes to ensure that the program operates more like the private rental market. For example, the Act permanently eliminated the "endless lease" policy that limited the circumstances under which owners could refuse to renew the contracts of voucher holders. The Act also permanently repealed the *take-one-take-all* requirement that an owner accepting one Section 8 family agree to take others.
- **Section 8 vouchers may now be used for homeownership.** This will substantially expand the housing opportunities of voucher holders and enable a significant number to experience the benefits of homeownership. This option has already been implemented on a demonstration basis. The final rule extending this option to all interested PHAs was published in the *Federal Register* on September 12, 2000.
- **The new Section 8 Management Assessment Program (SEMAP) system provides strong incentives for housing agencies to improve Section 8 utilization.** To be a high performer under the new SEMAP system, a housing agency must demonstrate that at least 95 percent of the tenant-based subsidies budgeted for the agency are under lease.
- **Financial disincentives to 100-percent utilization rates have been eliminated.** In the past, many PHAs sought to achieve utilization rates below 100 percent to ensure they had a margin of error in the event they overshot their target and spent more than they had anticipated. To counter this disincentive, PHAs will be allowed to cover any temporary overruns by utilizing their reserve funds.
- **HUD now has authority to take unused funds away from PHAs that do not use at least 90 percent of their vouchers or budgeted funds.** This policy was developed through a negotiated rulemaking process that involved HUD, PHAs, and representatives of low-income families.

Raising Fair Market Rents

In September 2000 HUD announced another major initiative to strengthen the Section 8 tenant-based program: targeted increases in fair market rents (FMRs). FMRs are used to calculate the maximum subsidy that can be paid for a particular unit subsidized with a Section 8 voucher. Until 1995, FMRs were set at the 45th percentile of the rents of standard quality rental units occupied by recent movers. For budgetary reasons, FMRs were lowered to the 40th percentile of recent movers in 1995. A number of PHAs have indicated that this reduction has made it more difficult for families with vouchers to find units that they can afford to rent.

To ensure that FMRs are adequate to allow the maximum practical use of Section 8 vouchers in a wide variety of neighborhoods, HUD has developed a new policy that raises FMRs to the 50th percentile in certain targeted areas. The new policy increases by 25 percent the number of standard quality rental units that are affordable to families with Section 8 vouchers in each qualifying area.

The new policy is designed to achieve two fundamental program objectives:

- **Ensuring that voucher holders can find suitable housing.** In many areas, the current FMR—based on the 40th percentile of recent movers—are adequate to allow families with Section 8 vouchers to rent suitable housing. In some areas, however, difficult market conditions are preventing families from finding affordable units. The new policy authorizes PHAs to use voucher payment standards based on the 50th percentile rent where fewer than three-fourths of the families issued vouchers succeed in using them to find housing.

- **Ensuring that voucher holders have access to a broad range of housing opportunities throughout the metropolitan area.** One of the goals of the Section 8 program is to ensure that voucher holders are free to move to neighborhoods of their choice throughout the metropolitan area. To advance this objective, HUD will increase FMRs to the 50th percentile in metropolitan areas where there is both concentration among voucher holders and evidence suggesting that this problem may be due to the distribution of affordable rental units in the area.

The regulation implementing HUD's new FMR policy is scheduled to be published in the *Federal Register* in early October 2000. The policy will go into effect in December 2000.

Housing Voucher Success Fund

In addition to raising rents, it is important to ensure that voucher holders receive the assistance they need to locate suitable rental units. Among other assistance that can be helpful in maximizing the potential of housing vouchers are assistance identifying available units, transportation assistance to enable families to visit a wider range of neighborhoods, help with the application process, outreach to owners, and a revolving loan fund to pay for security deposits.

To ensure that a greater number of families are provided with these services, and to test which services are most effective, HUD has requested $50 million in its FY 2001 budget for a Housing Voucher Success Fund. This fund would cover the following three costs:

- Housing search assistance and related services. Housing agencies would choose which services to fund based on their experience and local market conditions. HUD estimates that as many as 80,000 new voucher participants could be assisted with these funds.
- An evaluation that tests the extent to which different strategies improve voucher success rates (i.e., the proportion of families issued vouchers that succeed in using them to find housing).
- Targeted technical assistance to PHAs with low success rates to ensure that they are taking all possible steps to improve the usability of vouchers.

Conclusion

The Section 8 tenant-based program is a much stronger program than it was just 2 years ago and will be even stronger once the effects of the recent changes are fully felt. To maximize the potential of vouchers to provide suitable rental housing to low-income families in a wide range of neighborhoods, HUD is implementing additional program improvements. Specifically, HUD is raising FMRs to the 50th percentile in targeted areas and has proposed the Housing Voucher Success Fund. Together with the changes that have already been made, these new improvements will ensure that housing vouchers remain an effective solution to the growing shortage of affordable rental housing.

Author

Jeffrey M. Lubell is the director of the policy development division of HUD's Office of Policy Development and Research. Previously he worked as a housing policy analyst for the Center on Budget and Policy, a nonprofit organization that analyzes and researches national public policy on a wide range of low-income issues, including low-income housing policy. He prepared analyses to inform on the extent to which pending Federal housing legislation could divert housing subsidies away from the poorest households with the greatest housing needs. Lubell has given lectures and prepared articles on numerous national and State housing policy issues, including at least 10 articles on low-income housing policy. Lubell received his Juris Doctor from Harvard Law School.

Note

1. To ensure that families with housing choice vouchers do not pay an excessive share of income for rent, the statute limits the proportion of adjusted income that families may pay upon initially using a voucher to 40 percent.