

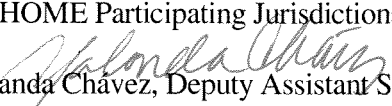


U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-7000

OFFICE OF COMMUNITY PLANNING
AND DEVELOPMENT

APR 14 2014

MEMORANDUM FOR: All CPD Division Directors
All HOME Participating Jurisdictions

FROM: 
Yolanda Chavez, Deputy Assistant Secretary
for Grant Programs

SUBJECT: HOME Program Rent Limits – 2014

The purpose of this memorandum is to issue the HOME Program rent limits for 2014 and to advise HUD Field Offices and HOME participating jurisdictions of important changes in the calculation of the HOME rent limits for 2014.

Background

The maximum HOME rent limits are established in Section 215 of the Cranston-Gonzalez National Affordable Housing Act of 1990 (NAHA), as amended. The High HOME Rent Limit for an area is the lesser of the Section 8 Fair Market Rent (FMR) for the area or a rent equal to 30 percent of the annual income of a family whose income equals 65 percent of the area median income, as determined by HUD. The Low HOME Rent Limit for an area is 30 percent of the annual income of a family whose income equals 50 percent of the area median income, as determined by HUD, capped by the High HOME Rent Limit. HUD's Economic and Market Analysis Division calculates the HOME rents each year using the FMRs and the Section 8 Income Limits.

The Housing and Economic Recovery Act of 2009 required HUD to eliminate its policy of maintaining Section 8 income limits for certain areas at previously published levels when reductions would otherwise have resulted from changes in median income estimates, housing cost adjustment data, median family income methodology or metropolitan area definitions. This policy is commonly known as the "hold harmless" policy. For the purposes of the HOME Program, HUD determined that it was appropriate to remove the hold harmless for the income limits used to determine the eligibility of program beneficiaries. However, the Department opted to continue using the hold harmless income limits in calculating the annual HOME rent limits to avoid jeopardizing the financial feasibility of existing HOME rental projects that used High HOME Rents or Low HOME Rents that were tied to a percentage of the Section 8 Income Limits.

HUD set forth this proposed policy for public comment in Federal Register Notice 74 FR 47016, dated September 14, 2009. The final Federal Register Notice (75 FR 27564, May 17, 2010) mistakenly stated that: "(f)or its HOME program, ... HUD determined that rents will be held harmless, but that income limits will be allowed to fluctuate with the market." This statement resulted in incorrect calculation of HOME rent limits beginning with the 2010 HOME rent limits that were issued on May 27, 2010. Instead of using the income limits that had been held harmless in calculating High HOME Rent Limits based upon the 30 percent of 65 percent of income and then determining whether the income-based rent or the FMR was the lesser rent, HUD used the new Section 8 income limits that were not held harmless to calculate the income-based rents and held all High HOME Rents Limits harmless regardless of whether the FMR or the income-based rent was applicable. HUD used the same incorrect methodology in calculating the 2011 and 2012 HOME High HOME Rent Limits. As a result, there were no reductions in High HOME Rent Limits between 2009 and 2012.

The Low HOME Rent Limits, which equal 30 percent of the annual income of a family whose income equals 50 percent of the area median income, have also been affected by this calculation error. Beginning with the 2010 rent limits, HUD used the published Section 8 income limits that had not been held harmless income limits to calculate the Low HOME Rent Limits and held all Low HOME Rents Limits harmless. HUD used the same incorrect methodology in calculating the 2011 and 2012 HOME Low HOME Rent Limits. As a result, there were no reductions in Low HOME Rent Limits between 2009 and 2012.

The calculation error has not affected areas where High HOME Rent Limits or Low HOME Rent Limits have increased. The error affects only areas where area median income and/or FMRs have decreased.

Corrections for 2014 HOME Rent Limits

Because HOME Rent Limits are established by NAHA, in 2013, HUD acted to correct its error and bring the HOME Rent Limits into compliance with the statute by implementing the correct method of calculation (i.e., using the hold harmless income limits for calculation purposes and removing the incorrectly applied hold harmless on the High HOME Rent Limits and Low HOME Rent Limits). HUD is aware that large decreases in maximum rent limits may adversely affect the financial viability of HOME projects. Consequently, HUD implemented an approach to correcting rents designed to minimize adverse impacts in areas where HOME Rent Limits would have decreased significantly between 2010 and 2013.

For the 2013 High HOME Rent Limits and Low HOME Rent Limits, HUD limited the decrease from the published 2012 High or Low HOME Rent Limit for an area to 33 percent of the total difference between the two rents. If 33 percent of the difference equals \$10 or less, HUD will permit the HOME Rent Limit for the area to decrease by the entire amount. HUD is continuing this policy of structured decreases to High HOME Rent Limits and Low HOME Rent Limits for 2014 (and will continue the policy for 2015) so that all HOME Rent Limits comply with the NAHA statutory rent provisions by 2015.

To assist participating jurisdictions in understanding how this corrective plan will affect rent limits, HUD is attaching several examples to this memorandum.

Effective Date of 2014 HOME Rent Limits

The 2014 HOME rents are based upon the FMRs published in the Federal Register on October 3, 2013, (78 FR 61668), and on the FY 2014 Section 8 Hold Harmless Income Limits, with the adjustments described above. The 2014 HOME Rent Limits published by HUD must be used by all participating jurisdictions. These HOME Rent Limits are effective May 1, 2014, and are applicable to new HOME leases and lease renewals after that date. High HOME Rent Limits and Low HOME Rent Limits that have been partially held harmless as described above have been marked with an asterix.

Attachments