

The background of the slide features a photograph of several sheep grazing in a lush green field. There are four distinct sheep visible: one dark brown sheep on the left, a white sheep with black markings on its face and legs in the center-left, a light brown sheep with large ears on the right, and another white sheep partially visible on the far right. They are all bent over, eating the grass.

Payment Standards and Rent Burdens

St. Patrick's Day - 2022



What, on Earth, is a Payment Standard?

For the Housing Choice Voucher program, PHAs are permitted to set their payment standards – *the allowances, for each unit size, that will be used to determine a family's HAP subsidy* – within the “basic range”, 90 – 110 percent of the published FMR (40th or 50th percentile).

-huduser.org

OK – so – if this plays into determining a HAP payment, it must also, as a result, effect the tenant payment. So, payment standards can directly effect rent burden, though we have yet to talk about rent burden. What's rent burden again?



What, on Earth, is Rent Burden?

Rent Burden is the share of a family's adjusted gross income that they pay towards rent and utilities.

OK – but let's back up one second, explain to me how this FMR business works.



What are FMRs?

X FMRs = Gross Rent

Cost of the Shelter plus utilities (regardless who pays)

Utilities

All major utilities except telephone, cable or satellite television, and Internet services

Contract rent

The rental payment agreed to in a lease - could be Shelter Rent, Gross Rent, or somewhere in between

X FMRs are calculated nationally

Each Metropolitan Area*

Each Non-Metropolitan County

Effective October 1



What are FMRs? - continued

✗ For most areas FMRs are set at the 40th Percentile of the Rent distribution

High enough to permit a selection of units and neighborhoods

Low enough to serve as many low-income families as possible

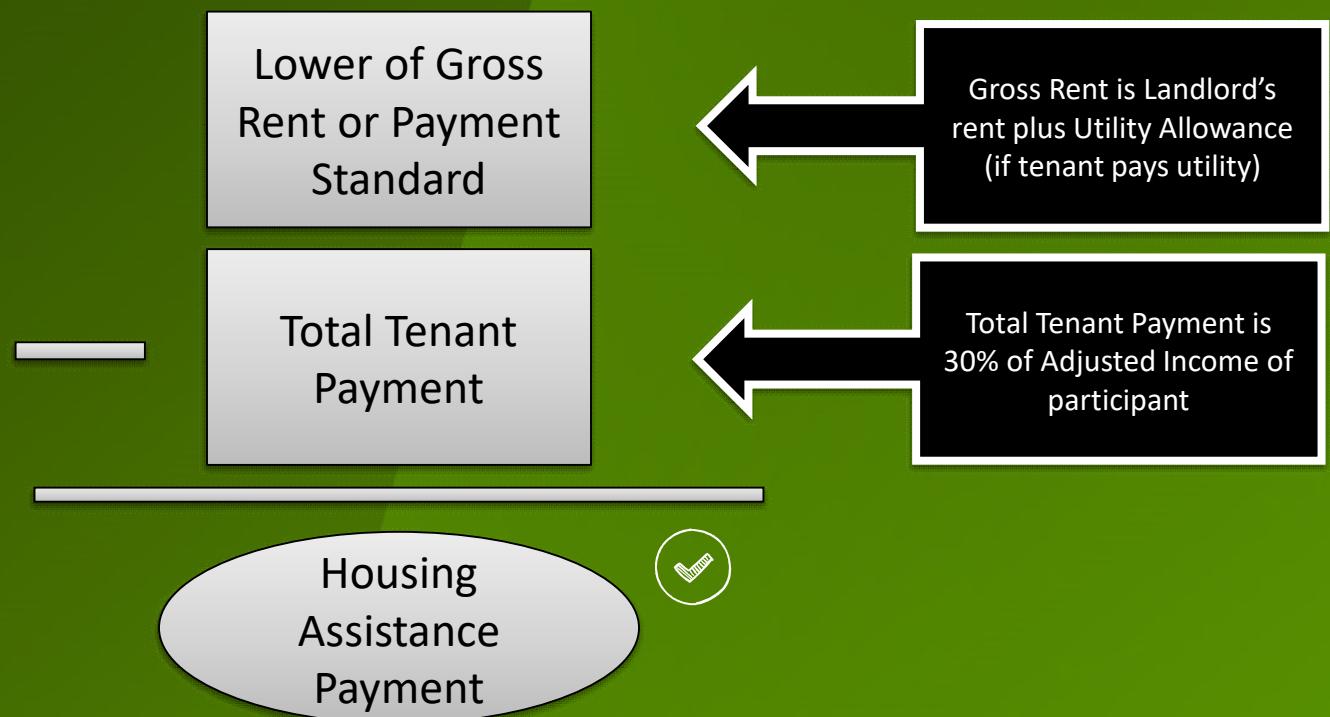
✗ FMRs Basis

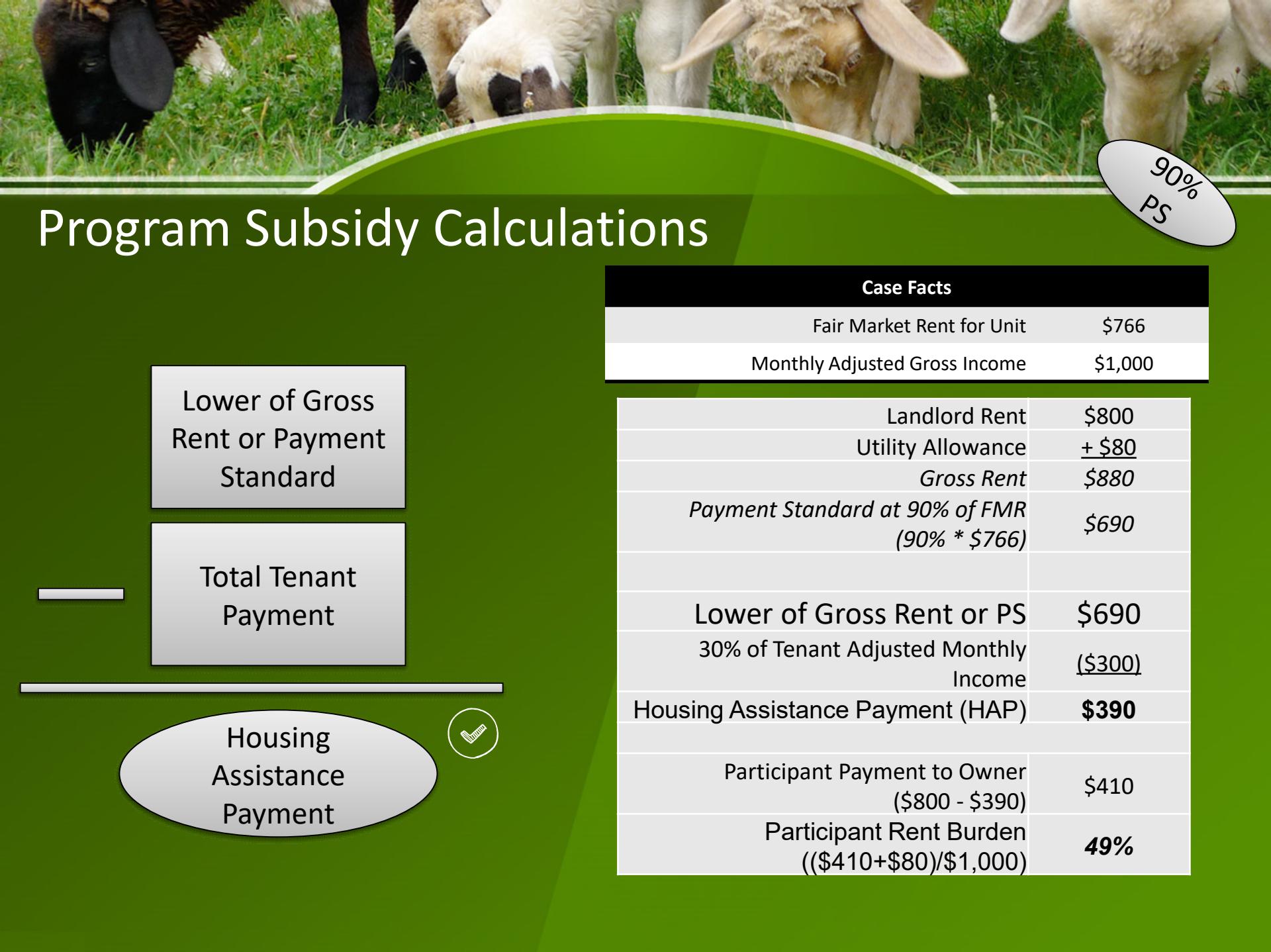
Standard-quality, two-bedroom, recent-mover, market-rate, rental units



Tenant Case Study

Program Subsidy Calculations



A photograph of several sheep grazing in a green grassy field. The sheep are of various colors, including black, white, and brown. They are scattered across the frame, some in the foreground and others further back.

90%
PS

Program Subsidy Calculations

Lower of Gross
Rent or Payment
Standard

Total Tenant
Payment

Housing
Assistance
Payment

Case Facts	
Fair Market Rent for Unit	\$766
Monthly Adjusted Gross Income	\$1,000
Landlord Rent	\$800
Utility Allowance	<u>+\$80</u>
Gross Rent	\$880
Payment Standard at 90% of FMR (90% * \$766)	\$690
Lower of Gross Rent or PS	\$690
30% of Tenant Adjusted Monthly Income	<u>(\$300)</u>
Housing Assistance Payment (HAP)	\$390
Participant Payment to Owner (\$800 - \$390)	\$410
Participant Rent Burden (($\$410 + \80) / \$1,000)	49%



100%
PS

Program Subsidy Calculations

Lower of Gross
Rent or Payment
Standard

Total Tenant
Payment

Housing
Assistance
Payment

Case Facts	
Fair Market Rent for Unit	\$766
Monthly Adjusted Gross Income	\$1,000
Landlord Rent	\$800
Utility Allowance	<u>+\$80</u>
Gross Rent	\$880
Payment Standard at 100% of FMR (100% * \$766)	\$766
Lower of Gross Rent or PS	\$766
30% of Tenant Adjusted Monthly Income	<u>(\$300)</u>
Housing Assistance Payment (HAP)	\$466
Participant Payment to Owner (\$800 - \$466)	\$334
Participant Rent Burden (($\$334 + \80) / \$1,000)	41%



110%
PS

Program Subsidy Calculations

Lower of Gross
Rent or Payment
Standard

Total Tenant
Payment

Housing
Assistance
Payment

Case Facts	
Fair Market Rent for Unit	\$766
Monthly Adjusted Gross Income	\$1,000
Landlord Rent	\$800
Utility Allowance	<u>+\$80</u>
Gross Rent	\$880
Payment Standard at 110% of FMR (110% * \$766)	\$843
Lower of Gross Rent or PS	\$843
30% of Tenant Adjusted Monthly Income	<u>(\$300)</u>
Housing Assistance Payment (HAP)	\$543
Participant Payment to Owner (\$800 - \$543)	\$257
Participant Rent Burden (($\$257 + \80) / \$1,000)	34%



Program Subsidy Calculations

Payment Standard	Rent Burden
90%	49%
100%	41%
110%	34%



What does this tell us?

Everything else being equal, raising a payment standard will increase a PHA's HAP cost (thus increasing average per unit cost) and – depending on gross rent – lower a tenant's total payment, thus reducing the rent burden (unless the current gross rent is less than the payment standard).

The same hold true in cases of payment standard decreases: HAP, and thus PUC, go down – total tenant payment, and rent burden, go up.

This is why, when we use the Payment Standard Tool (more on this later), we move in an adjusted PUC.



Program Subsidy Calculations

Additional Benefit to Raising Payment Standards

- ❖ **Raising the payment standard has the effect of increasing the “buying power” of the voucher.**
- ❖ **New program participants and movers (i.e. a “new” unit) can only spend up to 40% of their adjusted income on rent, thus, in conjunction with the payment standard, this “caps” the amount of accessible gross rent.**
- ❖ **So, if payment standards goes up, higher priced units will “enter” the eligible pool – thus, likely, increasing success rate and allowing participants to access higher opportunity areas.**



What Can a PHA Do?

- Request an exception payment standard *outside* the basic range (90%-110%). HUD, and only HUD, can approve this (except in the case of reasonable accommodations).
- PHA can request that field office approve a payment standard up to 120% of FMR via the following methods:
 - * Median Rent Method
 - * 40th or 50th Percentile Rent Method
 - PHA can also request the 50th percentile (Success Rate Method)



Payment Standard Ranges

<90%
PHA applies
to FO
(2 Methods)

90%-110%
PHA
Discretion

>110% - 120%
PHA Applies
to FO
(2 Methods)

>120%
PIH HQ/PD&R



Does HUD Have Any Say in This?

Yes! HUD has the regulatory ability to *require* a PHA to increase payment standards, by bedroom size, if more than 40% of voucher holders are paying more than 30% of their adjusted income towards rent.

Ideally, we would not invoke this; we'd rather have PHA staff make this decision on their own.