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REPORT TO THE CONGRESS

Administration Of The Leased-Housing Program B-118718

Department of Housing and Urban Development

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This is our report on the administration of the leased-housing program by the Department of Housing and Urban Development. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Housing Act of 1954 (42 U.S.C. 1435).

Copies of this report are also being sent to the Director, Bureau of the Budget, and to the Secretary of Housing and Urban Development.

Comptroller General
of the United States

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D I G E S T

WHY THE REVIEW WAS MADE

The Federal leased-housing program was established to assist low-income persons obtain decent, safe, and sanitary housing. The Department of Housing and Urban Development (HUD) furnishes financial aid to local housing authorities (LHAs) who lease existing privately owned dwelling units for the program's participants.

By December 31, 1968, HUD had authorized LHAs to lease approximately 61,000 dwelling units, of which about 32,000 actually had been leased from property owners. HUD has contracted with LHAs to contribute a maximum of about $57.6 million annually for leasing the 61,000 units authorized. The General Accounting Office (GAO) estimates that HUD is committed to pay a maximum of about $32 million annually for the 32,000 units that have actually been leased.

GAO reviewed the program to identify areas in need of improvement and to ascertain whether the program was accomplishing the objectives for which it had been established.

FINDINGS AND CONCLUSIONS

GAO believes that greater progress could have been made in providing decent, safe, and sanitary housing for low-income persons in the 11 locations covered in this review if:

--HUD, during the earlier years of the program, had taken more effective action and had given the leasing program the emphasis and thrust that is now being given it. (See pp. 10 to 14.)

--HUD and LHAs had removed administrative restrictions which impeded progress of the program. GAO believes that LHA procedures should not preclude the acceptance of rental housing offerings if the dwellings meet all of HUD's criteria. (See pp. 15 to 19.)

--LHAs operating programs had been designed and adjusted in line with the housing needs of low-income persons and the availability of

suitable vacant housing in the local area. This would have avoided needless tie-ups of fund commitments that otherwise would have been available for assignment by HUD to other localities. (See pp. 21 to 25.)

GAO believes also that tenant selection procedures and eligibility requirements for the program need to be modified because:

--Some LHAs, with HUD's approval and encouragement, were providing assistance to persons already adequately housed while applicants on waiting lists for federally assisted housing continued to live in substandard dwellings. (See pp. 26 to 32.)

--In many cases, the LHAs negotiated higher rents for dwelling units than had been charged the occupants prior to their participation in the program. There were no explanations in the records that would justify the increases. (See pp. 33 to 36.)

--Some LHAs were providing assistance to persons who owned relatively large amounts of assets. For example, one LHA had accepted two tenants who had savings of about $33,500 and $24,000, respectively. (See pp. 37 to 41)

--Two of the LHAs were operating the leased-housing program in such a manner that eligible applicants who had been on the waiting lists for low-rent public housing projects were not always afforded the opportunity to participate in the leasing program. (See pp. 42 to 45.)

RECOMMENDATIONS OR SUGGESTIONS

Recommendations or proposals to the Secretary of HUD are presented on pages 14, 20, 23, 36, and 44.

AGENCY ACTIONS AND UNRESOLVED ISSUES

HUD disagreed with GAO's conclusions that it had not provided timely assistance and guidance to LHAs to stimulate greater and more effective efforts to lease suitable available housing. HUD stated that in many cases the slow progress had been attributable to overoptimism and underestimation of staffing and administrative problems and that, as soon as this trend had been recognized, HUD took timely and effective corrective action. HUD pointed out that leasing of units under the program had accelerated significantly by December 31, 1968, as a result of HUD's efforts.

GAO, although it noted that the leasing of units had been accelerated significantly by December 1968, found that some of this progress had resulted from LHAs' bringing under the program low-income persons who already were living in decent, safe, and sanitary housing--in some cases, the same dwelling units that were leased under the program.

HUD disagreed with GAO's proposal that LHAs be required to give priority in the leasing program to low-income persons who were not adequately housed before covering under the program low-income persons who were already living in decent, safe, and sanitary housing. Moreover, HUD disagreed also with GAO's proposal that LHAs be required to establish and adhere to reasonable limitations on asset holdings of applicants in determining their eligibility for Federal assistance under the leasing program, as is required by HUD under its rent supplement program.

HUD has initiated some actions to accelerate leasing progress and improve the overall implementation of the program, to strengthen its procedures regarding program adjustments, and to encourage LHAs to negotiate more favorable lease rates.

MATTERS FOR CONSIDERATION BY THE CONGRESS

GAO believes the Congress may wish to consider:

--Whether the leased-housing program should be operated so as to give housing priority to low-income persons who are not adequately housed.

--Whether asset limitations should be established for determining the eligibility of families and individuals for assistance under the leased-housing program.

CHAPTER 1

INTRODUCTION

The General Accounting Office has examined into the administration of the section 23 leased-housing program of the Department of Housing and Urban Development. The leasing program was established in 1965 to provide a supplemental form of low-rent housing for low-income families and individuals through the leasing of existing privately owned housing by LHAs. The scope of our review is described on page 46.

The United States Housing Act of 1937, as amended (42 U.S.C. 1401), authorizes HUD to conduct a program of assistance for low-rent public housing, under which local governments, pursuant to State enabling legislation, establish LHAs as independent legal entities to develop, own, and operate low-rent public housing projects.

HUD conducts its activities at (1) the headquarters office in Washington, D.C., (2) seven regional offices located at Atlanta, Chicago, Fort Worth, New York, Philadelphia, San Francisco, and San Juan (Puerto Rico), and (3) one directly operated housing project. The headquarters office establishes the administrative policies and operating procedures, reviews the operations, and maintains the accounting records for housing assistance activities of the regional offices. Authority for housing assistance activities of the regional offices has been delegated to the regional administrators.

Under the conventional low-rent public housing program authorized by the housing act of 1937, HUD provides financial and technical assistance to LHAs in the development of low-rent public housing projects. Financial assistance is furnished in the form of loans for development and in the form of annual contributions (subsidies) made pursuant to contracts with the LHAs. Also, HUD procedures provide for reviews of the administration of the projects after construction is completed, to determine whether the projects are operated and maintained in conformance with statutory

Continued

requirements and in a manner which promotes efficiency, economy, and financial integrity.

The Housing and Urban Development Act of 1965, approved August 10, 1965, added to the housing act of 1937 a new section 23 (42 U.S.C. 1421b) which provides for the leasing by LHAs of existing privately owned housing by LHAs ~~for utilization by~~ to be eligible low-income families and individuals. The new leasing program was intended to supplement the dwelling units provided in low-rent public housing projects under the conventional program by providing an estimated additional 40,000 low-rent housing units during the 4-year period ended June 30, 1969. The Housing and Urban Development Act of 1968, approved August 1, 1968, authorized substantial increases in HUD's authorization for entering into annual contributions contracts for low-rent housing units, including the leasing of existing privately owned housing, for the 3-year period ending June 30, 1971. The leasing program is not to apply in any locality unless approved by resolution of the local governing body. what?

Under the provisions of section 23 of the 1965 housing act, an LHA is required to conduct a continuing survey and listing of the available privately owned dwelling units, within the area under its jurisdiction, which provide decent, safe, and sanitary housing accommodations and which are suitable, or could be made suitable, for use as low-rent housing under a leasing arrangement. The LHA, by notification to the owners of listed housing or by publication or advertisement, is to make known to the public, from time to time, the anticipated need for dwelling units to be used as low-rent housing under the leasing program and is to invite owners to make units available for this purpose.

If the LHA finds, upon its inspection, that the dwelling units offered in response to its invitation are in standard condition (decent, safe, and sanitary), or can be brought up to standard condition through rehabilitation by the owner, and that the rentals to be charged by the owner are within its financial range, the LHA may approve the units for use as low-rent housing under the section 23 leased-housing program. Any rehabilitation required to make the housing suitable for the leasing program must be accomplished by the owner prior to entering into a lease

agreement. To the extent provided for in its annual contributions contract, an LHA may enter into contracts with owners to lease approved housing for use in the program for periods of 1 to 5 years, with provisions for renewals.

According to congressional hearings on the 1965 housing act by the Committee of the Whole House on the State of the Union, the leased-housing program is also intended to provide an economic mix of federally assisted low-income tenants with moderate or higher income families so as to retain the private character of the housing market and of neighborhoods in general. Not more than 10 percent of the dwelling units in any single structure are to be leased under the program, except in the case of buildings with small numbers of units or in other cases determined by the LHA to warrant exception. LHAs, in many cases, have waived the 10-percent limitation and have leased much more than 10 percent of the dwelling units in multidwelling structures.

Payments to LHAs under the leasing program are made pursuant to annual contributions contracts. Such payments are limited to the maximum allowable annual contributions that would otherwise be payable for a newly constructed project offering comparable accommodations in that community (or in a comparable community, if the locality has no public housing). As in the conventional low-rent public housing program, an additional subsidy of up to $120 a year could also be payable for dwelling units occupied by elderly, handicapped, or displaced persons or families.

The rents to be paid by tenants occupying housing leased by an LHA are established by the LHA at rates considered to be within the financial means of the tenants. Rental payments to housing owners under the program are determined through negotiations between the LHA and the owners.

Various arrangements may be made for the payment of rent to housing owners. For example: (1) the tenant may pay his share of the rent to the LHA which, in turn, would pay the owner the full negotiated rental amount, (2) the tenant and the LHA may pay directly to the owner their respective shares of the total negotiated rental amount, or (3) the LHA may send its share of the rent to the tenant

who, in turn, would combine it with his share of the rent and pay the owner the full negotiated rental amount.

The section 23 leased-housing program was officially implemented by HUD in October 1965 and is being carried out by LHAs in the areas administered by all seven HUD regional offices. HUD statistical information available at the time of our review showed that as of March 31, 1968, LHAs had filed formal applications for approximately 47,700 dwelling units under the program. At March 31, 1968, a total of 153 leased housing projects involving approximately 30,850 dwelling units had been approved by HUD and were under annual contributions contracts, nationwide. Our analysis of HUD statistical information showed that about 35 percent of the dwelling units approved for leased housing under the program were designated for use by elderly citizens. Under contracts entered into between HUD and the LHAs, HUD is committed to contribute a maximum of about $31 million annually for the operation of the 153 leased housing projects.

HUD statistical information showed also that at March 31, 1968, approximately 12,100 dwelling units had been leased under the program, or about 39 percent of the 30,850 units approved. Approximately 50 percent of the dwelling units leased were for elderly citizens. According to HUD and LHA officials, many LHAs have concentrated on leasing the smaller size dwelling units because they have experienced considerable difficulty in locating and leasing suitable large units within the rental ranges that would qualify for the particular leasing programs. As a result, the leasing programs in certain cities have been used primarily to serve elderly citizens.

By December 31, 1968, only 9 months later, the number of dwelling units placed under annual contributions contracts, nationwide, had doubled to about 61,000 and the number of units leased from property owners had almost tripled to about 32,000.

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The principal officials of HUD responsible for the administration of activities discussed in this report are listed in appendix II.

CHAPTER 2

OPPORTUNITY FOR GREATER PROGRESS IN LEASING DWELLING UNITS

We believe that greater progress under the leasing program would have been made to help meet the immediate housing needs of low-income persons at the locations included in our review if (1) HUD had provided adequate and timely assistance and guidance to LHAs to stimulate greater and more effective efforts to locate and lease suitable vacant housing, (2) certain administratively imposed restrictions had been removed, and (3) the leasing programs prepared by the LHAs and approved by HUD had been designed and adjusted in line with the housing needs of low-income persons in the communities and the availability of suitable vacant housing in the areas.

According to congressional hearings on the housing act of 1965, the primary purpose of the leased-housing program was to help meet the housing needs of low-income persons in the communities more quickly than would be possible through new construction, by taking full advantage of suitable vacant dwellings in the private rental market. Essentially, the program was intended to supplement the conventional low-rent public housing program by providing housing to meet the immediate needs of low-income displacees and applicants on the long waiting lists for public housing while communities proceeded with construction leading to an adequate, permanent supply of low-rent housing. In addition, the leasing program was designed to encourage the conservation and improvement of privately owned residential properties.

HUD procedures require that an LHA's application for a leased-housing program contain statistical information justifying the type and size program requested on the basis of the demand for such housing and the availability of suitable vacant housing in the community. The procedures require also that the application contain a statement as to the number of months that the LHA believes will be required to lease certain proportions of the dwelling units requested and the number of months that the LHA believes will be required to lease all the dwelling units requested.

The annual contributions contract between HUD and an LHA provides that, if the LHA does not proceed expeditiously with the leasing of the units authorized, HUD can reduce its obligation with respect to the maximum allowable annual contributions under the contract for the number and sizes of dwelling units authorized. The contract, however, does not require the LHA to lease its authorized dwelling units within a stipulated period of time and does not include any time-phased control feature designed to encourage better leasing progress under the program.

The following table shows the approximate extent to which the 11 LHAs included in our review were not meeting their planned schedules to lease suitable housing units for low-income persons in immediate need of decent, safe, and sanitary housing.

	As of time of GAO field visits to LHAs (July to October 1967)				As of May 31, 1968			
Designation of LHA	Units authorized	Units leased	Months program in effect	Months behind program schedule	Units authorized	Units leased	Months program in effect	Months behind program schedule
A	1,000	500	14	7	1,000	856	25	15
B	1,100	462	9	3	1,100	777	18	7
C	500	174	11	2	1,000	444	19	4
D	1,000	505	14	8	948	759	23	11
E	350	151	18	10	350	167	27	17
F	1,500	468	15	9	1,500	1,026	24	4
G	1,000	119	13	8	1,000	566	24	6
H	250	59	12	8	250	239	23	6
I	125	34	16	12	125	101	23	11
J	190	20	8	6	190	105	15	4
K	400	49	8	5	400	117	15	8
	7,415	2,541			7,863	5,157		

We noted that the leasing of dwelling units by LHAs, nationwide, had significantly accelerated after March 1968, as a result of actions taken by HUD subsequent to the beginning of fiscal year 1968; however, we believe that there is a need for continued monitoring of the leased-housing program by HUD to ensure that the recent actions initiated by HUD, to accelerate the leasing of units by LHAs, are being effectively implemented.

HUD SHOULD PROVIDE TIMELY ASSISTANCE AND GUIDANCE TO LHAs TO STIMULATE GREATER AND MORE EFFECTIVE EFFORTS TO LEASE SUITABLE AVAILABLE HOUSING

We believe that the leasing programs at some locations had not progressed as expected because the LHAs did not put forth sufficient efforts to locate and lease available dwelling units which were suitable, or could be made suitable, for the program. HUD has taken certain actions since the early part of fiscal year 1968 which, if properly carried out, should stimulate LHA efforts to lease suitable available housing. We believe, however, that greater progress could have been made under the program if HUD had provided more timely assistance and guidance to LHAs.

During our examination into the reasons why greater progress was not being made by certain LHAs in carrying out their leased-housing programs, we found instances where (1) the program had not been sufficiently publicized to the general public, (2) local realtors either had no knowledge or lacked an adequate understanding of the program, and (3) timely follow-up had not been made on leasing offers made to or by interested property owners. We found also that one LHA had fallen behind schedule in its leasing program because it had not hired a project manager for its program until several months after the program was approved by HUD.

Some of the LHAs covered in our review have encouraged applicants for leased housing to seek out vacant dwellings that might be suitable for the program. We believe that this method should be considered by other LHAs as one way of locating suitable housing. Some LHAs had obtained the cooperation of local realty organizations in locating dwelling units and had contacted owners of substandard housing to ascertain whether they were interested in rehabilitating and leasing their units to the LHAs. According to LHA officials, such methods have helped LHAs to obtain suitable housing for lease under the program.

During our review, we noted that HUD headquarters officials had shown some concern over the slow progress made by LHAs in leasing suitable dwelling units. In fiscal year 1968, HUD headquarters officials had on various occasions

advised the HUD regional offices of the need for LHAs to accelerate their leasing progress. A HUD headquarters representative visited HUD regional offices and LHAs, including a number of the LHAs covered in our review, and offered various suggestions for improving the progress of the leasing programs, and HUD regional officials examined into reasons for the unsatisfactory progress being made by a number of LHAs.

In addition, the HUD Inspection Division made a review of the leased-housing program at a number of locations for the purpose of providing HUD management with information and advice regarding the manner in which program policies and procedures were being carried out by HUD and LHAs.

Many of the reasons cited by the HUD headquarters representative, HUD regional officials, and the Inspection Division for the slow progress being made under the program were similar to the conclusions we reached as a result of our review.

During our review, we discussed with various HUD regional officials their views regarding the progress being made under the leased-housing program. The officials explained to us that HUD and LHA personnel were in a learning phase during the early stages of the leased-housing program and that difficulties had been encountered in implementing the program in various localities.

We believe that, although it is reasonable to expect that certain difficulties would be encountered in the early stages of a new program, the slow leasing progress made by certain LHAs clearly demonstrated a need for earlier HUD assistance and guidance. As shown on page 9, the 11 LHAs included in our review were from 2 to 12 months behind their leasing schedules at the time of our field visits. We noted that these LHAs had leased 2,541 dwelling units, or about 57 percent of the total dwelling units (4,477) scheduled to have been leased by that time.

We were advised by HUD regional officials that the leasing of dwelling units under the program had accelerated during the latter part of fiscal year 1968 as a result of the combined efforts of HUD and LHAs. According to the

officials, additional LHAs have participated in the program, techniques used by LHAs making satisfactory progress have been passed on to those making slow progress, and field representatives have provided assistance and guidance to LHAs making slow progress and to those that have recently been authorized a leased-housing program.

We found that as of May 1968, a number of the 11 LHAs covered in our review were making better progress in leasing dwelling units under the program; however, the LHAs were still 4 to 17 months behind schedule. (See p. 9.)

Agency comments and our evaluation

HUD informed us in March 1969 that it agreed that, as shown by our review, the leasing of dwelling units at some localities had fallen well behind schedule. However, HUD disagreed, in general, with our conclusion that it had not provided timely assistance and guidance to LHAs to stimulate greater and more effective efforts to lease suitable available housing. HUD stated that in many cases the slow progress had been attributable to overoptimism and an underestimation of staffing and administrative problems and that as soon as this trend had been recognized HUD took timely and effective corrective action. HUD cited a number of actions that had been taken during fiscal year 1968 to improve leasing progress. (See app. I.)

HUD pointed out that by December 31, 1968, approximately 31,700 dwelling units had been leased from property owners and that the accelerating rate of accomplishment had been achieved as a result of HUD's concerted and continuing efforts to stimulate LHA production through guidance and training and by assisting LHAs to resolve problems and to overcome obstacles.

We recognize that HUD has taken action to accelerate the leasing of dwelling units under the program; however, we note that most of these actions were not taken until the early part of fiscal year 1968--relatively little was done in the earlier years of the program (fiscal years 1966 and 1967). Similarly, although the leasing of dwelling units has now been significantly accelerated, most of the action took place during the 9 months ended December 31, 1968. As

a matter of fact, the number of dwelling units (31,700) leased as of December 31, 1968, was more than double the number (12,100) leased only 9 months earlier.

On the basis of our review, we believe that better progress could have been made in providing decent, safe, and sanitary housing for low-income persons under the leasing program if HUD had provided more timely assistance and guidance to LHAs to ensure that as many avenues as possible were used to locate and lease suitable housing. In our opinion, more vacant standard dwelling units could have been leased sooner for use by low-income persons if, during the earlier years of the program, HUD had taken more effective action and had given the leasing program the emphasis and thrust that is now being given it.

Moreover, we believe that the large number of dwelling units (about 28,200) brought under the leasing program during fiscal year 1968 and the first half of fiscal year 1969 is not a valid indication that the program is being administered as intended by the Congress--to provide decent, safe, and sanitary housing for low-income persons who are in immediate need of such housing by taking full advantage of suitable vacant dwellings in the private rental housing market. We examined records at the HUD headquarters office relating to tenants brought under the leasing program during fiscal years 1968 and 1969 by three LHAs included in our review and noted that more than 75 percent of the tenants who had occupied housing prior to participating in the leasing program had been living in standard housing. We believe that it is likely that many of these tenants continue to live in the same standard dwelling units that they occupied before they were brought under the leasing program.

In our opinion, such use of the leased-housing program does not advance the objectives of the program with respect to providing decent, safe, and sanitary housing for low-income persons who are unable to provide such housing for themselves. HUD's practice of encouraging LHAs to extend the leasing program to low-income persons who are already occupying standard housing while applicants on the waiting lists for dwelling units in federally assisted low-rent public housing projects continue to live in substandard

housing or in overcrowded conditions is discussed on pages 26 to 32.

Recommendation

We recommend that the Secretary of HUD require that specific attention be given, during field reviews of LHA leasing operations by HUD regional management and internal audit staffs, to determining whether recently initiated actions by HUD to accelerate LHA leasing of dwelling units are being effectively implemented and that appropriate corrective measures be taken wherever improvements are needed.

Administratively imposed restrictions have impeded the progress of the leasing program

Restrictions imposed by HUD on types of dwellings that could be leased

We believe that certain leasing limitations administratively imposed by HUD in the form of restrictive clauses in annual contributions contracts with LHAs impeded the progress of the leasing program in some cities because such provisions precluded the LHAs from leasing certain size dwelling units that were already in standard condition.

HUD's procedures for the section 23 leased-housing program provided that, in determining whether housing for low-income persons was to be provided by means of leasing private accommodations, consideration be given to the possible inflationary effect on the private market. The procedures stated that an LHA should present in its application information as to vacancy rates in standard housing for rent and that a proposed leasing program which would reduce such a vacancy rate to less than 3 percent for any unit size in the locality would not be approved unless the LHA satisfied HUD that the program would not have a substantial inflationary effect on the private rental market or that the program was justified by the exigencies of a particular situation.

Our review showed that, when available market data in an LHA's application indicated that the proposed leasing program would result in reduction of the vacancy rate for standard units of given sizes to less than 3 percent, HUD generally restricted the leasing of standard vacant dwelling units to minimize what it believed would be an inflationary effect resulting from utilization of standard housing under the leasing program. The 11 LHAs included in our review were required to obtain all or some of the dwelling units under the leasing program from (1) substandard housing that had been rehabilitated and brought up to standard condition for the leasing program, (2) small dwelling units that had been converted into larger units for the program, (3) housing that was on the sale market, or (4) rental housing units that had been vacant for an extended period of time.

We noted that such restrictions and limitations were not provided for in the section of the Housing and Urban Development Act of 1965 which established the leased-housing program. On the contrary, the act specifies that LHAs should take "full advantage of vacancies or potential vacancies in the private housing market." We found no indications that restrictions on the leasing of vacant standard dwelling units had been intended by the Congress.

During our review, a HUD regional official advised HUD headquarters that the restrictive clauses in the annual contributions contracts were objectionable because they had slowed down progress under the program by precluding the leasing of vacant standard dwelling units. Another regional official informed us that a number of LHAs had been forced, on occasion, to turn down desirable vacant standard units because of the restrictions imposed by HUD. Also, officials of two LHAs told us that they had to refuse rental-housing offerings from property owners who were interested in participating in the leasing program simply because the dwelling units were already in standard condition.

We believe that although the supply of vacant standard dwelling units of the sizes needed for the leasing programs may have been limited in some cities, HUD compounded the LHAs' difficulties in obtaining suitable housing by imposing restrictions that precluded LHAs from taking full advantage of vacancies in the private rental housing market.

The Housing and Urban Development Act of 1968, approved August 1, 1968, included a provision which precludes HUD from imposing limitations, not specifically provided for in the housing act of 1965, on the types or categories of structures or dwelling units that would qualify for the leasing program. According to various discussions presented in the Congressional Record, the provision was included in the act to prohibit HUD from restricting the leasing program in certain localities to only rehabilitated housing.

In August 1968, HUD advised its regional offices and the LHAs that restrictive clauses were to be waived and that such waivers should enable LHAs to accelerate substantially their leasing activities.

Restrictions imposed by LHAs
in selecting dwelling units

In a circular issued to LHAs in October 1965, HUD set forth certain standards governing the types of dwelling units that LHAs could lease under the leased-housing program. The circular pointed out that LHAs could lease only dwellings that would provide decent, safe, and sanitary accommodations for the tenants. More specifically, the circular stated that a dwelling could not be leased unless it met the following conditions.

"(1) The exterior and interior of the buildings are in good condition;

"(2) The dwelling contains adequate private cooking and sanitary facilities;

"(3) Heating facilities, lighting, and ventilation are adequate;

"(4) The dwelling is of sufficient size to house the tenant's family without overcrowding;

"(5) The neighborhood is primarily residential and free of any characteristics seriously detrimental to family life and one in which substandard dwellings do not predominate, or the neighborhood is the subject of a concerted program, actively under way, which is designed to bring it up to this standard and leasing under Section 23 is an element of this program; and

"(6) The dwelling is reasonably accessible to public transportation, schools, churches and stores."

The circular stated that, in addition to meeting the above standards, the dwelling must meet the provisions of local building codes.

We believe that the HUD requirements are reasonable and are consistent with the objective of providing decent, safe,

and sanitary housing for low-income families. Our review showed, however, that some LHAs had imposed additional considerations for selecting dwelling units under the leased-housing program that tended to limit the number and types of dwelling units that might otherwise have been acceptable, or could have been made acceptable, under the standards established by HUD.

For example, records at one of the LHAs that had experienced considerable difficulty in obtaining leased housing units showed that the LHA had rejected an offer from a property owner who indicated that he would be willing to convert a number of small dwellings into about 20 larger size units for the leasing program. According to the LHA's records, the offer was rejected because the properties were located in an area that had public housing facilities.

In view of the fact that larger size units in public housing projects at this LHA were in short supply and since one of the objectives of the leasing program is to provide temporary placements of low-income families in decent housing while the community proceeds with construction leading to an adequate, permanent low-rent housing supply, it does not seem reasonable for an LHA to reject rental-housing offerings on the basis that the properties are located near public housing facilities.

At another city we found that the LHA's standards required that, in addition to meeting local code requirements and other standards prescribed by HUD, each dwelling unit selected for leased housing must be equipped with a new range, a new refrigerator, and a modern kitchen and bathroom. We noted that this LHA had experienced considerable difficulty in obtaining units of the sizes needed for its leasing program. Although we agree that such considerations are desirable in a dwelling unit, we believe that LHA standards should not preclude the acceptance of rental-housing offerings if the dwellings meet HUD's criteria for decent, safe, and sanitary housing and have acceptable ranges and refrigerators in satisfactory working condition.

We proposed to the Secretary of HUD that action be taken, through inclusion of an appropriate provision in

annual contributions contracts, to preclude LHAs from imposing restrictions on the leasing of vacant dwelling units which would otherwise be acceptable, or could be made acceptable, under the standards established by HUD.

Agency comments and our evaluation

HUD stated that it would be questionable whether the inclusion of a provision, such as we had proposed, in annual contributions contracts would be effective, since the selection of units to be leased under the program necessarily involves a degree of judgment by the LHAs as to rent to be charged in relation to the location, condition, and livability of the dwelling.

HUD further stated that it would not consider it unreasonable for an LHA to apply for a leasing program on the basis of a plan of operations that, for example, would involve justifiable restrictions on the locations of the units to be leased and then subsequently to administer the program in accordance with that plan of operations. HUD pointed out that the objective of our proposal could probably best be accomplished through an educational and guidance process.

We realize that LHAs must exercise judgment in accepting rental-housing offerings under the leasing program; however, we believe that certain LHAs have been too selective in this regard. Also, we noted that none of the applications for leased-housing programs submitted by LHAs covered in our review contained restrictions on the locations of the units to be leased under the program.

We recognize that LHAs might want to be more selective in the dwelling units brought under the leasing program when there is a large supply of vacant dwellings available in the unit sizes and rental ranges needed for the particular leasing program and when leasing progress is not adversely affected as a result of such selectivity. However, in view of the shortage of suitable vacant dwelling units in many of the cities included in our review and in view of the slow progress made by certain LHAs in leasing such units, we believe that HUD should take appropriate action to preclude LHAs from imposing restrictions on the leasing of vacant dwelling units that go beyond the standards established by HUD.

Recommendation

We recommend that the Secretary of HUD establish a requirement that specific attention be given, during HUD reviews of LHA leasing operations, to determining whether leasing progress is being impeded because of LHA-imposed restrictions that go beyond the standards established by HUD and that, if such impediments are found, appropriate action be taken to remove them.

Leased-housing programs should be designed and adjusted in line with the housing needs of low-income persons and the availability of suitable vacant housing in the area

We found that the original applications for participation in the leased-housing program, submitted by some of the LHAs included in our review and approved by HUD, contained statistical information which, in our opinion, did not sufficiently show either (1) the need for the quantity of certain size dwelling units requested or (2) the availability of sufficient suitable housing of certain sizes needed within the rental rates that would qualify for the particular leasing program. In other cases, we found that LHA applications contained justifications that either did not materialize or subsequently became inappropriate because of changes in existing circumstances.

As a result, there were unnecessary tie-ups of annual contribution fund commitments that otherwise would have been available for assignment by HUD to other localities. Our review showed that certain LHAs subsequently had made some adjustments in the numbers and sizes of dwelling units authorized for their leased-housing programs to bring the programs more in line with the need for, and availability of, suitable housing. We believe, however, that additional adjustments should have been made to permit more effective assignments of annual contribution fund commitments. The following example illustrates one of the types of situations that we found.

In April 1966, an LHA was granted approval by HUD to lease 1,000 dwelling units under the leased-housing program. According to the LHA's application, all units were to be leased within 1 year after HUD's approval. The application showed that 100 of the 1,000 units were to be of the two-bedroom size; however, the application did not contain information indicating a need for that size dwelling unit. In fact, the application showed that the LHA had more than 200 vacant two-bedroom units in its conventional low-rent public housing projects, compared with a waiting list of only nine applicants needing that size unit.

Also included in the LHA's authorization for 1,000 dwelling units were 300 three-bedroom units. The request for the three-bedroom units was justified primarily on the basis of the LHA's stated assumption that many of the families who were living in what the LHA considered to be overcrowded conditions in the conventional public housing projects would be willing to move into larger size leased housing units.

By the end of the first year of operation, the LHA had only 15 (5 percent) of the 300 authorized three-bedroom units under lease and had only a few applications on hand from low-income families for such units. LHA officials advised us that many of the families in the conventional projects who were considered to be overcrowded preferred to remain where they were, rather than to move to larger dwelling units under the leasing program.

We noted also that the LHA had had considerable difficulty in locating and leasing suitable three-bedroom units because of the limited number of such units available within the rental range established by the LHA for its leasing program. Information in the LHA's application gave ample indication, in our opinion, that the LHA would encounter difficulty in leasing 300 three-bedroom units. Although the LHA's application pointed out that there were approximately 3,400 vacant standard three-bedroom dwelling units in the city, the application also contained statistical data which indicated that the LHA knew, or had reason to believe, that less than 160 of such units would be offered for use under the leased-housing program.

After the leasing program had been in operation for about 18 months, the LHA adjusted the allocation of its 1,000 dwelling units by reducing the number of three-bedroom units authorized from 300 to 200 and increasing the number of one-bedroom units authorized from 250 to 350. We noted, however, that as of June 30, 1968, only 50 three-bedroom dwelling units had been leased even though the leasing program had been in operation for approximately 26 months.

We believe that HUD approved leased-housing programs for some communities without giving adequate consideration to whether the proposed programs submitted by the LHAs were

tailored to the housing needs of the low-income persons in the respective communities and were within the limits of the available supply of suitable vacant dwelling units having acceptable rental rates.

We proposed to the Secretary of HUD that timely assistance and guidance be given to LHAs in their applying for leasing programs of the types and sizes needed for particular localities and in adjusting existing programs in line with the present-day circumstances regarding housing demand and housing availability.

We proposed also that HUD's procedures regarding program adjustments be strengthened through the inclusion in each annual contributions contract of a provision which would allow Federal participation only with respect to dwelling units that are leased within a reasonable, stipulated period of time and which would provide that, at the end of such time, an adjustment be made in the LHA's program in line with its current needs and the availability of housing. We stated our opinion that such a time-phased control feature would encourage better leasing progress under the program.

Agency comments and our evaluation

In commenting on our draft report, HUD pointed out that action had been taken in December 1967 to facilitate the approval of leasing programs by delegating to regional administrators the full authority for approving program applications submitted by LHAs and by eliminating the Washington headquarters review of program applications.

HUD pointed out also that production divisions for housing assistance activities had been established at the Washington headquarters and regional levels in March 1968 to ensure that adequate attention would be given to the urgency of volume and balanced production of housing for low-income families. HUD stated that the production divisions had been given responsibilities that included monitoring the production aspects of the leased-housing program and ensuring that production effort would not follow the course of least resistance but would be directed toward providing elderly or family housing as the local requirements indicate.

We believe that the responsibilities of the regional production divisions, if effectively carried out, should provide better assurance that leasing programs will be designed and adjusted, when necessary, in line with the housing needs of low-income persons and the availability of suitable vacant housing in particular localities.

HUD pointed out that subsequent to February 1968, approximately $2,800,000 of annual contributions fund commitments, involving more than 2,700 dwelling units, had been recaptured from LHAs making unsatisfactory progress and reassigned to other LHAs. Although we recognize that adjustments have been made in certain leased-housing programs, particularly as a result of a circular issued by HUD advising regional offices and LHAs to consider making appropriate adjustments in existing programs as a means of accelerating leasing progress, we believe that additional adjustments are needed to improve implementation of the overall program.

We noted, for example, that as of March 1969, action had not been taken to reduce the total number of dwelling units authorized for two localities included in our review even though the leasing programs in those localities had been in operation for about 2 and 3 years, respectively, and the LHAs had only leased about 50 percent of the units authorized.

HUD advised us that it had frequently considered including a provision in each annual contributions contract that would allow Federal participation only with respect to the dwelling units that are leased within a reasonable, stipulated period of time, as we had suggested, but had rejected the idea because HUD believed that it would result in an undesirable degree of inflexibility in contract administration. HUD pointed out, however, that instructions had been issued to regional offices and LHAs in January 1969 designating time frames as production milestones for leasing dwelling units under both new programs and existing programs.

HUD stated that an LHA's failure to adhere to its approved schedule would be prima facie evidence of a failure to lease expeditiously and would serve as a basis for reduction of the Government's commitment of annual contributions

funds under the contract with respect to the authorized units that had not been leased. HUD pointed out that, for new programs in excess of 100 dwelling units, leasing would be required to be completed within 1 year after the program was approved and that, for smaller programs, a proportionately shorter period would be specified.

We believe that the Department's instructions, if properly implemented, should accomplish the objectives underlying our proposal and strengthen HUD's procedures for making appropriate program adjustments.

CHAPTER 3

NEED TO MODIFY ADMISSION PRIORITIES AND ELIGIBILITY REQUIREMENTS

With HUD's approval and encouragement, certain of the LHAs covered in our review were bringing under the leasing program low-income persons who were already occupying decent, safe, and sanitary housing, while large numbers of applicants on the waiting lists for dwelling units in federally assisted low-rent public housing projects continued to live in substandard housing or under overcrowded conditions. In many instances, these occupants of standard housing continued to live, under the leasing program, in the same dwelling units they had occupied for several years prior to participating in the program.

The LHAs, in many cases, negotiated higher lease rates for such housing than had been charged the occupants prior to their coming under the leased-housing program, even though there were no justifications or explanations in the LHAs' records for the rent increases.

Also, some LHAs were providing assistance under the leasing program to persons who had relatively large asset holdings, and two LHAs were operating their leasing programs in such a manner that many eligible applicants who had been on the waiting lists for accommodations in conventional low-rent housing projects were not always afforded the opportunity to obtain suitable housing under the leasing program.

Program coverage given to persons already adequately housed while applicants on waiting lists for federally assisted housing continued to live in substandard dwelling units

Eight of the 11 LHAs included in our review had given coverage under the leasing program to persons who already were occupying decent, safe, and sanitary housing. Many of the tenants continued to live in the same dwelling units that they had occupied prior to coming under the leasing program (residual tenants), while other tenants moved from

one standard dwelling to another at the time they came under the program. Although such tenants appeared to be technically eligible for leased housing under the standards and requirements established by the LHAs, the tenants had been providing for their own housing needs without the assistance of the Federal leasing program until the LHAs brought them under the program.

Our review showed that HUD had encouraged LHAs to follow the practice of leasing standard dwelling units already occupied by low-income tenants. The Deputy Assistant Secretary for Housing Assistance advised HUD regional offices and LHAs to lease standard units occupied by low-income families and elderly citizens as a means of accelerating leasing progress.

We believe that HUD should require LHAs to give priority, under the leasing program, to housing eligible low-income applicants who are in immediate need of decent, safe, and sanitary places to live. We noted that, during hearings on HUD appropriations for 1967, before the Subcommittee on Independent Offices, House Committee on Appropriations, the then-Acting Deputy Assistant Secretary for Housing Assistance had stated that the demand for additional federally assisted low-rent housing spoke for itself inasmuch as there were 8 million low-income families living in substandard housing in the United States.

At the time of our field visits (July to October 1967), the eight LHAs had leased a total of about 2,300 dwelling units, of which about 460 (20 percent) were occupied by residual tenants. On the basis of our analyses of LHA records, discussions with LHA officials, and discussions with leased-housing tenants and landlords in some cases, we have estimated that more than 95 percent of the dwelling units occupied by residual tenants were already in standard condition and not in need of rehabilitation before being brought under the leasing program. We therefore concluded that the residual tenants occupying such dwelling units had been adequately housed and consequently were not in immediate need of decent, safe, and sanitary housing at the time they were brought under the leasing program.

During our review at one LHA, we observed that applicants for leased housing had been asked to contact their present landlords and request them to participate in the leasing program. The applicants had been told that, if their landlords were willing to participate in the program, the tenants could receive Federal assistance toward their rent payments and could remain in the same dwelling units they were already occupying.

As of September 1967, the LHA had leased about 470 dwelling units, including about 170 units (36 percent) that were occupied by residual tenants who continued to live in the same units that they had lived in prior to coming under the leasing program. We also noted that the LHA had more than 20,000 applicants on its waiting lists for low-rent public housing. The applications for public housing accommodations did not indicate whether the applicants were living in standard or substandard housing. We noted, however, that the LHA's application for the leased-housing program contained statistical data which showed that about 134,000 of the renter-occupied housing units in the city in 1960 were in substandard condition.

At another LHA we noted that specific priorities had been established for the selection of tenants for federally assisted housing according to the urgency of their housing needs. Our review showed, however, that the LHA generally did not follow its priority system in selecting tenants for leased housing. We examined about 300 applications pertaining to tenants housed under the leasing program and found that 227 (75 percent) had not been assigned any priority classification before being brought under the program.

We were advised by officials of this LHA that, during the early stages of the leasing program, an LHA employee had inspected dwelling units of persons applying for leased housing and had assigned priority classifications based on urgency of housing need but that, as the LHA had come under increased pressure from HUD to house more tenants under the leasing program, the inspections had been discontinued and priorities had been assigned only to housing applicants who had been displaced and did not have places to live.

We noted that the LHA had sent form letters to landlords and property owners containing the following statement:

> "*** if there are any tenants in occupancy who may be eligible for Leased Housing, they can remain where they are and our negotiators will project a lease to the owner, if the usual conditions are met."

The LHA also advertised the above statement in a local news magazine for apartment owners.

As of September 1967, the LHA had leased about 460 dwelling units, including about 100 units (22 percent) that were occupied by residual tenants. According to an LHA official, all the leased units occupied by residual tenants had been in standard condition prior to being brought under the leasing program. At that time, the LHA had more than 1,000 applicants on its waiting lists for federally assisted low-rent housing. We believe that the LHA should administer its leasing program so as to provide housing for those low-income families and individuals on the waiting lists who are in immediate need of decent, safe, and sanitary places to live.

As of June 1967, another of the LHAs included in our review had leased a total of 500 dwelling units, including 80 units (16 percent) that were occupied by residual tenants. According to LHA records, 77 of the 80 units occupied by residual tenants were in standard condition prior to the time they were brought under the leasing program and the remaining three dwelling units had to be brought up to standard condition to be acceptable for leased housing.

As of May 1968, this LHA had about 850 dwelling units under lease, including about 175 that were occupied by residual tenants. The LHA's records showed that about 1,000 tenants had been brought under the leasing program from its inception through May 1968, including about 600 tenants who had been living in standard housing prior to the time they were brought under the leasing program. According to the LHA's records, the majority of the remaining 400 tenants had been living in substandard housing and overcrowded conditions

or were about to be displaced prior to being brought under the leasing program.

We noted that the LHA had a separate waiting list for leased housing and for each of its 21 conventional low-rent public housing projects. The applications on file as of May 31, 1968, for leased housing and for four of the LHA's conventional housing projects showed that about 315 eligible low-income families and individuals were living in substandard or overcrowded dwellings or were about to be displaced.

In commenting on the LHA's practice of extending the leasing program to persons already living in standard housing while other low-income families and individuals on the waiting lists for federally assisted housing continued to live in substandard or overcrowded conditions, an LHA official advised us that, although such a practice had not been the original intent of the LHA's leasing program, it had been accepted by HUD as a means of bringing dwelling units under the program. According to the LHA official, the program was originally intended to take care of low-income families and individuals who were most in need of decent, safe, and sanitary places to live.

During our review, we questioned HUD officials at one regional office concerning the practice of bringing into the leasing program residual tenants and other tenants living in standard housing while large numbers of applicants on the LHAs' waiting lists continued to live in substandard housing.

We were advised by the officials that they believed that the program should be used to financially assist low-income families and individuals living in standard dwellings and paying disproportionate shares of their incomes for rents. According to the HUD officials, many families eventually would be forced out of standard housing into substandard housing without the support of the leasing program. We were advised also that the practice of bringing residual tenants into the program helped the LHAs in meeting their goals of providing eligible low-income families with the benefits of the program.

The Housing and Urban Development Act of 1965 states that the section 23 leased-housing program was established

for the purpose of providing a supplementary form of low-rent housing which would aid in ensuring a decent, safe, and sanitary place to live for every citizen in need of such housing by taking full advantage of suitable vacant dwellings in the private housing market. In our opinion, it is questionable whether the objective of providing decent, safe, and sanitary housing to those in need of such housing is being fully met by LHA's that have extended the program to persons already occupying standard housing while applicants on waiting lists for public housing continue to live in substandard housing or in overcrowded conditions.

We noted that the staff of the National Commission on Urban Problems undertook a study to measure the extent of inadequate housing for large, poor families in seven selected cities in the United States. In a research report prepared in July 1968 for the consideration of the National Commission on Urban Problems, the Commission staff disclosed that about 103,000 large families residing in the seven cities had incomes so low that they were presumed unable to obtain standard housing in the private rental housing market.

The report pointed out that there were less than 20,000 public housing and other subsidized large-size dwelling units available to accommodate these low-income families. The report concluded that about 83,000 large, low-income families residing in the seven cities lacked adequate housing. Two of the cities covered by the study were included in our review, and the LHA in one of these two cities had been using the resources of the leased-housing program to house low-income persons who were already living in standard housing.

We proposed in our draft report that HUD require LHAs to establish and adhere to a priority system which would result in leased housing being provided to low-income persons who are in immediate need of decent, safe, and sanitary places to live, before program coverage is provided to low-income people already living in standard housing.

Agency comments and our evaluation

HUD informed us that a priority system such as we had proposed was not needed. HUD stated that, since occupied dwelling units would not otherwise be available for use in the leasing program, the adverse effects of leasing dwellings occupied by low-income persons upon other applicants awaiting admission to low-rent housing were not significant. HUD pointed out that many dwelling units are made available for the leased-housing program only because the owners are assured that the present tenants will continue to live in the dwellings.

HUD stated that, if an applicant who is occupying a standard dwelling that can be leased is eligible for low-rent public housing and is paying a rent that requires the family to sacrifice other necessities, it would be unreasonable to require the applicant to move as a condition for obtaining assistance under the leased-housing program. HUD informed us that a procedure was being established that would require an LHA to make a determination, in cases where a family is to be assisted in the payment of its rent, that continued occupancy of a dwelling in the absence of such assistance would require the family to sacrifice other necessities to pay the rent being charged.

In our opinion, the practice of leasing standard dwellings already occupied by low-income persons does not help to remedy the housing conditions of low-income persons who are inadequately housed. We believe that, in implementing the leased-housing program, priority should be given to locating and leasing vacant standard dwelling units that would provide decent, safe, and sanitary housing to meet the immediate needs of low-income displacees and applicants on public housing waiting lists who are not adequately housed.

Matter for consideration by the Congress

We believe that the Congress may wish to consider whether the leased-housing program should be operated so as to give housing priority to low-income persons who are not adequately housed.

Questionable lease rates negotiated by LHAs in obtaining occupied dwelling units

During our review, we examined into the reasonableness of lease rates negotiated by LHAs for dwelling units that were occupied by residual tenants and brought under the leasing program. Our examination showed that LHAs often negotiated higher lease rates for the occupied dwelling units than had been charged the tenants prior to their being brought under the leasing program. We recognize that rental increases may have been warranted in certain cases on the basis of fair market value, improvements and major repairs, or other valid reasons; however, during our review we identified a number of cases where rental increases did not appear to us to have been justified.

LHAs' records relating to the approximately 460 dwelling units occupied by residual tenants under the program (see p. 27) showed that (1) in 178 cases (39 percent), LHAs had negotiated lease rates which were higher than had been charged the residual tenants before their participation in the leasing program, (2) in 144 cases (31 percent), LHAs had negotiated lease rates which were the same as had been charged the residual tenants, and (3) in 87 cases (19 percent), LHAs had negotiated lease rates which were lower than had been charged the residual tenants. For the remaining 51 cases (11 percent), information available in LHA records or in our files was not sufficient to enable us to make a determination regarding the lease rates.

We selected 101 of the 178 cases involving rental increases for residual tenants and examined into the reasons for the increases. The rent increases ranged from about $2 to $30 a month and averaged $12 a month. Percentagewise, the increases ranged from about 2 percent to 63 percent. Our examination of LHA records, discussions with LHA officials, and, in some cases, discussions with leased-housing tenants and landlords did not provide any explanations justifying the rental increases in 55 of the 101 cases.

In the remaining 46 cases, we believe that it might have been reasonable to expect rental increases in some instances because of such things as increased property taxes,

owner assumption of utility expenses previously paid by tenants, and improvements to the dwelling units. In 14 of the 46 cases, however, only routine maintenance and/or redecorating work was involved and we question whether rental increases would be justified on this basis.

In addition, we found that one LHA had leased 14 efficiency apartments in one building at the higher rate being charged by the owner for one-bedroom units. These units did not involve residual tenants, and LHA records showed that, at the time the units were brought under the leasing program, they had been misclassified by the owner as one-bedroom apartments. In the building, apartments classified as one-bedroom units were renting at $95 a month and apartments classified as efficiency units were renting at $87.50 a month.

An LHA leasing official informed us that he was not aware that the apartments had been misclassified until he inspected some of the units several months after they had been leased. According to the LHA official, the owner would not reduce the lease rates on the apartments until his 1-year leases with the LHA had expired.

We were advised by a HUD regional official that, during a management review at one of the LHAs included in our review, he had found that, in several cases, dwelling units had been brought under the leasing program at lease rates which were higher than justified. The HUD official pointed out that, in two cases involving dwelling units occupied by residual tenants, the LHA had negotiated lease rates which were higher by $18 and $13, respectively, than the rental rates that had been charged the tenants prior to their participation in the program.

The HUD official stated that he had inspected the two dwellings and had determined that the rental increases were not justified. He stated also that he had advised the LHA to examine more carefully into the reasonableness of proposed lease rates before accepting dwelling units offered under the program.

Regarding cases where LHAs had negotiated lease rates which were lower than had been charged residual tenants

prior to their participation in the leasing program, we were advised by officials of several LHAs that owners and landlords had been willing to lower the lease rates in certain cases because they had recognized the benefits of guaranteed monthly rents under the program.

We believe that LHAs should be required by HUD to negotiate lease rates that are no higher than the rates that had previously been charged for the dwelling units unless the rental increases are properly justified on the basis of property improvements, additional services to tenants, increased owner costs, or other valid reasons. Moreover, we believe that LHAs should be encouraged to negotiate lower lease rates whenever possible by stressing the benefits of guaranteed monthly rents to property owners and landlords who participate in the leasing program.

We proposed that appropriate action be taken to require that LHAs, in obtaining dwelling units under the leasing program, negotiate lease rates that are no higher than those rates previously charged for the units, unless higher rates are clearly justified. We stated that LHAs should be required to fully document the reasons for any higher rates negotiated so that the reasonableness of such rates could be evaluated by HUD during its management reviews of LHA operations.

Agency comments and our evaluation

In commenting on this matter, HUD stated that it concurred in our proposal and would include the following provision in a handbook currently being prepared covering requirements and guidelines to be observed by HUD regional offices and LHAs in administering the leased-housing program.

> "Properties for a leasing program are to be rented by a Local Authority at an amount not higher than their fair rental value. In conducting negotiations rents should not be offered that exceed amounts that individual lessees are paying for similar properties in the locality, although, of course, differences in facilities or services that may be provided to the Local Authority, and not

furnished to others, may be taken into account. An inquiry should be made as to the price at which the property was previously rented. When rents are paid that are higher than those prevailing in the locality for similar properties, or when the rent negotiated is higher than the amount for which the property previously was leased by the owner, documentation in the Local Authority files should indicate the reason. In general, when all other things are equal, the Local Authority should expect to obtain properties at rents somewhat below amounts that others are paying because of its status as a responsible public agency that can offer guaranteed occupancy over a relatively long period of time, usually with no risk of collection loss."

In our opinion, the action being taken by HUD should encourage LHAs to negotiate more favorable lease rates in bringing dwelling units under the leased-housing program.

Recommendations

We recommend that, to ensure effective implementation of HUD's proposed instructions, the Secretary of HUD require that specific attention be given during HUD reviews of LHA leasing operations to determining whether dwelling units are being brought under the leased-housing program at negotiated lease rates which are no higher than the rates previously charged for the units, unless higher rates are properly justified. We recommend also that, if it is determined that improper rates are being negotiated, appropriate corrective measures be taken.

Program coverage given to persons who had relatively large asset holdings

Our review of LHA records showed that persons with relatively large asset holdings had been brought under the leasing program. We believe that HUD should require LHAs to adhere to reasonable limitations on tenant asset holdings in determining the eligibility of families and individuals who have applied for leased housing.

Under HUD procedures, an LHA is not required to establish limitations on the maximum amount of assets that a low-income family or individual may have in determining an applicant's eligibility for occupancy under either the leased-housing program or the conventional low-rent public housing program. HUD, however, has encouraged LHAs to consider applicants' asset holdings in determining their eligibility for federally assisted housing. The HUD management handbook for LHAs contains the following suggestion regarding the establishment of asset limitations.

> "In recognition that a family's income alone may not be fully indicative of its ability to obtain or pay for housing, each Local Authority should consider the establishment of limitations on assets so that it will not admit or continue in occupancy families whose assets are so large that, if they were used to supplement income, the families would be able to obtain or retain adequate housing from private enterprise."

We found that nine of the 11 LHAs included in our review had established limitations on the maximum amount of assets that applicants could have and still be considered eligible for leased housing. The asset limitations ranged from $3,000 to $15,000 for elderly citizens and from $3,000 to $9,000 for low-income families. The asset limitations applicable for accommodations under an LHA's leased-housing program were generally the same as the asset limitations applicable for occupancy under the LHA's conventional low-rent public housing program. Neither of the remaining two LHAs included in our review considered the asset holdings of the applicant in determining an applicant's eligibility for leased housing or for low-rent public housing.

We found that one of the LHAs that did not consider asset holdings in determining tenant eligibility had accepted, under the leasing program, two elderly tenants who, according to LHA records, had savings of about $33,500 and $24,000, respectively. The LHA leased the dwelling units from their owner at monthly rentals of $88 and $85, respectively, and subleased them to the tenants at monthly rentals of $50 each.

In our opinion, persons with such large asset holdings should not be receiving Federal housing assistance ($456 and $420 a year) under the leased-housing program. We noted that an LHA located only a few miles away had established an eligibility policy that provided that low-income families and elderly citizens having assets in excess of $3,000 would not be eligible for leased housing or for low-rent public housing, except in exceptional cases upon the special approval of the LHA's board of commissioners.

The other LHA that did not consider asset holdings of applicants for leased housing had extended the leasing program to two tenants who, according to LHA records, had assets valued at about $27,500 and $18,400, respectively.

We found that another LHA had extended the leased-housing program to five tenants who, according to LHA records, each had assets valued from approximately $12,200 to $18,600. This LHA had established an eligibility policy which permitted low-income families and elderly citizens with assets up to $9,600 to participate in its leasing program, depending on the number of persons in the applicants' families. It therefore appears that the LHA did not always follow its established policy regarding tenant asset holdings in bringing applicants under the leasing program.

Another LHA had established an eligibility policy which permitted elderly citizens with asset holdings of $15,000 and low-income families with asset holdings of $5,000 to participate in the LHA's leased-housing program and in its conventional low-rent public housing program. We noted that in the area served by this LHA, HUD had authorized the Federal Housing Administration to administer a rent supplement program which limits participation to low-income elderly

citizens having assets of $5,000 or less and to low-income families having assets of $2,000 or less.

Our review of the LHA's records relating to about 600 tenants brought under the leasing program showed that, in 140 cases (23 percent), the tenants would not have qualified for Federal housing assistance under the rent supplement program because their asset holdings exceeded the limitations established by HUD for that program. We noted from the records that, in 44 of the 140 cases, the tenants had assets valued between $10,000 and $15,000.

Inasmuch as the leased-housing program and the rent supplement program are both intended to provide decent, safe, and sanitary housing for low-income families and elderly citizens who otherwise could not afford to live in such housing, we believe that HUD should also require LHAs to adhere to reasonable asset-holding limitations in selecting tenants under the leasing program. We therefore proposed that HUD require LHAs to establish and adhere to reasonable limitations on tenant asset holdings in determining the eligibility of persons for assistance under the leased-housing program.

Agency comments and our evaluation

In commenting on our proposal, HUD made reference to a GAO report[1] issued to the Congress in April 1963, in which we had recommended that consideration be given to amending the United States Housing Act of 1937 to provide that HUD require LHAs to establish limitations on the amount of assets that may be owned by a family that is to be considered eligible for low-rent public housing accommodations. HUD stated that, since the pertinent legislation had remained unchanged and since the leased-housing program in this respect was in precisely the same position as the older low-rent public housing program, it was HUD's view that, under

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[1]Entitled "Review of Eligibility Requirements, Rents, and Occupancy of Selected Low-Rent Housing Projects, Public Housing Administration, Housing and Home Finance Agency" (B-118718, April 26, 1963).

existing legislation, the establishment of asset limits by LHAs was not an area which HUD could control by specific mandate.

HUD also made reference to the action taken by the Congress in requiring HUD to establish limitations on the maximum asset holdings that a low-income family or individual could have to qualify for participation in the rent supplement program administered by the Federal Housing Administration. HUD stated that, if the Congress had intended that LHAs not be given discretion on the matter of tenant asset holdings, affirmative action would have been taken to require that asset-holding limitations be established for determining eligibility for Federal assistance under the low-rent housing programs administered by LHAs.

HUD stated that it had consistently urged and worked for the establishment of asset policies by LHAs and that it planned to continue its efforts to promote voluntary action by those LHAs that had not adopted reasonable asset policies for determining eligibility for federally assisted low-rent housing.

Regarding HUD's comments, we noted that, during congressional hearings on HUD's supplemental appropriations for 1966, members of the Congress had expressed considerable interest and concern that HUD had proposed eligibility requirements for the rent supplement program that would have permitted low-income persons with relatively high asset holdings to participate in the program. Pursuant to congressional intent that appropriate measures be taken to limit Federal housing assistance under the rent supplement program to low-income persons who could not provide decent, safe, and sanitary housing for themselves, HUD subsequently established maximum asset-holding limitations of $5,000 for elderly citizens and $2,000 for low-income families for determining applicants' eligibility under the program.

We believe that the expressed congressional concern which prompted HUD to establish specific limitations on the maximum amount of assets that low-income families and elderly citizens could have to be eligible for participation in the rent supplement program is indicative of the concern

of the Congress that HUD provide adequate controls to ensure that Federal assistance for low-rent housing is offered, to the maximum extent possible, to low-income persons who do not have the financial resources to provide decent, safe, and sanitary housing for themselves.

Matter for consideration by the Congress

We believe that the Congress may wish to consider whether asset limitations should be established for determining the eligibility of families and individuals for assistance under the leased-housing program.

Eligible applicants on waiting lists for housing in low-rent public housing projects not given full consideration for housing under the leasing program

Our review showed that two LHAs were operating their leasing programs in such a manner that many eligible applicants who had been on the waiting lists for dwelling units in the LHAs' conventional low-rent public housing projects had not been afforded the opportunity to obtain suitable low-rent housing under the leasing program. We believe that the practices followed by the two LHAs were inconsistent with the leasing-program objective of providing suitable housing for low-income people who are in immediate need of such housing but who cannot be accommodated in conventional low-rent housing projects because sufficient suitable dwelling units of the sizes needed are not available.

One LHA was operating its leased-housing program separately from its conventional low-rent public housing program and had a separate waiting list for leased housing and for each of its low-rent public housing projects. We were advised by LHA officials that, as a general practice, the leasing program had been extended only to those low-income families and elderly citizens who had specifically requested and applied for accommodations under that program and to certain tenants who had previously been living in the LHA's low-rent public housing projects and had shown themselves to be capable of living in private rental housing.

We were advised by LHA officials also that eligible applicants who were on the waiting lists for dwelling units in the LHA's low-rent public housing projects generally were not referred to the LHA's leased-housing staff or given consideration relative to being accommodated in dwelling units made available under the leasing program. Some of the LHA's project managers stated that they did not refer many applicants to the leased-housing staff because the standards and requirements considered for acceptance of tenants under the leasing program were somewhat higher than the standards and requirements considered in placing tenants in low-rent housing projects.

We noted that the LHA, in applying for a leased-housing program, had pointed out to HUD that low-income applicants would be carefully screened so that the LHA and the property owners who participated in the program would be reasonably certain that dwelling units brought under the program would be occupied by persons who were capable of living in decent, safe, and sanitary private rental housing without the close attention that was normally provided to tenants living in low-rent public housing projects.

Regarding the other LHA, we examined records relating to tenants who had been brought under the leasing program as of August 1967 and found that, in about 160 cases, the tenants had not registered for federally assisted housing until some time after the LHA's leasing program had been approved by HUD. We noted, however, that the LHA had a waiting list consisting of more than 20,000 low-income families and elderly citizens who had registered for federally assisted housing. We were informed by an LHA official that many applicants had been on the waiting list for accommodations in low-rent public housing projects for more than a year but could not be taken care of because sufficient vacant dwelling units of the sizes needed were not available.

According to the LHA official, the LHA concentrated on providing leased housing to new applicants during the first year that the program was in operation and did not contact applicants who had previously applied for project housing to advise them that they could also qualify for leased housing. The LHA official pointed out that, after the leasing program had been in operation for about a year, the LHA realized that applicants who had been on the public housing project waiting list the longest had not been given adequate consideration for housing accommodations under the leasing program. Consequently, in August 1967 the LHA began contacting applicants who had been on the waiting list for considerable lengths of time to ascertain whether they would be interested in participating in the leasing program.

In our opinion, all applicants on an LHA's waiting lists who are eligible for low-rent public housing should be given full consideration for housing under the leasing program in accordance with reasonable priority standards based on the urgency of their housing needs.

We proposed to HUD that it take appropriate action to require LHAs to give applicants who are on the waiting lists for accommodations in low-rent public housing projects full opportunity to obtain suitable housing under the leasing program.

Agency comments and our evaluation

HUD advised us that its policies pertaining to tenant selection for leased housing were basically the same as the policies applicable to tenant selection for housing assisted under other provisions of the housing act of 1937, as amended, in that, when selections or referrals are made by the LHA, they must be made from the top of a communitywide list of eligible applicants.

HUD also stated that the nature of the leasing program and the legislation governing it made it necessary to modify the general selection policies to authorize LHAs to (1) enter into agreements which provide that property owners may select tenants, (2) place under lease standard dwellings already occupied by low-income persons who are eligible for immediate occupancy in accordance with applicable admission policies, and (3) place under lease and assign to an eligible applicant a dwelling that is found and brought to the LHA's attention by that applicant. According to HUD, the objectives underlying our proposal are served by these basic HUD tenant selection policies.

We noted that, from the time the leased-housing program was implemented in October 1965 until April 1968, HUD had not established procedures requiring LHAs to select tenants for leased housing from the top of the communitywide list of eligible applicants. HUD issued instructions in April 1968 requiring LHAs to offer available dwellings under the leasing program to eligible persons at the top of the communitywide waiting list of applicants for low-rent

housing, except where the selection of tenants is governed by one of the aforementioned three methods.

The new instructions provide that, if an LHA has conventional public housing projects and leased housing projects, the LHA must select tenants for vacant public housing units and for vacant leased housing units from the top of the same waiting list. The instructions provide also that, if the property owner is to select tenants from a list of applicants supplied by the LHA, referral of applicants by the LHA be made from the top of the waiting list.

We believe that HUD's instructions relating to the selection of tenants by LHAs and by property owners should, if properly implemented, provide better assurance that full consideration is given to housing eligible low-income persons who have been on the waiting lists for the longest periods of time. Moreover, we believe that, if LHAs encourage applicants on the waiting lists to seek out vacant dwellings that might be suitable for leased housing, applicants who are living in substandard housing may be able to be accommodated under the leasing program more timely than if they had to wait their turn on the waiting lists.

CHAPTER 4

SCOPE OF REVIEW

HUD statistical information showed that at June 30, 1967, HUD had approved a total of 86 leased housing projects involving approximately 22,300 dwelling units. Our review covered leased housing projects administered by 11 LHAs, involving about 33 percent of the total dwelling units authorized for leasing at that time, and included some of the largest leasing programs in the nation.

During our review, we examined into applicable Federal laws and regulations, HUD and LHA administrative policies and practices, and various records and files to the extent we deemed necessary. We also had meetings and discussions with housing owners and landlords, members of real estate boards, and leased-housing tenants. Our work was performed at the HUD headquarters in Washington, D.C.; at the HUD regional offices in Chicago (Region IV) and San Francisco (Region VI); and at 11 LHAs operating leased-housing programs in HUD Regions I (New York), II (Philadelphia), IV, and VI.

APPENDIXES

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D. C. 20410

OFFICE OF THE ASSISTANT SECRETARY
FOR RENEWAL AND HOUSING ASSISTANCE

MAR 24 1969 IN REPLY REFER TO:

Mr. Max Hirschhorn
Associate Director
Civil Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Hirschhorn:

The Secretary has asked me to respond to your letter of December 19, 1968, requesting the Department's comments on your proposed report to the Congress entitled "Opportunities to Improve the Implementation of the Section 23 Leased Housing Program, Department of Housing and Urban Development."

The enclosed statement contains our comments on the material presented in the proposed report.

We appreciate the opportunity to review the proposed report before it is presented to the Congress.

Sincerely yours,

Lawrence M. Cox
Assistant Secretary

Enclosure

Statement by the
Department of Housing and Urban Development

GAO Draft Report to the Congress

"Opportunities to Improve the Implementation
of the Section 23 Leased Housing Program"

Before directing attention to the specific proposals, we shall first have to take issue with the

[See GAO note.]

conclusion that "HUD did not provide timely assistance and guidance to LHAs to stimulate greater and more effective efforts to lease suitable available housing."

The leased housing legislation was enacted originally as part of the Housing and Urban Development Act of 1965 which increased the annual contributions authorization for low-rent housing by a total of $138,000,000 for a four-year period ending June 30, 1969. In testimony before Congressional Committees on the 1965 Act *Secretary Weaver estimated that the available authorization would provide for development of 240,000 dwellings of which 40,000 would be derived from the Leased Housing Program. By June 30, 1968, a full year prior to the date by which 40,000 leased dwellings were to have been programmed, HUD had placed under Annual Contributions Contract a total of 42,000 units. The following table compares the annual program level estimates submitted by the Secretary in his testimony and actual accomplishments for the first three fiscal years and one-half of the fourth year:

FY	HUD Estimates	Units Placed Under ACC
1966	5,000	6,975
1967	10,000	15,474
1968	10,000	19,824
1969	15,000 (full year)	18,667 (6 months)
		60,940

We note and appreciate the comment in the draft report that "HUD has shown some concern over the unsatisfactory progress made by a number of LHAs in obtaining leased housing, and has taken certain actions during the past year to determine the reasons for the slow progress and to improve the implementation of the leasing program." We are prepared to concede, as your study shows, that in some localities the actual leasing of dwellings after execution of the Annual Contributions Contract, fell well behind

*Hearings before the Subcommittee of the Senate Committee on Banking and Currency, 89th Congress, 1st Session, P. 10; Hearings before the Subcommittee on Housing of the House Committee on Banking and Currency, 89th Congress, 1st Session, P. 173.

GAO note: Deleted comments relate to matters which were presented in draft report but which have been revised or omitted from this final report.

expectations as projected in the schedule shown in the approved Application. In a great many cases this was because of the optimism of the expectations; at the inception of the program staffing and administrative problems involved in leasing operations at the local level were rather generally underestimated. But as soon as this trend was recognized, HUD took timely and effective corrective action.

HUD awareness of the need for acceleration of leasing activities developed during 1967 and the Department's resolution to act on it is indicated by the fact that in making a commitment to the President that 70,000 dwellings would be made available for occupancy by low-income families during the period from October 1, 1967 through September 30, 1968, very substantial reliance was placed upon the leasing program.

Acceleration of the program also was given impetus by a Task Force Report on the mission, operations and organization of the HAA that was completed in October 1967, which recommended, 'High priority examination of ways to stimulate faster progress with the leased housing program, . . ."

Then in early December 1967, the major thrust of the HAA production effort was directed to the leasing program. At that time, leasing quotas were assigned to Regional Offices in terms of dwellings available for occupancy, and the following program was outlined in a memorandum from the Deputy Assistant Secretary for Housing Assistance to Regional Administrators.

"1. The existing Regional staff must be redeployed, through detail or reassignment, where necessary in the accomplishment of the accelerated leased housing production requirement.

"2. A program must be developed promptly to assure that all Local Housing Authorities operating leased programs understand the importance of the national goal.

"3. A training program must be developed and carried out quickly for those Regional staff members detailed from other regular functions and assigned to the leasing production effort.

"4. Regional leasing workshops should be arranged and conducted as soon as possible for Housing Authority personnel involved with the leasing effort to help with training and to serve as a forum for an exchange of information on the program.

"5. Processing procedures will have to be developed which will expedite the submission and review of leased housing applications.

"6. Effective and expeditious liaison procedures should be established immediately with FHA Regional and State Offices to assure that FHA insured or owned properties

with substantial vacancies are brought to the attention of appropriate Local Housing Authorities as a source of units available for immediate leasing.

"7. Close liaison should also be maintained with Regional and State organizations of realtors to gain their cooperation and support in assisting Local Housing Authorities in locating units for lease."

The Deputy Assistant Secretary also, at the time, made a series of visits to all Regional Offices to reemphasize the importance of the program specified. The Regional meetings included representatives of major Housing Authorities where leasing programs were lagging; and in a Circular, dated December 11, 1967, the Authorities were advised of specific things that might be done to accelerate leasing. Another Circular, on February 13, 1968, said that Annual Contributions Contracts would be terminated with respect to units that could not be leased expeditiously. On that basis, during the ensuing months, some $2,800,000 were recaptured involving over 2,700 units, and these funds were reallocated to other Local Authorities.

Concurrently, the group designated to outline steps to implement the HAA Task Force Report was completing its work, and its recommendations with respect to leased housing on which action could be taken immediately were incorporated in a Circular on December 20, 1967. Under that Circular, there were several delegations of authority to Regional Offices calculated to accelerate the program, notably, one that involved termination of Washington Office review of program applications and a delegation to Regional Administrators of full authority for their approval.

The most significant action growing out of the HAA Task Force recommendations, however, was a reorganization of Housing Assistance activities. Under the reorganization, in order to assure adequate attention to the urgency of volume and balanced production of housing for low-income families, Production Divisions were established both at the Washington and Regional levels. These Divisions became operative in March 1968, with responsibilities that include monitoring the production aspects of the Leased Housing Program and the elimination of any impediments.

That HUD efforts have been effective is clear. By December 31, 1968, 31,683 units had been leased from property owners and the program had mushroomed to become a full-fledged contributor and volume producer of housing for low-income families. For example, in FY 1968, 14,651 units were made available for occupancy under the leasing program; leasing already accomplished in the first half of FY 1969 totals 13,502 units; and a similar number are expected to be leased in the second half, or approximately 25,000 units for the year. This accelerating rate of accomplishment could not have been achieved without a concerted and continuing effort to stimulate Local Authority production through guidance and training and by assisting Authorities to resolve problems and overcome obstacles.

We submit that the Leased Housing Program as contemplated in the Housing and Urban Development Act of 1965 has been carried out and that a solid foundation has been established for the program expansion authorized in 1968.

As to the specific proposals included in the report:

"We propose that, to improve the progress of the leasing program, the Secretary of Housing and Urban Development emphasize to Department regional officials the need to effectively monitor the leased housing program and provide timely assistance and guidance to LHAs in locating and leasing suitable vacant dwelling units,

[See GAO note on p. 50.]

More assistance and guidance for Housing Authorities in their operation of leasing programs constitutes a very desirable objective. Unfortunately, there is a great deal to be done and staffing has been limited.

As mentioned above, however, this objective was among the reasons that prompted the establishment of a production organization. That organization, in general, functions through coordination staffs that have program-wide responsibilities in limited geographical areas. The revised organizational pattern was considered to be the most efficient and effective means for providing the improved field representation needed. At the same time, it would be conducive to a balanced effort in the program response to the need for low-rent housing; i.e., a production effort that will not follow the course of least resistance, but will be directed toward elderly or family housing as the local requirements indicate. Concentrating responsibility for leasing and construction activities in a single organizational entity should also promote attention to full utilization of existing housing resources.

Procedurally, the leasing program has been made very adaptable to changing circumstances. Annual contributions contracts themselves permit the number of units of any particular size leased to exceed the number programmed by 25 percent providing the total number of units programmed or the maximum annual contribution are not exceeded. To go beyond this would seem to be undesirable in that it would eliminate any effective Federal voice in programming specific sizes of units and might well encourage the trend toward leasing elderly rather than the family-type dwellings that are also so badly

needed. To facilitate changes that go beyond those mentioned, authorization for their approval has been delegated to Regional Offices except that, in the event an increased annual contributions commitment is needed, control by the Assistant Secretary for Renewal and Housing Assistance is maintained.

In substance, then, the Departmental view is that, organizationally, action has already been taken to achieve the improvements recommended and that procedurally nothing more need be done at this time.

"We propose that the Department's procedures regarding program adjustments be strengthened through the inclusion in annual contributions contracts of a provision that would allow Federal participation only with respect to the dwelling units that are leased within a reasonable, stipulated period of time."

This recommendation has frequently been considered by HUD and rejected, primarily because it results in an undesirable degree of inflexibility in contract administration; Annual Contributions Contracts presently require that leasing activities be completed expeditiously. In a Circular, dated January 22, 1969, controls were established on the production pipeline to ensure expeditious development of the project or in the alternative, its termination and removal from the pipeline. Time frames were designated as production milestones, and it provides that Local Authorities will be informed by letter of the approved schedule for leasing units. Failure to adhere to that schedule would be prima facie evidence of a failure to lease "expeditiously" and would serve as a basis for reduction of the Government's obligation under the Contract with respect to the units involved. For programs in excess of 100 units, the Circular provides that leasing should be completed within 52 weeks and indicates that for smaller programs a proportionately shorter period will be specified.

'Moreover, we propose that action be taken, through inclusion of an appropriate provision in annual contributions contracts, to preclude LHAs from imposing additional restrictions on the leasing of vacant dwelling units that would otherwise be acceptable under the standards established by the Department.'

It is questionable whether such a provision would be effective, since the selection of units to be leased necessarily involves a degree of judgment as to rent charged in relation to the location, condition, and liveability of the dwelling.

Moreover, the Department would not consider it unreasonable for a Housing Authority to apply for a program on the basis of a plan of operations that, for example, would be directed primarily toward leasing rehabilitated units, or, that would involve perhaps, justifiable restrictions on their location; and then subsequently to develop the program in accordance with that plan of operations. A degree of Housing Authority discretion in this area would appear to be required by the statutory directive in Section 1 of the United States Housing Act which provides that "it is the policy of the United States to vest in the local public housing agencies the maximum amount of responsibility in the administration of the low-rent housing program . . . ." The objective of this proposal can probably best be accomplished through an educational and guidance process.

"We propose that, to help ensure a more effective application of Federal resources toward achieving the objectives of the leasing program, the Secretary of Housing and Urban Development take appropriate action to require LHAs to (1) establish and adhere to a priority System which would result in the leasing program being extended to low-income persons who are most in need of a decent, safe, and sanitary place to live, before the program is extended to eligible persons who are already living in adequate standard housing, (2) establish and adhere to reasonable limitations on tenant asset holdings in determining the eligibility of persons for assistance under the program, and (3) give applicants who are on the waiting lists for accommodations in low-rent public housing projects full opportunity to obtain suitable housing under the leasing program."

Departmental policies pertaining to eligibility for leased housing are the same as those applicable to housing assisted under other provisions of the United States Housing Act with the exception that, for Section 23 programs, through a specific legislative authorization, the 20 percent gap requirement in establishing income limits has been waived. Tenant selection policies for the program are also basically the same in that the general requirement, when selections or referrals are made by the Housing Authority, is that they be made from the top of a community-wide list of eligible applicants. The nature of the leasing program and the legislation governing it, however, have made it necessary to recognize three circumstances under which the general policy on selection requires modification:

1. The terms of leases between Housing Authorities and owners may provide for owner selection of tenants.

2. Housing Authorities have been authorized to place under lease standard dwellings that are occupied

by low-income families eligible for immediate occupancy in accordance with applicable admission policies. A Circular, dated December 12, 1968, in recommending, among other things, utilization of this authorization also indicated it should be applied to those families "who are forced to sacrifice other necessities in order to pay the full economic rent."

3. Plans of operation are authorized under which a Housing Authority may place under lease and assign to an eligible applicant a dwelling that is found and brought to its attention by that applicant.

The first of these modifications for the leasing program has very strong statutory support in Section 23. The second is largely a logical extension of the first, but it can be supported too on grounds of humanity and reason. Assuming that the conditions attached to its application have been satisfied - that an applicant who is occupying a standard house that can be leased is eligible for immediate occupancy and is paying a rent that requires the family to sacrifice other necessities - it would be unreasonable to require a move as a condition for obtaining assistance. The primary consideration, of course, is that the family dislocation that inevitably results from a move should be avoided if it is possible to do so. Moreover, many of these dwellings are available to the Housing Authority for use in the leasing program only because the owner can be assured that the present tenant will continue in occupancy. To the extent that this prevails, it would be compounding the housing problems of low-income families generally if a move were required in order for the applicant to obtain assistance.

Because in so very many of these situations the unit would not otherwise be available in the program, the adverse effects of leasing dwellings occupied by low-income families upon Housing Authority applicants awaiting admission are not significant. Even these can be mitigated if an Authority follows the plan of operations mentioned above as the third modification; a plan under which the Authority would advise all eligible applicants that if an applicant finds a standard dwelling that will be made available for the leasing program by the owner, assuming that a fair rent is being charged and that the rent is within the range that the program can afford, it will be leased and assigned to the applicant.

Another reason that present policies as to leasing occupied dwellings cannot be unfair to other applicants is that the program authorization for low-rent housing, at this time, is not severely restrictive. Consequently, the primary limitation on the size of a Housing Authority's leasing

program is the number of units that can be made available in the locality.

The reasoning behind the third modification, the "finders keepers" policy, seems evident; it is a strong inducement toward self-reliance for low-income families in need of housing.

It would appear from the above analysis that the objectives underlying item (3) of the proposal are served by the basic HUD tenant selection policies. And it has been demonstrated that modifications of the basic policy with respect to leased housing are reasonable and result in no substantial derogation of it. A priority system as recommended in item (1) of the proposal, therefore, would not be needed. What the findings behind these items seem to require are measures to reemphasize the established guidelines and to prevent abuses. To that end, the Handbook on leasing now being prepared will include the following:

> "Standard dwellings that are occupied by low-income families who are eligible for immediate occupancy in accordance with the applicable Local Authority admission policies and who will continue to reside in the dwelling may be placed under lease. Where a family is to be assisted in the payment of its rent in this manner, a Local Authority determination must be made, pursuant to regulations to be established by the Authority, that continued occupancy of the dwelling in the absence of such assistance would require the occupant to sacrifice other necessities in order to pay the rent charged. Authority files shall include documentation as to the basis upon which each such determination is made.
>
> In those cases where a Local Authority follows a plan of operations under which standard dwellings occupied by low-income families are placed under lease, the Local Authority should also advise all eligible applicants on its waiting lists that if any applicant finds a suitable standard dwelling that will be made available for the leasing program by the owner, providing that a fair rent is being charged and that the rent is within the range that the program can afford, the dwelling will be leased and assigned to the applicant."

Item (2) of this proposal, recommending that HUD require Housing Authorities to establish and adhere to reasonable limitations on tenant asset holdings in determining

eligibility, is similar to an earlier General Accounting Office recommendation covering the Low-Rent Housing Program, as a whole. A letter dated October 18, 1962, responding to that recommendation explained that HUD lacked authority to require Local Housing Authorities to establish such limitations. (Each Local Authority is obligated by the statute, however, to house only "families of low income" defined as "families who are in the lowest group and who cannot afford to pay enough to cause private enterprise in their locality or metropolitan area to build an adequate supply of decent, safe, and sanitary dwellings for their use.") Based upon this reply, the GAO included in its report to the Congress in April 1963 a suggestion that the United States Housing Act of 1937 be amended to provide for a requirement that Authorities adopt assets limitations. There has been no legislative action on that suggestion.

Since the pertinent legislation is unchanged, and the Leased Housing Program, in this respect, is in precisely the same position as the older low-rent housing program, the Department's view is that under existing legislation the establishment of asset limits by Local Authorities is not an area which we can control by specific mandate. In reaffirming this conclusion, the action of Congress on asset limits for the Rent Supplement Program is also being taken into account. It seems to indicate rather clearly that if it were intended that Housing Authorities not be given discretion in this area, affirmative action would be taken.

HUD consistently, however, has urged and worked for the establishment of assets policies by Housing Authorities that would include guides for determining whether a family's assets, together with its income, are of such nature and amount as to assure its qualifying as a "family of low income." To that end, the general statement quoted on Page 51 of the draft report has been supplemented with a special advisory release on establishing limitations on family assets.

Most Local Housing Authorities, as this GAO study indicates, have taken action concerning assets in line with HUD recommendations. Where limitations have been established that superficially appear high, they generally are applicable to elderly families, and were adopted in recognition of the fact that those families are likely to have accumulated more assets than non-elderly families to be used for essential needs or are being conserved for protection in case of extended illness or emergencies.

HUD plans to continue its efforts to promote voluntary action by the relatively few Authorities where limitations have not been adopted that conform to published recommendations and to

do whatever is possible to secure adherence to those standards throughout the program.

"We propose also that appropriate action be taken to require that LHAs, in obtaining dwelling units under the leasing program, negotiate lease rates that are no higher than those previously charged for the dwelling units, unless higher rates are clearly justified. The LHA should be required to fully document the reasons for any higher rates negotiated so that the reasonableness of such rates can be evaluated by the Department during its management reviews of LHA operations."

HUD concurs with this recommendation, and in the Handbook covering the leasing program being prepared for release the following provision is being included:

> "Properties for a leasing program are to be rented by a Local Authority at an amount not higher than their fair rental value. In conducting negotiations rents should not be offered that exceed amounts that individual lessees are paying for similar properties in the locality, although, of course, differences in facilities or services that may be provided to the Local Authority, and not furnished to others, may be taken into account. An inquiry should be made as to the price at which the property was previously rented. When rents are paid that are higher than those prevailing in the locality for similar properties, or when the rent negotiated is higher than the amount for which the property previously was leased by the owner, documentation in the Local Authority files should indicate the reason. In general, when all other things are equal, the Local Authority should expect to obtain properties at rents somewhat below amounts that others are paying because of its status as a responsible public agency that can offer guaranteed occupancy over a relatively long period of time, usually with no risk of collection loss."

APPENDIX II

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
SECRETARY OF HOUSING AND URBAN DEVELOPMENT (formerly Administrator, Housing and Home Finance Agency):		
Robert C. Weaver	Feb. 1961	Dec. 1968
Robert C. Wood	Jan. 1969	Jan. 1969
George W. Romney	Jan. 1969	Present
ASSISTANT SECRETARY FOR RENEWAL AND HOUSING ASSISTANCE:		
Don Hummel	May 1966	Feb. 1969
Howard J. Wharton (acting)	Feb. 1969	Mar. 1969
Lawrence M. Cox	Mar. 1969	Present