Chapter 2

Subsidy Calculation

Introduction

This chapter focuses on how to calculate the Housing Assistance Payment (HAP) for Housing Choice Voucher participants. Except where specifically noted, these rules apply to both the tenant-based voucher program and the project-based voucher (PBV) program. The previous chapter covered how to determine the family's income and TTP, which is one of the components in calculating HAP. In addition to TTP, the following components affect the HAP amount.

- Payment standard, based on the lower of:
    - Voucher size (determined by the subsidy standards)
    - Selected unit size
- Gross rent is a calculation adding the:
    - Utility allowance
    - Contract rent (determined to be **reasonable** and **affordable**)

Housing Choice Voucher (HUD-52646)

- The voucher (Form HUD–52646) is an authorization to search for housing given to families entering the program and when a program participant is authorized to move to a new unit.
- The voucher includes the bedroom size for which the family is qualified. The bedroom size on the voucher is determined by the PHA's subsidy standards.
- PHAs must approve an additional search term

if needed as reasonable accommodation to make the program accessible to and usable by a person with disabilities.

Counseling the Family During the Briefing

- An essential part of the briefing is helping families understand the program well enough to make good decisions during the search process.
- Although it is not possible to tell a family exactly how much rent they will have to pay until they select a unit, families should leave the briefing with information that will help them find approvable and affordable units. This information includes:
    - TTP - An estimate of the family's Total Tenant Payment (TTP) based upon their income and the TTP formula (generally 30% of monthly adjusted income).
    - The maximum amount the family is allowed to pay for rent and utilities at initial lease up (40% of monthly adjusted income). This amount is referred to as the Rent Burden.
    - The maximum subsidy the PHA can pay on the family's behalf. This amount is the Payment Standard.
    - How the number of bedrooms in the unit the family selects affects how much they will pay.
    - How the amount the family may be required to pay is affected by whether the family or the owner will pay for utilities.
- To provide appropriate information to voucher holders and to calculate subsidies appropriately, you must be able to explain the key components that determine the subsidy

calculations discussed in the next section.

Key Components of the Subsidy Calculations

Subsidy Standards
(24 CFR 982.402)

- Subsidy standards are used to determine the number of bedrooms (unit size) for which a family qualifies.
- The PHA's subsidy standards must be included in the PHA's administrative plan.
- HUD regulations require PHA subsidy standards to include the following rules: (24 CFR 982.402):
    - The subsidy standards must be applied consistently for all families with the same number of persons and circumstances.
    - The standards must provide for the smallest number of bedrooms needed to house the family without overcrowding.
        - From an inspections standpoint, a unit is not overcrowded until the number of family members is greater than 2 persons per living/sleeping area.
        - To avoid overcrowding PHAs generally do not establish subsidy standards that would require family members to sleep in areas of the unit other than bedrooms.
    - A child who is temporarily absent due to placement in a foster home is considered a family member and therefore counts in the number of household members used to determine unit size.
    - Individuals on active military duty who have a spouse or dependents in the unit are members of the household and

should be counted to determine unit size.

    - A one-person household may never be authorized for more than a one-bedroom unit except a pregnant woman living alone must be treated as a two-person family or if a reasonable accommodation request has been granted for a person with a disability.
    - One bedroom may be allowed for a live-in aide approved by the PHA to reside in the unit.
        - Additional family members of the live-in aide may not be approved if this causes a unit to have more than 2 persons per living/sleeping area.

- HUD regulations permit PHAs to identify exceptions to the minimum subsidy standards for specific circumstances. For example:
    - Some PHAs authorize larger unit sizes when justified based upon a family member's health or disability.
        - An additional bedroom for medical equipment must be verified during inspections
    - Some PHAs authorize larger unit sizes based upon age, sex, and relationship of family members such as not requiring children of the opposite sex to share a bedroom after a certain age.
- The chart on the following page compares typical subsidy standards (for voucher unit size) and inspection rules (for determining overcrowding).
- The subsidy chart assumes the PHA makes no exceptions related to age, sex, and relationship of family members.

Typical PHA Standards Used to Issue Housing Choice Voucher			Standards Used to Determine Acceptability	
Voucher Size	Minimum No. of Persons in Household	Maximum No. of Persons in Household	Unit Size	Maximum Occupancy Assuming a Living Room is Used as a Living/ Sleeping Area
0-BR	1	1	0-BR	1
1-BR	1	2	1-BR	4
2-BR	2	4	2-BR	6
3-BR	3	6	3-BR	8
4-BR	4	8	4-BR	10
5-BR	6	10	5-BR	12
6-BR	8	12	6-BR	14
7-BR	10	14	7-BR	16
8-BR	12	16	8-BR	18

- If your subsidy standards show the same number of persons in two different categories, your procedures must describe the criteria for a decision. For Example:
    - A 3-person household that consists of a couple and one child would qualify for a two-bedroom voucher.
    - A 3-person household that consists of an elderly person, her live-in aide, and a 16-year-old grandson could qualify for a three-bedroom voucher.

Payment Standards
(24 CFR 982.503)

- PHAs must establish Payment Standards for each bedroom size. Payment Standards set limits on how much subsidy a PHA can pay.
    - Payment Standards are based upon HUD-published Fair Market Rents (FMRs) which are intended to represent the cost of standard but modest housing in the locality.

  - PHAs (within limits) may set Payment Standards either higher or lower than the FMRs.
  - The Payment Standard is used to calculate the housing assistance payment for a family.

- The maximum subsidy the PHA can pay is the Payment Standard minus the calculated TTP (See Chapter 3).

Example	
Payment Standard (1 BR)	$1,167
Minus TTP	- $591
=Maximum PHA Subsidy	**$576**

- PHAs are not allowed to use payment standards for units larger than the family's approved unit size. A lower payment standard is used if the family selects a smaller unit. For example:
  - If the family's voucher authorizes a 2-bedroom unit and the family selects a 2-bedroom unit (or larger), the 2-bedroom payment standard is used.
  - If the family's voucher authorizes a 2-bedroom unit and the family selects a one-bedroom unit, the one-bedroom payment standard is used.
- The maximum PHA subsidy may change based upon the unit the family selects because the payment standard used depends upon the number of bedrooms in the unit.
- PHAs may establish "Exception Payment Standards" or a payment standard amount that is higher or lower than the basic range with HUD approval.
  - To help families find housing outside areas of high poverty, or

- Because voucher holders have trouble finding housing for lease under the program within the term of the voucher.

- HUD regulation allows PHAs to establish a payment standard up to 120% of the FMR, without HUD approval, as a reasonable accommodation for a household that includes a person with disabilities.

Contract Rent, Gross Rent, and Utility Allowances (24 CFR 982.517)

- Contract Rent = the approved amount of rent to be paid to the owner.
  - On Form HUD-50058, Contract Rent = Rent to Owner.
  - The contract rent is the unit rent on the lease.
- Gross Rent = the Contract Rent plus an allowance for any utilities the family must pay separately. The Gross Rent represents the entire housing cost of the unit.

Example	
Contract Rent to Owner	$825
plus Utility Allowance	+ $193
=Gross Rent	**$1,018**

- PHAs must establish utility allowance schedules that reflect the cost of utilities in the locality for different bedroom sizes, different types of units, and different types of utilities.
- When the owner provides information about the unit the family has selected, the Request for Tenancy Approval (Form HUD-52517) will specify:
  - Which utilities are included in the rent and which the tenant must pay;
  - The fuel types for each kind of utility;

and

  - Whether the owner or the tenant will provide the stove and refrigerator.

- PHAs must select the appropriate Utility Allowance schedule for the lower of the voucher size or unit size.
  - A PHA may allow a higher utility allowance as a reasonable accommodation.

NOTE: Selecting the incorrect utility allowance schedule is a common error. Make sure that you understand when each schedule established for your PHA is used.

PBV Program Only

- The contract rent is the amount determined by the PHA at the signing of the HAP Contract.
  - If PHA owned, then determined by a third party.

- The initial rent to owner, and any changes in the contract rent, are determined by the PHA using the most recently published FMR in effect and the utility allowance schedule in effect at execution of the HAP contract or requested rent increase.
  - The PHA may use the amounts in effect at any time during the 30-day period immediately before the beginning date of the HAP contract.

- The PBV contract rent is the lower of the:
  - Reasonable rent (but not more than 110% of the FMR less utilities); or
  - The rent requested by the owner; or
  - Rent to owner for certain tax credit units.
    - The "tax credit rent" is the rent charged for comparable units of the same bedroom size in the building that also receive the low-income housing tax credit but do not have any additional rental assistance

(such as tenant-based voucher assistance).

Affordability

Rent Burden
(24 CFR 982.508)

- At initial lease up, program regulations prohibit a family from having a rent burden of (paying more than) 40 percent of monthly adjusted income. For example:
    - A family's voucher authorizes a two-bedroom unit
    - Based upon monthly adjusted income of $1,500, the family's Total Tenant Payment is $450 (1,500 x .30).
    - The Payment Standard is $1,275.00
    - The family has found a two-bedroom unit it hopes to lease with a Gross Rent of $1,450.

Payment Standard (2 BR unit)	$ 1,275.00
- Total Tenant Payment	$ 450.00
= Maximum PHA Subsidy	$ 825.00

- If the PHA approves the owner's rent, the PHA would pay the maximum subsidy $825, and the family would pay the rest.

Approved Gross Rent (Contract Rent + Utility	$ 1,450.00
- Maximum PHA Subsidy	$ 825.00
= Family Share	$ 625.00

- The family would have to pay $625. What percentage of adjusted income is $625?
    - 625 / 1,500 = 42% of monthly adjusted income.
- This unit would not be affordable for the

family.

Rent Burden Worksheet

- Many PHAs explain the concept of rent burden to families during the voucher issuance briefing using a Rent Burden Worksheet. Estimating a rent burden provides the family with the basic information required by HUD about payment standards and utility allowances and gives the family an idea about what rent they can afford via a “shopping range”.
- The shopping range shows two numbers:
  - The lower shopping range number represents the rent that would be affordable at approximately 30% of adjusted income; and
  - The higher shopping range number is capped at a rent which would cause the family to pay no more than 40% of their monthly adjusted income.
- PHAs that use a shopping range/rent burden worksheet should have local procedures that outline how to determine the payment standard and utility allowance to use in the shopping range/ rent burden calculation.
- Not all PHAs use a shopping range/Rent Burden Worksheet. Many PHAs simply tell the family to use the payment standard for the voucher unit size as a guide when selecting a unit.
- PHAs must determine the family’s actual rent burden once the family has selected a unit. A Rent Burden Worksheet populated with actual unit and income information can be a useful tool for staff when verifying affordability of the unit selected by the family.

Rent Reasonableness Determinations
(24 CFR 982.507)

- In order to approve initial contract rents and subsequent rent increases, the PHA must complete a rent reasonableness determination.
- Rent Reasonableness is required:
  - Before execution of a HAP Contract
  - Before granting a requested increase in rent to owner
  - If there is a 10% FMR decrease
  - Whenever HUD requires
- The proposed rent must be reasonable in comparison to rents for comparable unassisted units. This determination must include consideration of:
  - Location, quality, size, unit type, and the age of the contract unit; and
  - Any amenities, housing services, maintenance, and utilities to be provided by the owner in accordance with the lease.
- If an unassisted unit, which is used as a comparable unit, has services other than housing services, the comparison rent must be reduced to account for the cost of the other services.
- Other services which cannot be included in the calculation of reasonable rent include the cost of meals or supportive services.

Example

If a property provides shuttle bus service to residents, the portion of monthly rent attributable to the shuttle service must be subtracted from the rent prior to comparison to the rent for the assisted unit.

- The rules prohibit using assisted units (units where rent is subsidized) as comparables in the rent reasonableness determination.
- Acceptance of a monthly HAP from the PHA is the owner's certification that the rent to owner is not more than rent charged (by the owner) for comparable unassisted units in the premises.
- The owner also certifies to this statement on the RFTA.
- PHAs should keep up-to-date comparable unit data, so that rent determinations can be easily supported and documented.

PBV Program Only

- If there is a decrease in the rent to owner, either due to rent reasonableness or other rent requirement (LIHTC), the rent to owner must be decreased, regardless of whether the owner requested a rent adjustment.
- If the HAP contract between the PHA and Owner provides to not reduce rents below the initial rent to owner, the rent to owner cannot be reduced below the initial rent to owner for dwelling units under the initial HAP contract, except:
    - If additional financial assistance has been combined with PBV assistance after the execution of the initial HAP contract and a rent decrease is required not to over subsidize the property; or
    - If a decrease in rent to owner is required based on changes in the allocation of responsibility for utilities between the owner and the tenant.

Rent Control

- In addition to rent reasonableness

requirements, rents may be regulated by state or local rent control limits.

- In regulated localities, rents are limited to the lesser of the PHA determined reasonable rent or the controlled rent amount.

PHA Negotiations with Landlords

- If the proposed gross rent is determined to be too high under rent reasonableness, the PHA should discuss with the landlord the possibility of either reducing the contract rent or including some or all of the utilities in the contract rent. The tenant needs to agree to any changes the PHA and owner discuss.
- If the rent is not affordable by the family based upon the 40% of monthly adjusted income limitation, the PHA may attempt to negotiate with the owner to reduce the contract rent to a level that would make it affordable by the family (even if this is below the determined reasonable rent).

Housing Assistance Payment (HAP)

- The Housing Assistance Payment (HAP) is generally calculated by the PHA's system of record, but all staff should understand the calculation in order to answer any questions participants may have.
- The actual subsidy is determined after the family locates a unit because the subsidy is affected by the characteristics of the unit.
- The HAP payment is equal to the lower of:
    - The payment standard minus the TTP; or
    - The gross rent minus the TTP.

Example 1: Housing Assistance Payment	
Payment Standard (PS)	$1,100
Total Tenant Payment (TTP)	$591
Gross Rent	$1,000
HAP Calculations:	
$1,100 PS - $591 TTP =	$509
Or	
$1,000 Gross Rent - $591 TTP =	$409
The HAP is $409	

Determining Family Share

- The family share may be higher than the total tenant payment (TTP), depending on the unit
- the family selects.
- For a family renting a unit with a gross rent at or below the payment standard, the family share will be the same as the TTP.

Example 2: Housing Assistance Payment	
Payment Standard (PS)	$1,100
Total Tenant Payment (TTP)	$591
Gross Rent	$1,250
HAP Calculations:	
$1,100 PS - $591 TTP =	$509
Or	
$1,250 Gross Rent - $591 TTP =	$659
The HAP is $509	

- For a family renting a unit with a gross rent above the payment standard, the family share will be the TTP plus any amount by which the gross rent exceeds the payment standard.
- The family share can be determined only after the family selects a unit.

Example 1: Family Share	
Payment Standard (PS)	$1,100
Gross Rent	$1,000
Total Tenant Payment (TTP)	$591
Because the payment standard is higher than the gross rent, the family share will equal the TTP of **$591**.	

Example 2: Family Share	
Payment Standard (PS)	$1,100
Gross Rent	$1,250
Total Tenant Payment (TTP)	$591
The gross rent exceeds the payment standard by $150, so the Family Share will be the TTP plus $150.	
$591 (TTP) + $150 = **$741 Family Share**	

Family Rent to Owner

- Family rent to owner is the portion the tenant pays directly to the owner for rent. If the landlord pays for all utilities, family rent to owner will equal the family share.
- Family rent to owner is calculated by subtracting the housing assistance payment (HAP) from the rent to owner.
- If the tenant pays separately for some utilities, the Family Rent to owner will be less than the family's TTP because some of the family's TTP (based upon the utility allowance schedule will be used to pay utilities.

Example 1: Family Rent to Owner	
Rent to Owner (Contract Rent)	$825
Less HAP	-$409
Family Rent to Owner	$416

Example 2: Family Rent to Owner	
Rent to Owner (Contract Rent)	$825
TTP	$416
Less Tenant Paid Utilities	-$125
Family Rent to Owner (TTP – Utilities)	= $291
HAP to Owner	$534

Utility Reimbursements

- For some very low-income families, the Total Tenant Payment is not enough to pay for all utilities (based upon the utility allowance schedule).
- In such cases:
  - The PHA will make the full contract rent payment to the owner, and
  - The PHA will make a payment to the family to assist with utilities. The amount of the payment is the amount the housing assistance payment exceeds the rent to owner.

Example: Utility Reimbursement	
Rent to Owner (Contract Rent)	$825
Less HAP	-$840
Utility Reimbursement	= ($15)

Impact of Unit Size on Subsidy and Unit Approval

- When the family selects a unit, the PHA applies the Payment Standard for the lesser of the voucher size issued to the family or the actual unit size selected.

- The utility allowance is based on lower of the voucher size or the actual unit size selected.
- Utility Assistance Payments may be paid quarterly instead of monthly
    - Quarterly periods are based on the calendar year, not the move-in date
- If a quarterly UAP method used, PHA must have a hardship policy in place that is applied to cases.
- Threshold of $45 per quarter ($15/mon)
- PHA may issue UAP in check or debit card form.
    - Debit card method cannot generate any fees for the tenant
    - May also use automatic deposit as long as no fees for tenant
- If quarterly payment being made and a family is moving or has moved, a prorated payment must be made.
    - If a family leaves the program and has a UAP credit, the PHA must reconcile with the family:
        - **PH**: Prior to the expiration of the lease
        - **HCV**: When the HAP contract terminates or shortly thereafter.
- Utility Assistance Payments may be paid directly to the utility provider, but the PHA must notify the family of the amount paid.