

HPRP Tips and Updates: Rent Reasonableness Under HPRP (Part 1 of 2)

AUDIENCE: PROGRAM AND HOUSING STAFF (Case Workers, Housing Specialists, their supervisors, Grantee or Subgrantee Program Managers).

NOTE: This is the first of two listserv messages provided as a refresher to grantees and subgrantees on the topic of rent reasonableness. This first listserv message is intended to:

- Define rent reasonableness;
- Remind program staff that rent reasonableness is different from Fair Market Rents (FMR); and
- Emphasize that the process for determining and documenting rent reasonableness is not dictated by HUD, but rather by local policies.

The second listserv message will focus on the potential sources of data for identifying comparable units.

WHAT IS THE RENT REASONABLENESS REQUIREMENT?

The “rent reasonableness” standard, a requirement under HPRP, ensures that rents paid by HUD are reasonable and appropriate. According to the HPRP Notice (http://www.hudhre.info/documents/HPRP_NoticeRedline_6_08_09.pdf) :

- “Rent reasonableness means that the total rent charged for a unit must be reasonable in relation to the rents being charged during the same time period for comparable units in the private unassisted market and must not be in excess of rents being charged by the owner during the same time period for comparable non-luxury unassisted units.”
- The rental assistance paid cannot exceed the actual rental cost, which must be in compliance with HUD’s standard of rent reasonableness.

Grantees/subgrantees must determine and document rent reasonableness for all units for which HPRP funds are used for either rental assistance and/or security deposit assistance. **This requirement applies whether homelessness prevention assistance or rapid re-housing assistance is provided.** In other words, it applies when participants are staying in their units AND when participants are moving into new units. However, the requirement does NOT apply when using HPRP funds to pay for rental arrears for a previous unit. (Read the FAQ on this topic at

<http://www.hudhre.info/index.cfm?do=viewFaqById&topicID=102&subTopicID=122&faqid=574#detail>).

Tip: *If the rent for the unit does not meet the rent reasonableness standard, then HPRP funds may not be used to assist the household in that unit. Further, HPRP funds cannot be used to pay the rent up to the rent reasonable standard, while the tenant pays the remainder. However, an eligible household could receive HPRP assistance to relocate to another unit that does comply with rent reasonableness standards, and is ultimately more affordable to the household.*

RENT REASONABLENESS VS. FAIR MARKET RENTS

Grantees may not use Fair Market Rents (FMRs) as a proxy to determine rent reasonableness. The rent reasonableness standard is different from FMRs. FMRs are gross rent estimates established by HUD for individual jurisdictions, based upon the rent for standard units within that jurisdiction. FMRs are published for units of various sizes, but they do not account for units in different neighborhoods, of different configurations (e.g., a room in someone's single family dwelling), or with different amenities. Rent reasonableness allows more flexibility for these variations. As such, a program that is using the FMR to cap rent payment cannot assume that the rent being charged for a particular unit is reasonable.

DETERMINING AND DOCUMENTING RENT REASONABLENESS

Determining and documenting rent reasonableness is required under HPRP. However, as explained in the HPRP Notice, it is up to the grantee to determine exactly what documentation is required in order to ensure the rent reasonableness standard is met. The HPRP Notice states that grantees and subgrantees should determine rent reasonableness by considering: “(a) the location, quality, size, type, and age of the unit; and (b) any amenities, housing services, maintenance and utilities to be provided by the owner. Comparable rents can be checked by using a market study, by reviewing comparable units advertised for rent, or with a note from the property owner verifying the comparability of the rent charged to other units owned.”

Rent Reasonableness Forms and/or Data Sources: Grantees must outline requirements for documenting comparable rents and may include specific forms that subgrantees must use and/or required data sources that must be included in the case file. A common form to collect data on program units will make the data collection process easier. Examples of forms and data resources include:

- The Rent Reasonableness Checklist and Certification, available at www.hud.gov/offices/cpd/affordablehousing/library/forms/rentreasonablechecklist.doc, or other similar forms developed locally;
- Other documentation, such as copies of newspaper advertisements, internet listings, or published rental data sources;
- Printouts of records from the grantee's or subgrantee's rental housing database (if one exists).

***Tip:** The Rent Reasonable Checklist is a sample form that is used across different housing programs, and as such, includes some concepts and terms that are not applicable to HPRP. Utility allowances and payment standards are both examples of concepts that are used under other HUD programs like HOME and Section 8 but are not directly applicable to HPRP.*

Staffing: The responsibility of determining and documenting rent reasonableness may be assigned to a variety of program staff, including (but not limited to):

- The case manager who will, as part of the eligibility assessment, conduct a telephone survey of the property owner/landlord and also review the rental housing database to find comparable units.

- The housing habitability inspector who will complete the **documentation** at the time of the inspections. Since a habitability inspection is only required when participants move into new/different units, this method would work best under rapid re-housing programs as all units are new/different units that must be inspected.

Note: For monitoring purposes, HUD will look to see that the grantee/subgrantee developed and followed a process to determine and document that the rent was reasonable and that the basis for the conclusion reached is supported by the evidence gathered. **The documentation in the case files should contain the most complete documentation possible, and should outline staff steps, analysis, and conclusions so that an auditor or supervisor can understand the factors that contributed to the determination.**

COMPONENTS OF AN EFFECTIVE POLICY

HUD expects that grantees have established a rent reasonableness policy to ensure that rent reasonableness determinations and documentations are defensible, transparent and consistent across their program. At a minimum, an effective policy includes a methodology, documentation requirements, staffing, and strategies for addressing special circumstances.

Policies should provide step-by-step guidance on how comparisons should be made and what documentation should be included in the case file, including any notes from the staff person making the determination. For example, a grantee could create a policy where a provider must consider three units, but the rent paid must be within \$50 of the average comparable rents. In this example, a rent paid could actually be slightly higher than any of the individual comparable units, which would be fine according to the grantee policy.

Methodology: Methodologies for obtaining comparable rents include (but are not limited to):

- Using a market analysis or other published data to determine the appropriate rent ranges for units of different sizes, types, locations, and amenities;
- Obtaining documentation from property owners/managers on current rents charged in comparable unassisted units;
- Obtaining comparable rents on a unit-by-unit basis and requiring a check of, for example, at least 3 other units; or
- A combination of these methodologies.

Strategy for Addressing Special Cases: There will be instances where the methodology and process adopted by grantees is not sufficient to establish rent reasonableness for a particular unit. For example, staff may find that the rental housing database they are required to use does not have comparables for units with 6+ bedrooms. Similarly, subgrantees in rural areas may only find 1 or 2 comparable units instead of the 3 units specified by their protocols. The grantee's policies should outline how to address these situations and the documentation required in these cases. For example, the policy could allow staff to analyze the impact of an extra bedroom on rent for a particular area and calculate a reasonable rent based on their analysis.

Similarly, staff in rural areas may need to either expand the geographic area used to search for comparables and/or establish rent reasonableness on the basis of fewer comparable units.

Again, the documentation in the case files should contain complete documentation, and should outline staff steps, analysis, and conclusions so that an auditor or supervisor can understand the factors that contributed to the determination.