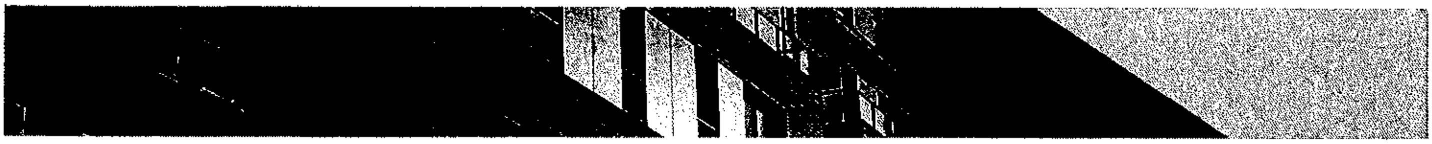

1. What are SAFMRs, where do they apply, and when do they need to be implemented?

1.1 Background

Small Area Fair Market Rents (SAFMRs) are Fair Market Rents (FMRs) calculated at the ZIP code level, rather than for the entire metropolitan region. As described in the SAFMR Final Rule, "the main benefit of SAFMRs is that, through setting rental subsidy amounts at a more local level, assisted households will be more able to afford homes in areas of high opportunity than under current policy. Such moves are expected to benefit both individual households, for example, through access to better schools or safer neighborhoods, and areas as a whole through reducing concentrated neighborhood poverty." (81 FR 80569)

In metropolitan areas that have not adopted SAFMRs, subsidies for HUD's Housing Choice Voucher (HCV) program are determined by a formula that considers rent levels across the entire metropolitan area. However, rents often vary substantially within a single metropolitan area, with much higher rents in low-poverty areas and much lower rents in high-poverty areas. In a previous effort, HUD aimed to address high concentrations of voucher families in certain metropolitan areas by increasing the level of FMRs from the 40^{th} percentile to the 50^{th} percentile of the distribution of gross rents for recent movers (those who moved into their current residence in the last 24 months). However, this change proved insufficient to consistently reduce concentrations of voucher use in these areas.

The use of SAFMRs is intended to increase the share of households that choose to use their vouchers in low-poverty areas. To this end, SAFMRs are being implemented in metropolitan areas with both significant voucher concentration challenges and market conditions where establishing FMRs by ZIP code areas has the potential to significantly increase opportunities for voucher families. ZIP codes were chosen because they are small enough to reflect neighborhood differences, and it is possible to compare rents between ZIP codes in a metropolitan area.

(SAFMR Final Rule, 81 Fed. Reg. 80567 (November 16, 2016))

1.2 Definition of SAFMRs

SAFMRs are annual ZIP code-based estimates of rent plus the cost of utilities (except telephone) that are set by HUD for use in the administration of tenant-based assistance under the HCV program. SAFMRs are required to be used by PHAs in areas designated by HUD and may also be used on a voluntary basis by PHAs that choose to adopt SAFMRs. PHAs in areas designated for mandatory use of SAFMRs are referred to as "Designated SAFMR PHAs," and PHAs that voluntarily choose to adopt SAFMRs are referred to as "Opt-in SAFMR PHAs." PHAs outside of designated areas that choose not to adopt SAFMRs are called "Non-SAFMR PHAs;" they continue to use Metropolitan Area Fair Market Rents (MAFMRs), which establish a single rent standard by bedroom size for an entire metropolitan area.

(24 CFR §888.113(a))

1.2.1 Selection criteria for Designated SAFMR areas

HUD has designated 24 metropolitan areas as the first set of metropolitan areas subject to mandatory use of SAFMRs. These areas were determined based on meeting all five of the following selection criteria:

1. At least 2,500 HCVs under lease in the metropolitan FMR area.
2. At least 20 percent of the standard quality rental stock within the metropolitan FMR area is located in ZIP codes where the SAFMR is more than 110 percent of the MAFMR.
3. At least 25 percent of families with HCVs live in concentrated low income areas. "Concentrated low income areas" are census tracts with a poverty rate of 25 percent or more, or where at least 50 percent of the households earn less than 60 percent of the area median income and are designated by HUD as Qualified Census Tracts in accordance with section 42 of the Internal Revenue Code.
4. The percentage of renters with vouchers living in concentrated low income areas relative to the percentage of all renters within these areas over the entire metropolitan area exceeds 155 percent.
5. The vacancy rate for the metropolitan area is greater than 4 percent.

The selection values underlined in items 1 through 5 above were specified in a *Federal Register* Notice published on November 16, 2016 (81 Fed. Reg. 80678). These selection values may be updated by HUD through a future *Federal Register* notice, subject to public comment.

HUD will review and update the list of Designated SAFMR areas every five years as new data becomes available. In contrast with the 50th percentile FMR methodology, under which areas where reassessed every three years and then potentially reverted to 40th percentile FMRs, once an area has been designated an SAFMR area, it remains an SAFMR area.

(24 CFR §888.113(c))

1.3 Scope of the SAFMR Final Rule

The SAFMR Final Rule includes provisions for mandatory adoption of SAFMRs by Designated SAFMR PHAs and voluntary adoption by Opt-in SAFMR PHAs. The SAFMR Final Rule also includes changes to payment standards and rent reasonableness requirements that apply to all PHAs, whether or not they adopt SAFMRs. (See Appendix A for a table that shows the application of provisions in the SAFMR Final Rule for Designated SAFMR PHAs, Opt-in SAFMR PHAs, and Non-SAFMR PHAs.)

1.3.1 Designated SAFMR areas where use of SAFMRs is mandatory

The SAFMR Final Rule implements SAFMRs as HUD's FMR voucher deconcentration tool in areas where HCV tenants are living in concentrated low-income areas. (See Appendix B for a list of the first set of metropolitan areas designated for mandatory use of SAFMRs.) The SAFMR rule eliminated the 50th percentile FMR rule which was HUD's former deconcentration tool.[1] Since designated SAFMR agencies are required to adopt SAFMRs, they need not amend their Administrative Plans to indicate that they will be doing so.

(Notice PIH 2018-01(2); 24 CFR §982.503(b)(1)(i))

[1] While 50th percentile FMRs as a deconcentration tool are eliminated in the SAFMR Final Rule, the current 50th percentile FMRs in areas that have not been designated by HUD for SAFMRs are being phased out over a three year period.

1.3.2 PHA jurisdictions that include both Designated SAFMR areas and non-SAFMR areas

In some cases, a PHA's jurisdiction will include both Designated SAFMR areas and non-SAFMR areas. This scenario is particularly likely for regional and state PHAs. For these PHAs, SAFMRs will apply in the Designated SAFMR areas *only*, and MAFMRs and non-metropolitan county FMRs will apply in all other areas, unless the PHA chooses to adopt SAFMRs for one or more metropolitan areas that are not Designated SAFMR areas throughout its jurisdiction. (SAFMRs are not available for non-metropolitan counties, so those areas would continue to use non-metropolitan county FMRs.)

PHAs may request HUD approval to apply SAFMRs to vouchers administered outside of the SAFMR area, following the procedures for Opt-in SAFMR PHAs (see Chapter 5).

1.3.3 Opt-In SAFMR PHAs

PHAs that administer vouchers in a metropolitan area where adopting SAFMRs is not required may request approval from HUD to adopt SAFMRs voluntarily at any time. See Section 5.1 of this Guidebook for more information on the impacts analysis that PHAs must complete before submitting a request.

If HUD approves the request of a PHA to opt in to SAFMRs, the PHA must then amend its Administrative Plan, stating in its plan that it will operate according to SAFMRs and also identifying any policies it has adopted with respect to SAFMRs (e.g., applying SAFMRs to its PBV program, adopting tenant protections as described in Notice PIH 2018-01(4)(e)).

A PHA that opts in to SAFMRs may later opt out, returning to the use of MAFMRs via revision of its Administrative Plan and notification to its local HUD field office (via SAFMRs@hud.gov), after taking into consideration any disruptions to its program, families, and owners that may result from opting out.

(Notice PIH 2018-01(5)(b))

1.3.4 Applicability of SAFMRs to all tenant-based vouchers and special housing types

For all Designated SAFMR PHAs and Opt-in SAFMR PHAs, SAFMRs will apply to all tenant-based vouchers in the applicable metropolitan areas, including special purpose vouchers (i.e., vouchers specifically provided for by Congress in line item appropriations which distinguish them from regular vouchers, such as those issued for the Veterans Affairs Supportive Housing (HUD-VASH) program and Family Unification Program (FUP)) and special housing types such as Single Room Occupancies (SROs) and homeownership vouchers discussed further below. However, both Designated and Opt-in SAFMR PHAs have a choice of whether or not to apply SAFMRs to project-based vouchers. See Chapter 4 of this Guidebook for a discussion of this issue.

For SROs, the payment standard is 75 percent of the zero-bedroom payment standard amount on the PHA payment standard schedule. If the PHA revised the payment standard schedule as a result of the applicability of SAFMRs, the payment standard for SRO units would likewise be revised to reflect 75 percent of the applicable zero-bedroom payment standard amount.

Revisions to the payment standard as a result of the implementation of SAFMRs also apply to the voucher homeownership program (see 24 CFR §982.625 through 982.641). PHAs must use the same payment standard schedule and payment standard amounts for the homeownership option as for the rental voucher program. The same protections that PHAs may employ for families under Housing Assistance Payments (HAP) contract when the payment standard decreases (i.e., holding harmless (no reduction in subsidy) or applying reductions in subsidy based on payment standards above the basic range, or continuing to use

HUD-approved exception payment standard amounts that were in place prior to the adoption of SAFMRs) would apply to families assisted under the voucher homeownership option.

(Notice PIH 2018-01(4)(e))

Furthermore, the payment standard for a family with a homeownership voucher is always the greater of (a) the payment standard used at the commencement of homeownership assistance for occupancy of the home and (b) the current payment standard in effect at the most recent regular reexamination.

Note that SAFMRs also apply to vouchers used to subsidize the rent of a manufactured home space. The payment standard amount used for a unit assisted under the manufactured home space rental special housing type is the same payment standard amount used for regular rental units under the PHA's HCV program (see Notice PIH 2017-18).

(Notice PIH 2018-01(5)(c)(v); 24 CFR §888.113(g))

1.3.5 Applicability of SAFMRs to MTW agencies and adoption of an alternative payment standards policy

Moving to Work (MTW) PHAs with jurisdiction in designated SAFMR areas may be exempt from the requirement to use SAFMRs, depending on policies in their HUD-approved Annual MTW Plans:

- An MTW PHA is exempt from the requirement to use SAFMRs if that agency has an alternative payment standards policy in its HUD-approved Annual MTW Plan.
- An MTW PHA is required to use SAFMRs as outlined in the SAFMR Final Rule if it does not have an alternative payment standard policy in its HUD-approved Annual MTW Plan.

An "alternative payment standards policy" is a policy that involves payment standards that an MTW agency may adopt following HUD approval in the Annual MTW Plan. For example, an MTW agency may adopt a policy establishing its own submarket-based payment standards, multi-tiered payment standards, or payment standards above the basic range of 90 to 110 percent of the Fair Market Rent (e.g., 150 percent).

Any MTW PHA that does not operate in a metropolitan area where the use of SAFMRs is mandatory may choose to adopt SAFMRs, following the procedures outlined in Notice PIH 2018-01.

(Notice PIH 2018-01(6))

1.3.6 Inapplicability to other HUD programs

SAFMRs apply only to the HCV program. Other programs that use FMRs (e.g., HOME tenant-based rental assistance, the rental assistance component of the Housing Opportunities for Persons With AIDS (HOPWA) program, Continuum of Care Rental Assistance, Legacy Shelter Plus Care program) continue to use MAFMRs or non-metropolitan county FMRs regardless of whether SAFMRs have been designated for HCV tenant-based assistance within the same metropolitan area and regardless of whether the PHA uses SAFMRs for the HCV program. [2]

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[2] If the PHA or participating jurisdiction has adopted HCV payment standards for their rental or tenant-based rental assistance (TBRA) programs, and the local PHA implements SAFMRs on a Designated or Opt-in basis, then the PHA or participating jurisdiction would use SAFMR-based payment standards for its rental or TBRA programs.

The use of SAFMRs in HUD's Rental Assistance Demonstration (RAD) is addressed in Notice PIH 2012-32 (HA) H-2017-03, REV-3. Generally, under RAD, an owner may use the SAFMR in place of the MAFMR in the computation of PBV rents, with HUD approval.

(Notice PIH 2018-01(7); SAFMR Final Rule, 81 Fed. Reg. 80571 (November 16, 2016))

1.4 Limits on reductions in SAFMRs from MAFMR in the first year and in subsequent years

In the year that a metropolitan area first transitions to a designated SAFMR area, the SAFMR for a ZIP code area may be no less than 90 percent of the area's MAFMR in the previous fiscal year. In subsequent years following the transition, the relationship between the SAFMRs and the MAFMRs will no longer be relevant. The only applicable restriction from that point forward is that the SAFMRs will be no lower than 90 percent of the previous year's SAFMRs for that ZIP code area.[3]

To illustrate, consider a metropolitan area that previously had an MAFMR of $1,200 for a two-bedroom apartment and is transitioning to a designated SAFMR area.

- In the first year of the transition, the SAFMR for a two-bedroom apartment in any ZIP code in the metropolitan area may be reduced by no more than $120 (10 percent of $1,200), for a minimum SAFMR of $1,080.
- In the second year of the transition, any reductions in the SAFMR are subject to limits based on the SAFMR for that individual ZIP code in the previous year. For example, if the SAFMR for a ZIP code area had decreased to $1,080, the second year SAFMR decrease would be limited to 10 percent of $1,080, or $108. The lowest amount the SAFMR for a two-bedroom apartment in the second year could be for that ZIP code is $972 (90 percent of $1,080).

Non-SAFMR PHAs are subject to the same limitation: where MAFMRs or non-metropolitan FMRs are in use, the FMR will be no lower than 90 percent of the previous year's FMR.

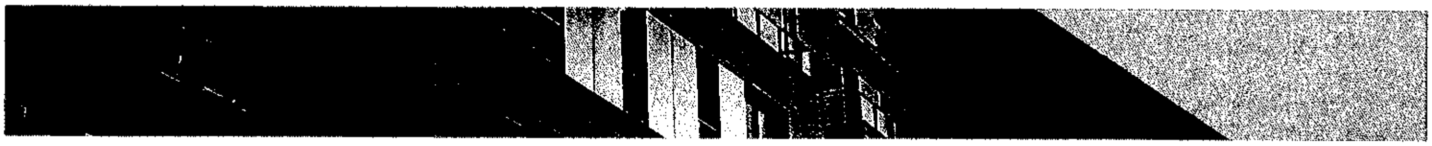
The extent to which reductions in FMRs result in reduced payment standards for HCV families under HAP contract at the time the reductions become effective is subject to PHAs' discretion and addressed in Chapter 3 of this Guidebook.

1.5 Portability moves into and out of SAFMR areas

An eligible family that has been issued a voucher may use that voucher to lease a unit anywhere in the United States where there is a PHA operating an HCV program. Under portability, the receiving PHA's policies and payment standards will be applicable to the porting family. The initial PHA's payment standards and/or use of SAFMRs have no relevance with respect to the subsidy calculation for a porting family.

For example, under the HOME program some participating jurisdictions use the local PHA's HCV payment standards for their TBRA programs. In this case, if the local PHA has adopted SAFMRs, then the participating jurisdiction would use SAFMR-based payment standards for its TBRA program.

[3] HUD applies the decrease limits in the annual FMR calculations; therefore, PHAs using HUD's posted values do not need to make further adjustments to the posted values.



1.5.1 Port-ins to PHAs in Designated SAFMR areas

If the family is porting to, or planning to port to, a Designated SAFMR area, in general the receiving PHA's payment standards will be based on SAFMRs. (If the PHA implements a HUD-approved exception payment standard that applies to the area to which the family is porting, then the exception payment standard will apply.)

1.5.2 Port-ins to PHAs in Non-SAFMR areas

If the family is porting to, or planning to port to, a non-SAFMR metropolitan area, the applicable payment standard will be based on the MAFMR, unless the receiving PHA has voluntarily implemented SAFMRs for that metropolitan area. The payment standard for families porting to non-metropolitan counties will be based on the non-metropolitan county FMR.

1.5.3 Potential Impacts on PHAs

Portability can have impacts on initial PHAs that have large numbers of port-outs or frequent port-outs to PHAs in Designated SAFMR areas that do not absorb porting families. When these families move to high-cost areas with higher payment standards, the initial PHA's Per Unit Costs (PUCs) may increase substantially. These potential cost increases will need to be taken into consideration in managing leasing and HCV utilization. Alternatively, if large numbers of port-outs tend to move to lower-cost areas, PUCs will decline. PHAs can only deny portability moves for insufficient funding in accordance with PIH Notice 2016-09.

(Notice PIH 2018-01, (5)(c)(iv))

1.6 Suspensions and temporary exemptions

In certain cases, HUD may suspend SAFMRs for a metropolitan area or temporarily exempt individual PHAs from use of SAFMRs. This action may be initiated by HUD or at the request of a PHA. The suspension or exemption must be based on a documented determination by HUD that such action is warranted due to adverse rental housing market conditions.

1.6.1 Circumstances for suspension or temporary exemption by HUD

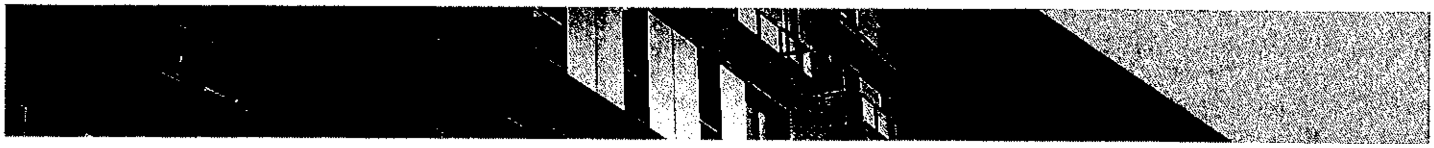
In the event of an adverse rental housing market condition, HUD will issue a Notice of Suspension or Exemption with information on the adverse rental housing market condition that is the reason for the suspension, the duration and timing of the suspension, and other details as determined by HUD.

1.6.2 PHA requests for suspension or exemption

An individual PHA (or group of PHAs) that administers more than 50 percent of the vouchers leased in a metropolitan area may request a suspension of the SAFMR designation for the metropolitan area. An individual PHA may also request a temporary exemption from the use of SAFMRs within the designated SAFMR area. In either case, the request must be based on documentation of an adverse rental housing market condition currently affecting the area and/or the PHA(s) making the request. PHAs may only request a suspension of the SAFMR designation or a temporary exemption from the use of SAFMRs on the basis of *actual* conditions, and not an anticipated scenario that has not yet occurred.

PHA requests for suspension or temporary exemption must be emailed to SAFMRs@hud.gov.

(Notice PIH 2018-01, (9); 24 CFR §888.113(c)(4))



Adverse rental housing market conditions

Conditions that may serve as the basis for a suspension or temporary exemption of SAFMRs may apply to the rental housing market as a whole, or may be unique to the segment that is affordable and available to families with HCVs. They include but are not limited to:

- A Presidentially declared disaster area that results in the loss of a substantial number of housing units
- Other events that contribute to a sudden loss of rental units
- Current vacancy rates falling below four percent
- A rapid increase in the PHA's Per Unit Costs causing the PHA to experience a funding shortfall
- A sudden influx of households into the metropolitan area
- Other events as determined by the Secretary