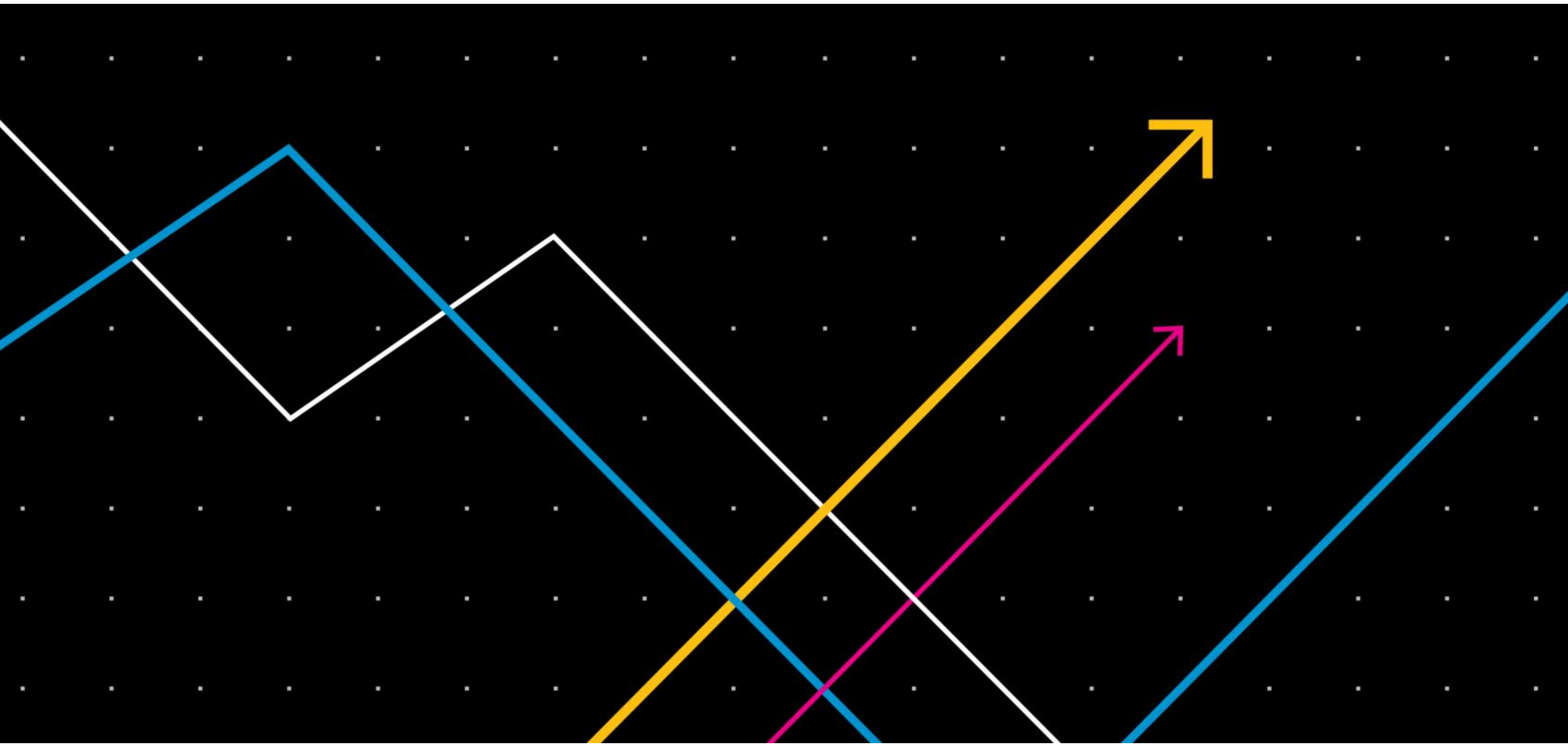

RESEARCH REPORT

Leveraging Financing to Encourage Landlords to Accept Housing Choice Vouchers

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Executive Summary

Housing choice vouchers (HVCs) are the largest component of federal rental assistance, helping 2.3 million families. With these vouchers, the government pays the difference between the approved rent on a unit and 30 percent of a household's income, up to the US Department of Housing and Urban Development area fair market rent. But even when units' rental costs are affordable to voucher holders, many landlords are reluctant to rent to voucher recipients. In this report, we detail the reasons for this reluctance and offer suggestions to improve HCV acceptance. We recommend that landlords who rent to voucher holders and offer certain renter protections should be eligible for government-sponsored enterprise (GSE) financing if the property is currently ineligible. If the property is already eligible, landlords should receive GSE financing on more favorable terms. We argue that single-family rental operators who rent to voucher holders should be eligible for GSE financing (currently, GSE financing for single-family rental operators is unavailable, except for small mom-and-pop landlords). We also recommend easier financing for the construction or rehabilitation of accessory dwelling units that are rented to voucher holders as well as access to favorable financing for multifamily properties that house voucher recipients.

Leveraging Financing to Encourage Landlords to Accept Housing Choice Vouchers

Housing choice vouchers (HCVs) are one of the most important forms of federal rental assistance for low-income households. In 2021, of the estimated 21.3 million households eligible for federal rental assistance, only 5.3 million households, or a little more than one in four eligible households, received rental assistance (Gartland 2022). The US Department of Housing and Urban Development (HUD) provides the bulk of federal rental assistance, serving 4.56 million families. Housing choice vouchers, supporting more than 2.3 million households (or 51 percent of families served by HUD programs), is the largest component of HUD rental assistance, followed by project-based rental assistance (27 percent), public housing (18 percent), and rental assistance for elderly and disabled households (4 percent) (HUD, n.d.-a, 2-1).

Housing Choice Voucher Background

Under the Housing Choice Voucher program, the government pays the difference between the HUD-approved rent on a unit and 30 percent of the renter's household income, up to the HUD-prescribed area fair market rent (FMR). Voucher holders are very low–income families, with 63 percent earning less than $15,000 a year,[1] and 78 percent are extremely low–income families, earning below 30 percent of area median income (AMI) (HUD, n.d.-a, 6-2). Although 31 percent of all voucher recipients include wages as part of their total incomes,[2] most recent data indicate this is true for 69 percent of all nonelderly, nondisabled households (CBPP 2021). Seventy-eight percent of voucher holders are female-headed households (Fannie Mae 2022a), including 32 percent living with children in their households.[3] Sixty-five percent of voucher holders are Black or Hispanic, versus 40 percent of the US renter population (Fannie Mae 2022a); 25 percent of all voucher households include a family member with disabilities (Fannie Mae 2022a).

Sixty-five percent of voucher households occupy homes with zero to two bedrooms, which is consistent with data showing two-thirds of voucher households consist of one or two people, including 46 percent who live alone. Thirty-four percent of voucher holders live in units containing three or more bedrooms, which is consistent with data showing one-third of voucher households consist of three or more people.[4]

Despite recent increases in HCV funding, demand continues to far exceed the voucher supply. But even when families can access a voucher, many cannot find a suitable housing unit within the 90-day search period HUD generally allows, forcing them to return their unused voucher, which the housing authority then allocates to another wait-listed applicant. Many of these housing searches fail because landlords are unwilling to accept vouchers. HUD's most recent data indicate that 30 percent of voucher recipients return their unused vouchers because they cannot find a suitable unit, though this figure varies significantly across housing agencies and markets. According to the most recent data, "9 out of 10 families successfully used their vouchers in about 12 percent of agencies, while at the other extreme only about half of families issued vouchers were successful in 15 percent of agencies" (CBPP 2019, 2). And recent rental price increases have likely exacerbated this issue, as local rents have often increased more than FMRs allow. Moreover, to get a rent increase approved, the landlord has to give the public housing authority a 60- or 90-day notice and get written permission from the housing authority before the rent change can go into effect.[5] There is regulatory risk as well, as some public housing authorities refuse to approve rent increases.[6]

Several states, counties, and cities have enacted source of income laws that prohibit landlords from refusing to rent to voucher holders solely because of their source of income.[7] Evidence of the effectiveness of these laws does show lower voucher denial rates in jurisdictions with these protections, but the evidence is mixed as to whether these rules lead to voucher holders accessing homes in areas with low poverty rates.

The HCV program's success depends on landlords being willing to rent to voucher holders. Landlord acceptance in turn determines where those units are located and whether the program can place more voucher holders outside areas of concentrated poverty. Even with source of income laws in effect, many landlords are still reluctant to rent to voucher holders. And a recent HUD study indicates that the number of landlords participating in this program is declining.[8]

Cunningham and coauthors (2018) found that voucher denial rates were high but varied widely by jurisdiction. In the five jurisdictions the researchers examined, they found denial rates were highest in Fort Worth (78 percent) and Los Angeles (76 percent) and only somewhat lower in Philadelphia (67 percent). Denial rates were substantially lower in Newark (31 percent) and Washington, DC (15 percent). In addition, across the five sites, another 9 to 15 percent of the landlords said vouchers were accepted under certain conditions or were unsure.

In another study, Garboden and coauthors (2018) looked at landlords' preferences for and against vouchers. They interviewed landlords in Baltimore, Dallas, and Cleveland and found that the landlords who accepted vouchers liked the reliability of the rental payments; low-income tenants often have trouble paying, and with the voucher, most of the rent is paid automatically each month.

Across the country, the average gross rent of a voucher-occupied housing unit in the fourth quarter of 2020 was $1,172: HUD paid two-thirds ($785), and tenants paid one-third ($387). Twenty percent of voucher recipients paid out-of-pocket rent costs of $200 or less (CBPP 2019). Because voucher holders have substantially lower out-of-pocket rent burdens than similarly situated non–voucher households, voucher holders proved more resilient during the COVID-19 pandemic, with fewer falling behind and missing rent payments.[9] Tenant-based rental assistance is a critical safety net for low-income households and can be a shock absorber to property owners who operate in the bottom half of the rental market.

Why Are Some Landlords Reluctant to Accept Vouchers?

Even though most of the rent is government guaranteed, many landlords do not want to rent to voucher recipients. The major reasons were bureaucratic. Units in the HCV program must pass HUD inspections each year or when a new tenant moves in. Almost half the landlords in Baltimore and Cleveland in Garboden and coauthors' (2018) study said this was a major discouragement from program participation, and the numbers were lower in Dallas, which has a newer housing stock.

The inspection process creates friction and delays for landlords because of the time it takes to schedule and complete the inspection and make any repairs, and the landlord has to keep the unit vacant in the meantime. Anecdotal evidence shows that the time from rental application to move-in can take four to six weeks for units rented to voucher recipients compared with just two weeks for households without vouchers. This means the average landlord forgoes at least two weeks of rental income when renting to a voucher recipient compared with a non–voucher recipient.

A bigger source of discouragement was the inconsistency and unpredictability of outcomes. Garboden and coauthors (2018, 31) noted, "If landlords can predict what's coming and fix things in anticipation, they can accept the inspection as a cost of doing business. When they feel that inspectors will identify minor issues while simultaneously missing larger ones, they lose faith in the process." Similarly, for landlords who once accepted vouchers and later stopped accepting them, half cited inspection issues, and another 40 percent cited the paperwork and program bureaucracy. Our discussions with institutional landlords confirm that inspectors from a given local public housing authority can deviate from the prescribed HUD standards, resulting in uncertainty for the landlord.[10]

Our discussions with landlords who accept vouchers indicate that the costs mount, from the cost of keeping the unit vacant and the unpredictability of the inspection to the HUD FMR analysis (for single-family homes). It is easy for landlords to compare the rent they are charging with the maximum rent for the area under the voucher program and to make sure they are within the guidelines, but there is a further overlay. After inspection, the unit must pass a "rent reasonableness" test assessed by the local housing authority that compares the rent with the HUD-approved FMR for that unit and with the rent for similar unsubsidized rental units in the same area (HUD, n.d.-b). Some homes that meet the FMR test fail the rent reasonableness test and become ineligible for voucher use unless the landlord willingly lowers the asking rent. The frustration is that the landlord has kept the unit vacant, passed the inspection, and still cannot rent to a tenant with a voucher.

A more recent HUD-sponsored study finds that negative experiences with the program can discourage landlord participation and that such experiences "typically involve some combination of frustration with the bureaucratic elements of the program, costs associated with inspections, unpredictability, and conflicts with tenants that were difficult to address because of the constraints related to the program."[11]

The consequences are major: 30 percent of voucher recipients cannot find housing within the required period and end up returning the voucher, and 50 percent of voucher holders end up living in areas of concentrated poverty, which affects the renters and the well-being of their children as adults (Fannie Mae 2022a).

Given the financial costs and uncertainty associated with vouchers, how can we encourage more landlords to accept them? The most obvious course of action would be to provide GSE financing or, if financing is already available, provide favorable financing for the purchase or construction of rental units or for refinancing of existing loans, provided the landlord will accept and market to voucher holders or has HCV renters. Favorable financing would offer landlords a financial advantage, partially offsetting some of the costs of renting to voucher holders. This is hardly a far-fetched idea, as Freddie Mac is exploring this possibility in its Equitable Housing Finance Plan, released in June 2022 (Freddie Mac 2022, 51):

> Freddie Mac will research the usage and efficacy of Housing Choice Vouchers (HCV) nationwide in providing access to opportunity using geographic, policy and data analysis. We will publish a paper that analyzes the severity and prevalence of factors that inhibit use of HCVs, especially in

> high opportunity areas, and investigates where vouchers can and cannot likely support rent levels.
>
> After publication, we intend to engage with market stakeholders including HUD, housing authorities and multifamily owners and property managers to consider strategies that could increase the efficacy and acceptance of HCVs and how these strategies could be advanced through Freddie Mac loan offerings.

Let us consider three possibilities for leveraging financing:

- single-family rental (SFR) financing for institutional investors for properties with voucher recipients or potential voucher recipients
- more favorable accessory dwelling unit (ADU) construction financing if the unit will be rented to a voucher recipient
- more favorable multifamily financing for properties with voucher renters

Single-Family Rental Financing for Investors on Properties Accepting Voucher Holders

The GSEs do not currently provide financing for institutional purchases of SFR properties. Through their respective single-family business lines, Fannie Mae provides individual investors financing for up to 10 rental properties, and Freddie Mac provides individual investors financing for up to 6 rental properties.

The Federal Housing Finance Agency (FHFA) conducted a pilot program in 2017 and 2018 to provide financing to SFR operators: Fannie Mae provided $1 billion in financing for Invitation Homes, the largest SFR institutional investor, in early 2017 (Goodman and Kaul 2017), and Freddie Mac financed several small and midtier SFR property managers, as well as affordable units from two large institutional operators, for $1.3 billion (Freddie Mac Multifamily, n.d.). The first Freddie Mac securitization launched in December 2017 and required that 75 percent of the units be affordable to families earning 80 percent of the AMI. In August 2018, the FHFA ended the pilot program, arguing that financing is available for larger investors, and although there may be a market for midsize investors with affordable rentals, the FHFA is not ready to commit to that:[12]

> While the Enterprises' single-family investment home rental programs have played an important role for small investors, the market for larger investors has performed successfully without Enterprise participation. As a result, FHFA is directing the Enterprises to conclude their single-family rental pilot programs…. FHFA recognizes the potential need for long-term financing for mid-size investors that own affordable single-family rental assets, but believes it is premature to

allow the Enterprises to enter this portion of the single-family rental market because the effects of their participation on rent growth, long-term affordability, for-sale assets, and homeownership is insufficiently understood without significantly more extensive research and analysis.

Single-family rental is an important part of the rental market. Census data indicate that 31.1 percent of renters live in one-unit single-family detached homes or manufactured homes, and 6.2 percent live in one-unit single-family attached units. The remaining 62.7 percent live in properties with two or more units. But relative to renters overall, voucher recipients are underrepresented in one-unit single-family attached and detached homes. An estimated 24.8 percent of voucher holders live in single-family detached homes or manufactured homes, and another 4.7 percent live in single-family attached properties (Eggers 2021). The remaining 70.5 percent live in properties with two or more units, with half concentrated in two-to-four-unit and five-to-nine-unit properties (table 1).

TABLE 1

Renter and Voucher Holder Distribution, by Structure Type

Property type	Number of renter households	Share of renters	Share of voucher holders	Median monthly housing costs	Median monthly contract rent
1 unit detached + MH + other	13,692,739	31.1%	24.8%	$1,162	$935
1 unit attached	2,738,874	6.2%	4.7%	$1,305	$1,100
2 to 4 units	7,625,839	17.3%	20.0%	$952	$820
5 to 9 units	5,067,913	11.5%	15.5%	$966	$856
10 to 19 units	4,859,233	11.0%	9.9%	$1,091	$980
20 to 49 units	3,921,550	8.9%	10.3%	$1,155	$1,050
50 or more units	6,171,842	14.0%	14.9%	$1,228	$1,152

Sources: 2019 data from the American Community Survey, the US Department of Housing and Urban Development's Office of Policy Development and Research, and the American Housing Survey.

Notes: MH = manufactured housing. The difference between median monthly housing costs and contract rent reflects the costs of utilities (e.g., electricity, water, gas, fuel oil or other fuel, and waste collection, as paid by the renter) and renters' insurance.

Underrepresentation of voucher holders in single-family homes reflects two factors.

First, single-family rental suffers from implicit bias in the way HUD calculates its fair market rent. HUD estimates for FMRs are based on the 40th percentile for gross rents for standard-quality units in an area. The FMRs apply by number of bedrooms (zero to four), but there is no differentiation by structure type. If a three-bedroom single-family dwelling is larger than a three-bedroom unit in a multifamily building, there would be no accommodation for this. And single-family homes are often larger and rent for more than other types of structures. The 2019 American Housing Survey shows that the median single-family detached rental unit costs $1,162 per month, the median single-family attached unit costs $1,305 per month, and the median units in a two-to-four-unit and five-to-nine-unit property are $952 and $966, respectively (table 1).

Single-family rental homes owned by institutional investors are typically newer and have rents higher than single-family homes owned by noninstitutional landlords. In fact, using a well-established source for market rental estimates, we estimate that only 23.6 percent of homes owned by institutional investors rent for below the HUD FMR for that area; the remaining 76.4 percent are above the FMR.

Second, most single-family landlords are mom-and-pop investors (Goodman and Kaul 2017). Although these units have lower rents than single-family rental homes owned by institutional investors, small landlords may not find it worth their effort to familiarize themselves with the Housing Choice Voucher program for just one unit. Moreover, the cost of holding the unit vacant for a HUD inspection may affect them more than it would affect midsize or large investors. HUD data indicate that 59 percent of SFR units are owned by individual investors, versus 14.5 percent of other rental units in multifamily structures, though ownership by a trustee, limited liability corporation, or partnership does not mean institutional ownership.

Given these factors, we believe there is a strong case for the GSEs to expand their SFR financing to institutional investors for properties that house voucher recipients and provide certain renter protections. Yes, institutional investors are a tiny slice of the overall SFR market, owning just over 400,000 homes. But even though a slightly smaller share of these properties is likely to qualify because of HUD's FMR maximums, institutional investors have more of an incentive to adopt the HCV program, as they have bigger portfolios. Their size enables them to better absorb the costs of longer vacancy and turnover times than on HCV units, especially given the certainty of receiving monthly rent. In fact, conversations with landlords indicate that HCV renters tend to exhibit lower delinquency rates compared with renters generally. Institutional single-family rentals are also typically located in high-opportunity neighborhoods with better job opportunities and schools. This would be a real advantage for voucher households at the bottom of the income spectrum.

How Would an SFR Operator Qualify for GSE Financing on Covered Properties?

The GSEs do not have to offer favorable financing to institutional SFR landlords compared with individual SFR landlords or with GSE multifamily owner-operators. The GSE guarantee would provide the institutional SFR operator a lower cost of funds compared with what they can get in the capital markets. A home owned by an institutional SFR owner would be eligible for GSE financing if

- it is occupied by a voucher recipient or
- the landlord demonstrates a good-faith effort to rent to voucher recipients; if the effort is not successful, the property is rented to a household earning below a threshold (e.g., 80 percent of the AMI), and the rent is below the prevailing FMR operable in that area.[13]

These restrictions would address one of the biggest criticisms of the GSEs' earlier SFR pilots: that these programs should not be used to finance upper-income rental homes, as ample private financing exists. There should also be consumer protections. First, all borrowers' on-time rental payments must be reported to the major credit bureaus. Freddie Mac mentions this explicitly in its Equitable Housing Finance Plan. Second, tenants need anti-eviction protections, such as standards that require the tenant be evicted only for good cause. Moreover, in areas with rapidly rising home prices, market rents can rise faster than the HUD FMR. Protections should be put in place to make sure tenants in good standing are not subject to abusive or excessive fees (e.g., for amenities or utilities) to recoup the difference or forcing renters into delinquency and eventual eviction.

How Would the Financing Work?

The SFR deals would closely resemble the pilots the GSEs did in 2017 and 2018. These pilots took two forms:

- providing a credit wrap on securitizations of loans issued by SFR lenders; that is, the GSEs guarantee to investors that the senior tranche of the securitization done by others is money-good
- directly funding loans from designated seller/servicers; in this case, the GSE does the securitization, guaranteeing the top tranche

The first Freddie Mac securitization with CoreVest took the first form,[14] and the Fannie Mae securitization on behalf of Invitation Homes provided the funding for a Wells Fargo loan (Goodman and Kaul 2017). In both cases, the GSEs have well-established single-family and multifamily risk-sharing programs that transfer most credit risk to the private sector, thus reducing the risk posed to taxpayers.

It might be suitable for the GSEs to offer both options (i.e., guarantor wrap and cash funding). This way, they can appeal to small and large institutional SFR lenders to ensure a level playing field. In addition, for smaller owner-operators, the GSE can do either smaller securitizations or pool loans from several smaller owner-operators.

These deals would need to allow for collateral substitution. That is, if a home is sold or no longer meets the GSE financing criteria, the securitization would no longer cover the home. But the SFR operator could substitute similar, qualifying collateral (i.e., another unit that meets GSE financing criteria for this program) for a specified period. This is currently the case in non-agency securitizations of SFR properties; the amount of substitutions is capped, and a cap would apply to these securitizations as well.

As currently structured, these vouchers would not automatically count toward the GSEs' mission-driven requirements. The GSEs' 2022 scorecard requires that at least 50 percent of the GSE multifamily loan purchases be mission driven. Because SFR securitization would be done using the multifamily infrastructure, it would be subject to these rules. But housing choice vouchers count toward being mission driven only if there is "a contract, a regulatory agreement, or a recorded use restriction"; that is, the GSE vouchers would count only with long-term affordability restrictions. But they might count under the market rent restrictions if the rents are low enough. The units must be affordable to a family earning up to 80 percent of the AMI (or up to 100 percent of the AMI in cost-burdened markets or 120 percent of the AMI in very cost–burdened markets) (FHFA 2021).[15] We strongly recommend these provisions be changed. Otherwise, the GSEs are essentially being penalized for providing critical financing to this sector of the market.

Favorable ADU Construction Financing for Units Rented to Voucher Recipients

Another way voucher acceptance could be expanded is by providing more favorable financing to owners of single-family homes who add an accessory dwelling unit on their property and rent it to a voucher holder. ADUs are small, second housing units on the same grounds as a single-family home. They include backyard cottages, basement apartments, and garage conversions. Currently, 1.4 million of the 85.6 million detached single-family homes in the US have ADUs (Khater and Yao 2020).

Even though several states and localities[16] have made it easier for homeowners to build ADUs to combat supply shortages and even though permit requests have boomed in many of these places, financing ADU construction is challenging. Lenders typically do not consider future rental income the ADU will generate as part of underwriting. In addition, because less than 2 percent of detached single-family homes in the US have ADUs, appraisal "comps" (i.e., comparable units) for ADU valuation or rental analysis are hard to find. Tapping home equity to finance ADUs runs into the loan-to-value (LTV) ratio cap, which is set at 80 percent and does not account for the value of the improvement. Consequently, few lenders finance ADU construction, and when they do, it is often a short-term portfolio loan with a 12-month term and is originated to highly creditworthy borrowers. The 12-month term allows the homeowner to complete the construction, at the end of which the loan must either be refinanced through another lender or paid off.

Freddie Mac recently announced positive changes to its ADU financing program to address these issues. Among other changes, Freddie Mac will now permit consideration of ADU rental income up to 30 percent of the borrower's total monthly income, though it will require rental appraisal based on at least three comparable units, one of which should be an ADU. But more could be done to improve access to financing.

Solving for a Lack of Comparable ADUs

ADUs are rare and necessitate a lending framework that is less dependent on comparable units. If there are no ADUs in the neighborhood, it would be impossible to obtain comps for valuation or rental analysis. For valuation, the GSEs could consider waiving appraisals for properties with low mark-to-market loan-to-value (MTMLTV) ratios at the time of ADU loan application. For instance, if the MTMLTV ratio is 60 percent on a home valued at $800,000, and the estimated cost of ADU construction is $100,000, the postimprovement LTV ratio would be $580,000 / $900,000, or 65 percent, assuming cost-based pricing. If the ADU value turned out to be only $50,000, the post improvement LTV ratio would still be $580,000 / $850,000, or 68 percent, a conservative number. Given substantial home price appreciation over the past several years, a large portion of the owner-occupied housing stock has low LTV ratios.

We also propose that the GSEs leverage their construction-to-permanent lending framework for ADUs. Under construction-to-permanent lending, lenders originate interim financing to borrowers to cover construction costs. Although the interim loan is not eligible for sale to the GSEs, at the end of construction and subject to meeting property and borrower eligibility requirements, the loan becomes eligible for sale to the GSEs and the interim loan is converted to permanent financing. Manufactured homes already use this financing. Consumers purchase and install manufactured homes using interim financing, which is converted to permanent GSE financing after setup is complete.

ADU financing that leverages construction-to-permanent lending would work in a manner similar to that for manufactured homes. The lender would disburse the interim loan to pay for ADU construction in accordance with GSE guidelines. The homeowner would have the option to produce a signed lease in lieu of rental comps at the time of conversion to permanent financing. This would allow the loan to become eligible for GSE financing without a rental comp. This would work well in metropolitan areas where the rental housing shortage is especially acute, as landlords would find it easier to find tenants.

We would also propose to link ADU financing with HCVs to make both programs work better. Housing choice vouchers represent a stable source of rental income for landlords. This is a positive underwriting factor that greatly reduces the risk of nonpayment of rent. Consequently, homeowners who add ADUs and rent them to voucher recipients present lower risk to the GSEs. Given the lower risk, the GSEs could consider waiving the requirement that one of the rental comps be an ADU. This would remove a big hurdle for homeowners seeking ADU financing and give them an incentive to rent to voucher holders, thus expanding voucher acceptance.

Lastly, the GSEs could also consider providing credits for closing costs or loan-level pricing adjustments to encourage more homeowners to build ADUs and rent them to voucher recipients, creating a win-win. There should, however, be a requirement that the unit be rented to the voucher recipient for at least 24 months, which should not significantly affect take-up. Within the HCV program, 85 percent of voucher recipients stayed at least one year, and 78 percent stayed at least two years.[17] In contrast, US Census Bureau data indicate that 21 percent of renters moved each year, on average, from 2015 to 2019.

The notion of linking favorable ADU financing with housing choice vouchers is not new, but it has never been implemented at scale. A Los Angeles–based program run by LA Más and other nonprofits creates cash-out refinance loans that factor in the ADU’s future value and expected rental income generated through renting to voucher holders when determining borrower eligibility.[18] The City of Pasadena has offered low-cost financing to borrowers who want to create an ADU and rent it to a voucher holder for seven years.[19]

Favorable Multifamily Financing for Properties Accepting Voucher Holders

In April 2022, Fannie Mae introduced a pilot program through which lower financing costs were offered to property owners who accepted federal housing choice vouchers in North Carolina and Texas. This Expanded Housing Choice Initiative is a 12-month pilot.[20] This multifamily financing is done through Fannie Mae's normal Delegated Underwriting and Servicing platform. In addition to being located in North Carolina or Texas, to qualify for the financing, the rent for at least 20 percent of the units, with a representative unit mix, must be at or below the applicable HUD FMR or Small Area Fair Market Rent. In addition, the landlord must not be otherwise required to accept vouchers (buildings with low-income housing tax credits require landlords to accept vouchers) (Fannie Mae 2022b).

The reduced financing costs that the borrower can receive under this program have not been made public, and neither has the take-up rate. We understand that varying pricing incentives are being tested in the pilot to determine the optimum discount needed to encourage participation. Is 20 percent the right threshold for the property to qualify? We suggest making the pricing and take-up information public, while soliciting feedback from program participants, and adjusting the program such that it can be rolled out more broadly in all 50 states plus Washington, DC. Freddie Mac could offer a similar product.

Conclusion

Fannie Mae's multifamily pilot and Freddie Mac's Equitable Housing Finance Plan recognize that many landlords are reluctant to accept housing choice vouchers and that the GSEs could encourage landlords to accept these vouchers. In this report, we have offered steps that can be implemented to make this encouragement a reality. This includes allowing the GSEs to finance securitizations by institutional single-family operators that rent to voucher holders where no GSE financing is currently available.

In the other two areas, namely ADUs and multifamily housing, the GSEs already provide financing. The "encouragement" would take the form of flexible program guidelines or more favorable financing terms. We suggest allowing for more favorable and easier financing to homeowners who want to add an ADU and agree to rent to voucher recipients. With proper incentives, this could increase the rental housing supply and expand voucher acceptance. Lastly, allowing for more favorable financing on multifamily properties with a sizeable share of HCV-eligible units would encourage more multifamily operators to accept vouchers.

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13. This could be done by showing that the SFR operator has more than a certain minimum share of HCV renters or that the units have been registered with the local housing finance agency.
14. "How GSEs Entered the SFR Market and What It Means for Investors," CoreVest, April 4, 2018, https://www.corevestfinance.com/gse-and-the-sfr-market/.
15. The HUD FMR will often be above what a family earning 80 percent of the AMI can afford. For example, in Atlanta, 80 percent of the AMI for a family of four is $62,080, and 30 percent of $62,080 is $18,624 a year, or $1,552 a month, to stay within the 30 percent affordability standard. The FMR for a three-bedroom home in the Atlanta metropolitan area is $1,951, so if a unit rents at the FMR, it would be well above what is affordable to a family earning 80 percent of the AMI.

[16] California and Oregon now permit accessory dwelling units in single-family zones as a matter of right. Minneapolis, Minnesota; Seattle, Washington; Austin, Texas; Burlington, Vermont; and other cities allow accessory dwelling units in single-family zones.

[17] Resident Characteristic Report for the period April 1, 2021, through July 31, 2022. See “Resident Characteristics Report (RCR),” US Department of Housing and Urban Development.

[18] See Shelby King, “Affordable ADUs: How It’s Being Done,” Shelterforce, May 10, 2022, https://shelterforce.org/2022/05/10/affordable-adus-how-its-being-done/.

[19] Pasadena Office of the City Manager, “City of Pasadena Announces Second Unit ADU Program,” news release, September 2, 2020, https://www.cityofpasadena.net/city-manager/news/city-of-pasadena-announces-second-unit-adu-program/.

[20] Fannie Mae, “Fannie Mae Introduces Expanded Housing Choice Initiative to Increase Access to Affordable Housing for Voucher Holders,” press release, April 4, 2022, https://www.fanniemae.com/newsroom/fannie-mae-news/expanded-housing-choice-initiative.

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