

**TESTIMONY OF DONALD L. BEEBOUT**

**TO THE SUBCOMMITTEE**  
**ON HOUSING AND COMMUNITY OPPORTUNITY**

**HEARING ON WEDNESDAY, OCTOBER 16, 2007, 10:00  
A.M.**

Madam Chairperson and members of the subcommittee:

My name is Donald Beebout. I am the Vice President of Showe Management Corporation, based in Columbus, Ohio. I thank you for this opportunity to testify about the late HAP payment problem.

I have over 34 years' experience in the affordable housing industry, 7 years as a HUD employee and 27 years with Showe Management Corporation.

**Question 1) In what way does your company use the project-based rental assistance program?**

Answer 1) Our company, Showe Management Corporation, owns and manages 5,000 units in Ohio, Texas, New Mexico and Hawaii. Our Section 8 project-based inventory is 2,521 units in 30 properties.

**Question 2) What is your understanding of the reasons behind why the Department has been unable to make HAPs in a timely fashion? How does the current situation with late HAPs compare to prior years in which HAPs were late? When were you informed about this year's late HAP situation? In your opinion, were you informed in a timely fashion?**

Answer 2a) My understanding of the reasons why the Department has been unable to make HAP payments in a timely fashion are as follows:

- a) The Department has had shortfalls in funding.
- b) The shortfalls have resulted in underfunding of properties' HAP contracts, and in some cases, short-term contracts (contracts less than 1 year.)
- c) It takes the Department approximately 6 to 8 weeks to process contract amendments or a new contract.

Answer 2b) Comparing current situation to prior late payments: In the past, delays were usually at contract renewals, and rarely due to midcontract shortfalls. The shortfalls and delays usually involved one or two properties. The July and August delays involved 18 properties and approximately \$1,260,000 in HAP payments.

Answer 2c) We were informed about some of the late payments a few days prior to the dates that they are usually received. (The payments are usually received between the 1<sup>st</sup> and 5<sup>th</sup> day of each month.) For some properties, we were **never** informed about the delays. After inquiring with the Department we were informed that most late payments would be received by early August. We actually received most of the late payments in mid- to late August.

Answer 2d) In my opinion, we were **not** informed in a timely fashion.

**Question 3)      How has your company been impacted by the late HAPs?**

Answer 3)      The late payments have cost us valued time and money. Some examples are as follows:

- a)      Staff time in preparing Reserve for Replacement requests
- b)      Loss of interest income on Reserve for Replacement investments
- c)      Penalties on early withdrawal of Reserve for Replacement investments
- d)      Loss of principal on Treasury Bills/Notes due to sale prior to maturity
- e)      Additional investment fees and staff time incurred in re-investing the Reserve for Replacement funds after the late HAP funds were received
- f)      Interest cost incurred on funds advanced by the Management Company or Owner while waiting on Reserve for Replacement withdrawal
- g)      Interest costs incurred for advancing funds for utility reimbursement checks for residents, so that their utilities were not disconnected
- h)      Late payments on Section 202 properties; the mortgage payments are deducted from the HAP payments, so the properties incurred late fees
- i)      If there is a receivable from the Department and a loan from another entity due to late HAP payments on the year-end audit of financial statements, we sometimes receive letters from the Department threatening us with sanctions for borrowing money without the Department's permission and questioning why we are behind in our HAP payments. This not only adds insult to injury, it wastes time and money by creating additional correspondence.

**Question 4) How have late HAPs changed your perception of or confidence in the project-based rental assistance program?**

Answer 4) My confidence has been dwindling for some time, as the late HAP payments problems have become chronic, where in past they were just once or twice a year.

**Question 5) In your opinion, how will late HAPs impact the future stability of the project-based rental assistance program, including any impact on future investment by lenders in project-based properties?**

Answer 5) There is already a bad perception of Section 8 housing by lenders, insurance companies and the general public. Companies like Showe Management Corporation have worked hard to change this perception. Without assurances that these properties will be fully funded and payments made on a timely basis, there is no doubt that this will have a negative impact on lenders and investors. I personally would not, nor would any principal in our company, invest in a Section 8 property until I could be assured that HAP contracts are fully funded and HAP payments are made on time.

**Question 6) In your opinion, how should the Department resolve the current funding situation? Is “short-funding” contracts a feasible alternative to fully funding them for 12 months?**

Answer 6a) In order to resolve the current funding situation, the Department should do the following:

- 1) Provide Congress with accurate estimates of funding needs. In addition, Congress and the administration should fully fund the contract needs. It is my understanding that the administration and the Senate has requested \$5.5 billion and the House \$6.2 billion. The Department has acknowledged that the funding gap for 2008 is approximately \$2 billion. The **actual need**, according to the Department, is **\$8 billion**.
- 2) The Department should be required to pay Owners a penalty, plus interest, for late payments. If I am late paying my federal taxes, I am charged a penalty plus interest. If I am late paying on a HUD-insured mortgage, I am charged a late fee. There must be some penalty assessed, or the problem will not get fixed.
- 3) HUD needs to use modern technology for the renewal and HAP payment process. If our company’s payment process and contract renewal process was 6 to 8 weeks, we would be unable to get anyone to provide goods or services to the company, and we would be unable to obtain any credit due to a poor credit rating.
- 4) HUD and/or Congress should create a task force, made up of HUD employees and industry professionals, to provide recommendations on how to streamline the payment process. The task force should provide recommendations on how to reduce the cost of the Section 8 program.

Answer 6b) In my opinion, short-funding contracts is **not** a feasible alternative to fully funding them for 12 months. The short-funding of contracts doubles the amount paperwork and in many cases increases the number of delays because of the 6 to 8 week processing time for renewals and new contracts. In addition, short-funding of HAP renewals causes uncertainty for both Owners and residents. Congress should consider appropriating funds for the entire contract term. This will reduce time and paperwork, and properties will be able to retain Owner participation and allow for more favorable financing. Most original HAP contracts **were** funded for the entire contract period.