

# Now & Next

## Affordable Housing Alert

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### **Worried about Section 8 funding? Recent HUD guidance lists “cost-savings” options for PHAs facing HCV/PBV funding shortfalls**

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A new HUD notice lists various measures public housing agencies (PHAs) can take in the Housing Choice Voucher (HCV) and Project-Based Voucher (PBV) programs to reduce HAP expenses.



#### **What's the impact?**

- The Notice suggests several cost-savings measures PHAs can take to maintain their voucher programs and protect households currently utilizing voucher assistance.
- PHAs may terminate PBV HAP Contracts but only as a last resort after all other cost-savings measures are taken.
- PHAs may take measures to limit rents, stop issuing new vouchers, or stop entering into new PBV HAP Contracts.

On November 17, 2025, HUD issued PIH Notice 2025-28, “Cost-Savings Measures in the Housing Choice Voucher (HCV) and Project-Based Voucher (PBV) Programs” (the Notice). As rent costs have risen and federal funding for the Section 8 voucher program has grown tighter, increasing

numbers of public housing authorities (PHAs) are facing potential funding shortfalls in their HCV and PBV programs—meaning they may not have enough funding to increase rents, issue new vouchers, or potentially even to meet existing program funding obligations. The Notice describes measures PHAs may take to cut program costs.

This is not the first time in the Section 8 Voucher Program’s history that funding shortfalls have occurred. This Notice updates previous guidance dating back to 2011. Several of the cost-savings measures articulated in the Notice are similar to those proposed in the past; a few are new.

The Notice lists a number of potential measures PHAs can take, organized into three categories:

- / Category 1: Standard Regulatory Compliance and Sound Program Management Practices
- / Category 2: Additional Actions PHAs May Consider to Lower Program Costs
- / Category 3: Further Cost-Savings Actions that Require HUD Approval

## **Category 1: Standard Regulatory Compliance and Sound Program Management Practices**

Cost-savings measures in Category 1 are mandatory program requirements, and the Notice reminds PHAs that they must follow these program rules. Some of these measures include:

- / **Reviewing payment standards**—PHAs must review HCV payment standards to remain within the basic program range of 90–110% of the applicable fair market rents (FMR). Contrary to common belief, if FMRs change, unless the amount of the payment standard falls outside of the basic range, the PHA is not obligated to adjust the dollar amount of its subsidy payments. If current payment standards fall below the basic range and the PHA does not wish to increase them, the PHA must request prior HUD approval. If a PHA is using a higher “exception” payment standard, the PHA may revert to the normal payment standard without notifying HUD.
- / **Evaluating utility allowances**—PHAs must review utility allowances (UAs) annually and may conduct more frequent reviews to determine whether they exceed the typical cost.
- / **Ensuring rent reasonableness** —PHAs must ensure that owner rents are reasonable compared to those for comparable unassisted units. If a PHA determines that the rent is not reasonable, it may reduce the rent, even before the HAP Contract anniversary date. However, in the PBV program, a PHA may not reduce rents below the initial rents if the PHA agreed to the optional provision imposing this prohibition in the HAP Contract (the “rent floor” provision).

In our experience, PHA’s methods for determining rent reasonableness can often fall short of the guidelines in the regulations and may overlook a specific property’s characteristics, in contrast to the Rent Comparability Study required for Project-Based Rental Assistance (PBRA)

transactions. Therefore, where PHAs pay stricter attention to applying their HCV rent reasonableness process to PBV projects, those stricter applications can be inaccurate. It often becomes necessary for owners to work directly with the PHA to provide more accurate, project-specific, market-comparability information to inform the rent reasonableness determination.

- / **Requesting voluntary rent adjustments**—Where an owner’s rent is reasonable, a PHA can request that the owner agree to a temporary rent reduction or deferral of rent increases to help the PHA avoid the termination of HAP Contracts due to a shortfall. However, the owner does not have to agree to this request, and the Notice specifically states that PHAs may not “freeze” rents or deny rent increases due to insufficient funding when rent increases are requested by the owner, in accordance with the rent setting regulations, and when the requested rent passes the rent reasonableness analysis.
- / **Placing freeze on new PBV HAPs**—Generally, a PHA experiencing a shortfall may not enter into new PBV HAPs, and a PHA may cancel outstanding requests for proposals (RFPs) for new PBV HAPs. However, a PHA is obligated to enter into a PBV HAP if it has already executed an Agreement to Enter into a HAP Contract (AHAP).
- / **Documenting policies in the Administrative Plan**—PHA payment standard and rent-setting policies must be in the PHA’s Section 8 Administrative Plan. For PBV units, the PHA may set policies regarding rent setting that differ from their tenant-based voucher payment standard, if such policies are set forth in its Administrative Plan. PHAs can also amend these policies in their Administrative Plan prospectively for future PBV HAP Contracts; however, such policy changes in the Administrative Plan cannot reduce rents in existing PBV HAP Contracts.

## Category 2: Additional Actions PHAs May Consider to Lower Program Costs

Category 2 are voluntary cost-savings measures. Some of these measures include:

- / **Stop issuing vouchers**—PHAs may reduce or stop issuing new vouchers. However, PHAs must continue to make every reasonable effort to fill vacant PBV units.
- / **Revise occupancy standards and voucher size**—PHAs may revise their subsidy standards regarding the appropriate voucher and unit size for various family compositions. If a PHA’s subsidy standards exceed HUD’s minimum standards, the PHA may reduce its subsidy standards. HUD standards require one bedroom or a living/sleeping room per two people.
- / **Terminate HAP as a last resort**—For PBV HAPs, the Notice specifically states that PHAs must first attempt other cost-savings measures and terminate a PBV HAP only as a last resort.

## Category 3: Further Cost-Savings Actions that Require HUD Approval

Category 3 are potential cost-savings measures that PHA may be able to take, but only with HUD approval. HUD discourages these measures and puts limits on their use. Some of these measures include:

- / **Rescinding vouchers issued to applicants**—In certain circumstances, PHAs may work with the HUD field office to consider pulling back vouchers that have already been issued to applicants who have not yet leased up their voucher.
- / **Reducing a payment standard during the HAP Contract term**—PHAs may request a regulatory waiver for good cause from HUD to apply payment standard reductions for current households, rather than only applying the reduction only prospectively to new households or new leases.
- / **Reducing the payment standard below 90% of FMR**—In some instances, PHAs may request HUD approval to reduce their payment standards below the basic range—below 90% of FMR.

## Terminating HAP Contracts

The Notice also sets parameters for when a PHA is permitted to terminate HAP Contracts, both tenant-based and PBV contracts. Termination is a last resort after all other cost-savings measures have been attempted.

For PBV HAPs, the PHA's Administrative Plan must set forth its policies for terminating a HAP Contract due to insufficient funding. Termination is permitted only if:

- / The PHA lacks sufficient funding to continue making HAP payments for all voucher units currently under a HAP Contract.
- / The PHA has taken cost-savings measures specified by HUD.
- / The PHA notifies HUD of its determination and provides information requested by HUD.
- / HUD agrees with the PHA's determination and notifies the PHA that it may terminate HAP Contracts.

These requirements were established by the Housing Opportunity Through Modernization Act (HOTMA) and in the regulations at 24 CFR 983.206(c)(1).

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