records will be matched to determine whether they are delinquent or in default on a federal debt. HUD and VA will also publish notices concerning routine use disclosures in the Federal Register to inform individuals that a computer match may be performed to determine a loan applicant’s credit status with the federal government.

Categories of Records/Individuals Involved: The debtor records include these data elements: SSN, claim number, program code, and indication of indebtedness. Categories of records include: Records of claims and defaults, repayment agreements, credit reports, financial statements, and records of foreclosures. Categories of individuals include: Former mortgagors and purchasers of HUD-owned and home improvement loan debtors who are delinquent or default on their loans or who have had their partial claim subordinate mortgage called due and payable and it has not been repaid in full.

Period of the Match: Matching is expected to begin at least 40 days from the date copies of the signed (by both HUD and VA’s Data Integrity Boards) computer matching agreement are sent to both Houses of Congress or at least 30 days from the date this notice is published in the Federal Register, which ever is later, providing no comments are received which would result in a contrary determination. The matching program will be in effect and continue for 18 months with an option to renew the agreement for 12 additional months unless one of the parties to the agreement advises the other in writing to terminate or modify the agreement.


Kevin R. Cooke,
Deputy Chief Information Officer.

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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

[Docket No. FR–5466–N–01]

Request for Comments on Trend Factor Methodology Used in the Calculation of Fair Market Rents

AGENCY: Office of the Assistant Secretary for Policy Development and Research, HUD.

ACTION: Request for Public Comments on the methodology used to calculate the trend factor component of the Fair Market Rent estimates.

SUMMARY: Section 8(c)(1) of the United States Housing Act of 1937 (USHA) requires the Secretary to publish FMRs periodically, but not less than annually, for effect on October 1 of each year. Today’s notice requests public comment regarding the manner in which HUD calculates the trend factor used in the Fair Market Rent (FMR) estimates to meet the statutory requirement that FMRs be “trended so the rentals will be current for the year to which they apply”. HUD provides several proposed alternatives to the current trend factor and requests comments on these alternatives as well as suggestions of other ideas.

DATES: Comment Due Date: April 8, 2011.

ADDRESSES: Interested persons are invited to submit comments regarding HUD’s alternative proposals for trending FMRs and/or other ideas for trending FMRs, to the Office of General Counsel, Rules Docket Clerk, Department of Housing and Urban Development, 451 Seventh Street, SW., Room 10276, Washington, DC 20410–0001. Communications must refer to the above docket number and title and should contain the information specified in the “Request for Comments” section. There are two methods for submitting public comments:

1. Submission of Comments by Mail. Comments may be submitted by mail to the Regulations Division, Office of General Counsel, Department of Housing and Urban Development, 451 7th Street, SW., Room 10276, Washington, DC 20410–0500.

2. Electronic Submission of Comments. Interested persons may submit comments electronically through the Federal eRulemaking Portal at http://www.regulations.gov. HUD strongly encourages commenters to submit comments electronically. Electronic submission of comments allows the commenter maximum time to prepare and submit a comment, ensures timely receipt by HUD, and enables HUD to make them immediately available to the public. Comments submitted electronically through the http://www.regulations.gov Web site can be viewed by other commenters and interested members of the public. Commenters should follow the instructions provided on that site to submit comments electronically.

No Facsimile Comments. Facsimile (FAX) comments are not acceptable.

Public Inspection of Public Comments. All properly submitted comments and communications submitted to HUD will be available for public inspection and copying between 8 a.m. and 5 p.m. weekdays at the above address. Due to security measures at the HUD Headquarters building, an advance appointment to review the public comments must be scheduled by calling the Regulations Division at 202–708–3055 (this is not a toll-free number). Individuals with speech or hearing impairments may access this number through TTY by calling the Federal Information Relay Service at 800–877–8339. Copies of all comments submitted are available for inspection and downloading at http://www.regulations.gov.

FOR FURTHER INFORMATION CONTACT: For technical information on the current methodology used to develop FMRs or a listing of all FMRs, please call the HUD USER information line at (800) 245–2691 or access the information on the HUD Web site http://www.huduser.org/portal/datasets/fmr.html. Also at this Web address, HUD maintains detailed on-line documentation systems that catalog each step in the calculation of FMRs for any area of the country selected by the user.


SUPPLEMENTARY INFORMATION:

I. Background

Section 8 of the USHA (42 U.S.C. 1437f) authorizes housing assistance to aid lower-income families in renting safe and decent housing. Housing assistance payments are limited by FMRs established by HUD for different geographic areas. In the Housing Choice Voucher (HCV) program, the FMR is the basis for determining the “payment standard amount” used to calculate the maximum monthly subsidy for an assisted family (see 24 CFR 982.503). In general, the FMR for an area is the amount that would be needed to pay the gross rent (shelter rent plus utilities) of privately owned, decent, and safe rental housing of a modest (non-luxury) nature with suitable amenities. In addition, all rents subsidized under the HCV program must meet reasonable rent standards.

Section 8(c) of the USHA requires the Secretary of HUD to publish FMRs periodically, but not less frequently than annually. Section 8(c) states, in part, as follows:

Proposed fair market rentals for an area shall be published in the Federal Register with reasonable time for public comment and...
shall become effective upon the date of publication in final form in the Federal Register. Each fair market rental in effect under this subsection shall be adjusted to be effective on October 1 of each year to reflect changes, based on the most recent available data trended so the rentals will be current for the year to which they apply, of rents for existing or newly constructed rental dwelling units, as the case may be, of various sizes and types in the market area suitable for occupancy by persons assisted under this section. (Emphasis added)

Equivalent language is repeated in HUD’s regulations at 24 CFR part 888, which also provide that HUD will develop proposed FMRs, publish them for public comment, provide a public comment period of at least 30 days, analyze the comments, and publish final FMRs for effect at the beginning of the fiscal year. (See 24 CFR 888.115.)

The part of the statute that was emphasized is the basis for the application of a trend factor that establishes FMRs at the midpoint of the fiscal year, or to the following April. Because Consumer Price Index (CPI) data series for rent and utilities are used to update FMRs to the end of previous calendar year, the FMRs are trended forward 15 months. For example, the FY 2011 FMRs (75 FR 61254), were published for effect October 1, 2010, use 2009 annual CPI data for rent (of primary residence) and utilities (fuels and utilities). This CPI data brought the FMRs to the end of 2009. HUD trended the FY 2011 FMRs from 2009 year end to April 2011 (15 months) using an annual growth rate of 3.0 percent as the trend factor, applied over the 15-month period. This trend factor represents the average annual rate of growth in gross rents between 1990 and 2000, as measured by the decennial censuses. Prior to the application of the 2000 census data in the FMR estimation process (FY 2005 FMRs), HUD used a trend factor of 2.98 percent based on the average annual rate of growth in gross rent between 1980 and 1990, as measured by these decennial censuses.

II. FMR Estimation Methodology

This section provides a brief overview of how current FMRs are estimated. Documentation systems which completely describe the calculation processes are available for FMRs from FY 2005 through FY 2011 at http://www.huduser.org/portal/datasets/fmr.html. A timeline of the FMR estimation process is shown below: 1

1. Begin with Final 2–Bedroom FMR for Current Fiscal Year.

2. Remove Trending and CPI Updates from this 2 Bedroom FMR, (do not remove ACS Update).

3. Determine Current Year ACS Update Factor and Apply to Value in Step 2.

4. Apply CPI Update Factor to Value in Step 3.

5. Apply National Historical Trend Factor for 15 months (to the Midpoint of the publication Fiscal Year).

A. Base Year Data

FMRs start with base rents estimated with Census 2000 long form survey data. The American Community Survey (ACS) replaces the decennial long-form survey, but with less data collected over a longer period of time. Since FY 2008, FMR base rents are updated using the most recent ACS data available for an area. In large metropolitan areas the 2000 base rents may be replaced rather than updated with rents from the ACS. Random digit dialing (RDD) surveys may also be used to replace 2000 base rents. ACS and RDD rents are compared with the previous year’s FMR updated to the time of survey. If the survey data (from either the ACS or an RDD) is statistically different from the updated rent, the survey data becomes the base year rent.

B. Application of ACS Data

HUD applies ACS survey data according to the type of area (core-based statistical area (CBSA), metropolitan subarea, or nonmetropolitan county), the amount of survey data available, and the reliability of the survey data. HUD uses both one- and three-year ACS tabulations to update rents. Beginning with the FY 2012 FMRs HUD will incorporate the use of five-year ACS data. All areas are updated with the annual change in state or metropolitan one-year standard quality median rents. HUD tests these rent changes for statistical significance before applying them to the appropriate base rent. Any state- or metropolitan-level change that is not statistically significant is not applied. HUD applies this test as a means to minimize fluctuations in rents due to survey error.

HUD uses metropolitan-level rent changes for CBSA areas and subareas that have more than 200 standard quality sample cases in 2007 and 2008. All other areas are updated with state-level rent changes. For subareas, State and CBSA change factors continue to be selected based on which factor brings the subarea rent closer to the CBSA-wide rent. HUD updates subareas that have 200 or more local standard quality survey observations with their local area update factor.

After all areas have been updated with a standard quality median rent change, HUD further evaluates local areas with estimates that reflect more than 200 one-year recent mover cases. If the updated rent is outside the confidence interval of the ACS recent mover estimate, HUD replaces the updated rent with the ACS recent mover rent estimate. In areas without 200 or more one-year ACS recent mover observations, but with 200 or more three-year ACS recent mover observations, HUD uses the three year estimate if it is statistically different from the updated rent based on the standard quality median rent change. This process provides a June rent estimate.

C. Application of CPI

As described above, HUD uses ACS data to update the rents from June of the previous year to June of the year of the ACS data. In the FY 2011 FMRs, 2008 ACS data bring the FMRs forward 12 months from June 2007 to June 2008. HUD uses half of the 2008 (the 2007 to 2008) and all of the 2009 (the 2008 to 2009) change in CPI rent and utilities price index data to update the June 2008 rents to the end of 2009. HUD uses Local CPI data for FMR areas with at least 75 percent of their population within Class A metropolitan areas covered by local CPI data. HUD uses CPI data by Census regions to calculate update factors for FMR areas in Class B and C size metropolitan areas and nonmetropolitan areas without local CPI information.

D. Application of Trend Factor

The national 1990 to 2000 average annual rent increase trend of 3 percent is applied to end-of-2009 rents for 15 months, to the midpoint of the FY 2011 FMRs, or April 2011.

The documentation system that provides area-specific data and computations used to calculate proposed FY 2011 FMRs and FMR area definitions can be found at http://www.huduser.org/portal/datasets/fmr.html.

1 The recent mover estimate from the three year data includes all those who moved in the most recent 24 month period. The 3-year data used for FY 2011 FMRs is 2006–2008. That means that no 2006 survey data are included in this "three-year" recent mover classification and the likelihood of having a valid (with 200 or more sample cases) three-year recent mover rent is lower for these estimates.
III. FMR Trend Factor Issues

In an effort to balance programmatic needs with the desire to have FMRs be an accurate estimate of current market conditions, the following section discusses potential issues with the calculation of the trend factor used in the estimation process. The section poses questions that readers may choose to address in their comments.

Constant Trend Factor. HUD has historically used a trend factor based on the average annual growth in gross rents between the decennial censuses. This trend factor is a constant derived from the measured growth in gross rents over a ten-year period. The growth rate of gross rents measured in this way was little changed at about 3 percent over the two decades of the 1980s and 1990s. While early indications from the ACS suggest that a 10-year average growth rate for gross rents between the 2000 Census and the 2010 one-year ACS is likely again to be close to 3 percent, the comparison between these two surveys is not valid; the surveys have a significant difference in area coverage and error. HUD cannot update the current trend factor using the growth rate between the 2000 and 2010 censuses; the 2010 census does not provide a gross rent value. The ACS was not fully implemented until 2005, so the 2000 ACS test data is not fully comparable to survey results from 2005 and later. Is this a valid concern, or is the gross rent data at the national level good enough to allow such comparisons from 2000 test data or 2000 Census data? Should a growth rate be calculated over a fixed ten-year period, or with the ACS data available annually should the timeframe be allowed to “roll” over the most recent years of available data? Should the period be reduced to five fixed or rolling years, or an even shorter period? Both the shortening of the re-estimation period and the use of rolling years add variation to the trend factor.

A more basic issue is whether HUD should continue to use a constant factor, based on a standard historical time period (e.g., five or ten years). Is a constant factor, that does not contribute additional variation to the FMR estimates from year to year, desirable or should the trend factor be adjusted annually as market conditions change? Which is of more importance for a trend factor, to not affect the FMR estimation, or to move the FMR closer to current market conditions?

Contemporary Trend Factor. A different approach to trending FMRs would use the most current data available as a projection. Based on HUD’s experience and analysis of factors affecting affordable housing gross rents, a contemporary trend factor would be CPI (for rent and utilities) based. The CPI-based trend would make use of more current data that is available on a national, rather than local level. For example, monthly CPI data for all urban consumers is available nationally (as the U.S. City Average) or for the four Census regions (Northeast, Midwest, South and West), with a 6-week lag. The same trend factor based on the CPI for U.S. City Average could be applied to all areas, or the four regional factors CPI factors could be applied. The same rent and utility CPI data that is used on an area basis could be extended on a national basis, to provide more current data, or the CPI covering all products and services could be used (to prevent double counting of the rent and utility data and/or to provide the leading impact of other price changes).

HUD envisions several ways recent CPI data could be used to develop a trend factor. The Bureau of Labor Statistics (BLS) advocates calculating annual changes by showing the change from April of one year to April of the following year to eliminate seasonality issues. HUD would then apply this newly created index to the end of the FMR estimate, which is the previous year, to the midpoint of the next fiscal year, or 15 months. Under this approach, the FMR estimation process would include a double counting of CPI data. CPI data on an area basis (for most metropolitan areas) is used to bring the ACS-updated FMR to the end of the previous year, or 2009 in the case of the FY 2011 FMRs. The trend factor would be developed using April 2010 CPI data (nationally) over April 2009, but all of 2009 CPI data is already included in the FMR. Is this a concern? Should HUD calculate an index showing the change from December of the previous year to April of the current year (to use the most current data available without double counting any data already used), and apply it to the CPI-updated FMR?. Even though this second construct would not count the additional months, HUD would likely use the change as an annual change carrying the FMR forward to April of the next year.

Timeframe Considerations. As noted earlier, current practices and legislative constraints drive the publication and application of FMRs. HUD is required to publish FMRs in the Federal Register, both for comment, and in final form to be effective October 1st, the start of the fiscal year. FMRs shall be based on the most recent available data trended for the year to which they apply, which HUD interprets as the midpoint of the fiscal year or April. Given these constraints, April CPI data, available by mid-May, is the most recent that could possibly be used for FMR estimation. This data is not available by CPI area, except for the three largest metropolitan areas, New York City, Los Angeles, and Chicago. The remaining 24 large metropolitan areas have data collected bimonthly or semiannually. April CPI data could be incorporated into the FMR estimation process with the publication of a Federal Register notice of proposed FMRs likely in early July, providing six weeks to prepare the FMR and review them for publication; however, this is a shorter time period than normal and assumes no delays. Recently, HUD has published proposed FMRs as late as late August, but many commenters have rightly complained that the limited time was not sufficient for them to provide analysis of the new FMRs, so a July publication date, becomes the earliest possible for incorporation of contemporaneous CPI data while also providing the most time possible for comments.

Historically, HUD published proposed FMRs for comment in April or May; however, HUD could only incorporate CPI data through February (only two additional months of data) to publish by early May, assuming the availability of other data sources such as the ACS. HUD could update the final FMR calculations to include more recent CPI data relative to what was available for the proposed FMRs. Following such a procedure could potentially render the proposed FMR publication and public comment meaningless however, as virtually all FMRs could be expected to change between the proposed and final FMRs when new CPI data are introduced.

Reduce Constraints Through Legislative Changes. As an alternative to making changes to the way a trend factor is calculated and applied, or in addition to, HUD could seek legislative changes that reduce the time period over which a trend factor is applied, or eliminate the need for a trend factor altogether. One possible avenue is to eliminate the requirement that HUD publish proposed FMRs for public comment. If HUD did not have to publish proposed FMRs in the Federal Register for comment, then more current data could be used in the final FMR estimation process. As currently proposed for HUD’s FY 2012 budget, FMRs shall no longer be published in proposed form for comment. The proposed legislation establishes a separate procedure that allows interested parties to comment on FMRs and request reevaluation of FMRs in
the application of the trend factor. Comments concerning the departure to a trend factor that is adjusted annually, based on the most current market data available and how to do so is what is being addressed in this notice.

Below are some alternatives to the current national trend factor that have been reviewed by HUD:

1. Use the most recent year’s data from the overall CPI to calculate a trend factor;
2. Use the most recent year’s data from CPI-rent and utilities to calculate a trend factor;
3. Use proprietary data covering rental markets (like REIS Reports, Inc.) to calculate a trend factor;
4. Assuming the legislative changes as proposed in the FY 2012 HUD budget, (and assuming that HUD trends to the midpoint of the fiscal year), and using CPI-rent and utility data through the first half of the year to calculate the trend factor (by region and local area), apply the trend factor for nine months to April. These FMRs could be effective between October and December;
5. Assuming the legislative changes as proposed in the FY 2012 HUD budget (and assuming that HUD trends only to the beginning of the fiscal year), and using CPI-rent and utility data through the first half of the year to calculate the trend factor (by region and local area), apply the trend factor for three months to the start of the fiscal year. These FMRs could be effective between October and December; and
6. Assuming the legislative changes as proposed in the FY 2012 HUD budget and HUD eliminates trending for the FMRs, the half-yearly CPI-rent and utility data would provide the most recent update to the FMRs. There would be no trending and FMRs would effectively represent mid-year rent for the year they are published. But they would be published (effective) at the end of the year, between October and December.

Except for the third alternative (use of proprietary data), all of the alternatives HUD has examined rely on some use of CPI data to develop a new trend factor. The third alternative would rely on the use of private sector rent surveys that generally focus on rents in large apartment complexes; in turn, these large apartment complexes typically comprise 20 percent or less of most rental markets. HUD investigated data provided by REIS and similar sources as a means of updating FMRs, but have found these sources to be surprisingly uncorrelated with broader measures of rent over time such as the decennial census, and the American Housing Survey; therefore, HUD does not want to incorporate this type of information because it will not improve the FMR estimation process. In addition, the geographic limitations of these data sources further limit its use in the FMR estimation process. Nonmetropolitan areas and smaller metropolitan areas typically have no coverage in these data sources. Finally, these proprietary data have disclosure restrictions that may prevent HUD from fully documenting individual FMR calculations. HUD is required to provide as much transparency as possible in the FMR estimation process, especially after a 2004 study by the Government Accountability Office, and HUD does not want to reduce its efforts by using a data source that cannot be divulged.

The remaining suggestions focus on using the CPI, because the CPI measures rent and utility changes, and provides current data, at least on a national and regional basis. Local data, published for 27 consolidated metropolitan areas (and used for almost 100 FMR areas), is only available on a monthly basis for the three largest metropolitan areas (New York, NY; Los Angeles, CA; and Chicago, IL). Half-yearly CPI data for rent and utilities is all that is available for 13 of the remaining 24 local areas, but this information is not published until mid-August, too late to start the proposed/final publication of FMRs in the Federal Register under current regulations. The remaining 11 areas have CPI data on rent and utilities available every odd (four areas) or every even month (7 areas). This would provide inconsistent time periods for incorporating additional CPI data into the trend calculation. Aside from the three largest metropolitan areas (New York, NY; Los Angeles, CA; and Chicago, IL), the lowest level of geographic area aggregation for monthly data, are the four census regions (Northeast, Midwest, South and West). Monthly CPI data would have to be used to capture the recent trend in rent and utilities not already captured in the FMR estimation process (which uses CPI data as of the previous year). Capturing current CPI data, however, is limited by the time required to process, review and publish proposed FMRs for comment and to publish final FMRs by October 1. The review and publication process for both the proposed and final FMRs averages six weeks, though it has taken as little as four weeks. The minimum comment period is 30 days, though on an ongoing basis, 60 days provides more time for interested parties to analyze the proposed FMRs. The latest CPI month that could be used for a trend factor, would be April, which would be available in mid-May. Under
current statute and regulations, the proposed FMRs would be produced (2 weeks) and reviewed and published (4 weeks) in early July. A 30-day comment period (with an additional 1 week to be added to the end of the comment period to cover all filings that are not posted by the due date) would provide for analysis of comments (1 week), and 1 week to spare for publishing October 1. This timeline should not represent the normal process, because it does not provide HUD or commenters the time necessary to review comments and FMRs. With a trend factor that changes every year, it is important to provide additional time for all to have a chance to review proposed FMRs. Using the March CPI instead would increase the time for commenters to review their FMRs, though HUD’s review of comments will be the same. HUD specifically requests comments as to whether or not an additional 3 or 4 months of CPI is believed to significantly improve the quality of the FMRs, or if, without legislative relief from publishing proposed FMRs, HUD should use a trend factor that mimics the average annual CPI data already used. This would eliminate a constant trend factor, and would extend the rent and utility changes from the most recent year an additional 15 months.

An additional concern regarding the monthly data is that, except at a national level, the monthly data are not seasonally adjusted. This means that basing trend factors on monthly CPI statistics would depend critically on which months are chosen as the base and final months. HUD analyzed applying a new trend factor using the six months of regional CPI data available in the summer 2009 (through June 2009) and the national average FMR was 1.6 percent higher than the national average FMR for the previous year. However, using only the first five months of CPI data (through May 2009), the national average FMR was 2.2 percent higher. There can be considerable monthly fluctuations in the rent and utility data of the CPI, even on a regional basis. This leads to another question: Should a national trend factor be used instead of a regional trend factor so that seasonally adjusted data can be used?

Under the current regulations and legislative constraints, CPI data are released in the interim period between publication of proposed and final FMRs; should these be incorporated? How would this best be achieved? Would this render the public comment process meaningless, as nearly all rents would change between proposed and final, and locations that would benefit from the new data would lobby for the update while those made worse off would push for the status quo?

The last three suggested alternatives assume the legislative changes that eliminate the requirement that FMRs be published for effect on October 1st, but there are three different assumptions about the date of the FMR, October, (3 months trending), April (9 months trending) and June (of that year and no trending). Is the accuracy of the FMRs best served by using the most current data and reducing or eliminating the trend factor?

V. Request for Public Comments

HUD seeks public comments on the trend factor that is used in the FMR estimation process. Comments on the trend factor must include sufficient information in support of one of the alternatives listed by HUD, or a new proposal. The following issues should be addressed:

1. Should HUD continue to use a constant trend factor or should the trend factor be updated annually to attempt to capture market changes?
2. The constant trend factor that HUD has used in the past cannot be replicated for 2000 to 2010 based on available 2010 Census data. If a constant trend factor is appropriate, what data and time period should be used for a constant trend factor?
3. Is a national trend factor appropriate, or should HUD limit itself to use of more local options such as regional factors?
4. Should HUD allow changes between the proposed and final FMRs resulting from updated trend factors?
5. Is using the more current data for estimating the FMRs more important than providing for public comment before establishing final FMRs for effect?
6. Is the seasonality of rent and utility prices important in considering what month to collect data for trending? If so, how should HUD select the month to use or to compare it with?
7. Is double counting of CPI data a concern?
8. Is it more important to base a trend on the most recent data possible, or on the most specific geography?
9. Is it better to use rent and utility CPI data in developing a trend factor or should other prices be included?
10. Should HUD pursue legislative and regulatory changes to reduce or eliminate the need for trending?
11. Is there a data source or aggregation of sources of data provided on a more current basis than the CPI that could be used in the FMR estimation process?