

December 22, 2025

Dear Executive Director,

Thank you for your continued partnership in administering the Housing Choice Voucher (HCV) program, especially as the program has navigated historic levels of funding shortfalls. As I wrote to you back in June, it is critically important that you prudently manage your HCV program budget and now I am writing to emphasize that this remains an essential responsibility of PHAs as we head into 2026.

While rent inflation has been historically high over recent years, it has moderated significantly nationally. Unfortunately, HUD has not seen corresponding moderation in national HCV program costs, and many PHAs are now on pace to see significant funding shortfalls again in 2026. **PHAs must take measures now to reduce program costs** to ensure that expenditures do not exceed their anticipated 2026 funding.

Although PHAs will not know their full 2026 housing assistance payments (HAP) funding allocation until Congress passes a full year appropriations bill, the decisions made now will heavily influence whether your PHA will be in shortfall. To help your PHA plan, HUD has provided in the attachment below your PHA's estimated 2026 inflation factor and our calculation of your per unit cost inflation for the prior six months. HUD also encourages PHAs to use the two year projection tool to assist with understanding their potential shortfall in 2026. Your agency should immediately take steps to stay within your projected annual funding allocation, and not rely on excess HAP reserves to fund your program.

HUD's tools to address funding shortfalls in 2026 are limited, and HUD cannot guarantee that funding will be available to your PHA to resolve any shortfall. HUD is currently assessing its 2026 shortfall funding eligibility criteria, and potentially will consider whether the PHA has continued or newly implemented cost-savings measures after receipt of this letter. Additionally, HUD is considering establishing a policy, once there is a full year appropriations bill, that would take into account the number of previous shortfall awards a PHA has received in determining eligibility, prioritization, and/or the amount of any 2026 shortfall award.

To avoid terminations of assistance, we are recommending all PHAs implement cost savings measures, including, but not limited to:

- Cease issuance of new vouchers (with the exception of HUD-VASH participants and newly awarded Foster Youth to Independence (FYI) vouchers)

- Pause entering into new project-based voucher agreements and commitments (with the exception of public housing repositioning efforts)
 - HUD strongly encourages PHAs to consider the most cost-effective methods of responsibly repositioning, including the Section 18 program
 - Reduce payment standards, including ending the use of any approved exception payment and remain within the basic range except for reasonable accommodations as necessary
 - Assess rent reasonableness policies and procedures to ensure compliance with statutory and regulatory requirements
 - Adopt other cost savings measures in [PIH Notice 2025-28](#), “Cost-Savings Measures in the Housing Choice Voucher (HCV) and Project-based Voucher program.”

All PHAs that received shortfall awards in 2025 are currently considered to be at-risk of a funding shortfall in 2026, and must continue to adhere to the Action Plan created with the Shortfall Prevention Team. This means that your PHA **may not issue vouchers** except in the very limited circumstances allowable under the Action Plan, and also must continue to implement cost-savings measures. PHAs that do not continue adherence to their Action Plan may be ineligible for shortfall funds in 2026.

HUD is making available technical assistance throughout 2026 to help PHAs plan for prudent budget management. Please email shortfallinquiries@hud.gov to request assistance. Thank you for everything that you and your staff do to serve your community.

Respectfully,

A handwritten signature in blue ink that reads "Benjamin Hobbs". The signature is fluid and cursive, with "Benjamin" on the first line and "Hobbs" on the second line.

Benjamin Hobbs
Principal Deputy Assistant Secretary
Office of Public and Indian Housing

Attachment: Program Estimates for 2026

This attachment provides various program estimates that may be helpful for PHAs in

estimating their overall HAP funding eligibility for 2026. HUD cautions that these are only estimates. As a reminder, PHAs will not learn their 2026 funding levels until after Congress passes a final full year appropriations bill.

In the annual appropriations act, Congress directs HUD how to calculate HAP renewal eligibility, and these factors are subject to change. Typically, however, the appropriations act requires HUD to rebenchmark HAP renewal formula eligibility based on validated Voucher Management System (VMS) leasing and cost data for the prior CY (January 1 – December 31). HUD then applies a renewal funding inflation factor (RFIF) to each PHA's prior year expenditures, along with any proration factor and funding offset. For further details please see [PIH Notice 2025-13](#) pages 4-6.

Each year HUD publishes final Renewal Funding Inflation Factors after the appropriations act is finalized. The RFIFs reflect the amount of inflation estimated for your per unit costs in 2026. Until the RFIFs are published, they are subject to change. However, HUD has estimated what your PHA's RFIF will be in 2026:

PHA RFIF: [Redacted by NAHRO.]

Each PHA reports leasing and housing assistance payments (HAP) into VMS monthly, and from those data HUD estimates what the per unit cost (PUC) is for your HCV program. The amount of change in the PUC over recent months can be an indicator of whether your HAP expenses are aligned with estimated inflation or are increasing at a pace higher than inflation. HUD has examined your PHA's per unit cost trend based on VMS data reported on March and September 2025 and annualized that average monthly PUC growth for comparison purposes. If your PUC trend is higher than your RFIF above, your PHA is likely at high-risk of funding shortfall in 2026. While the RFIF is not yet final, it is not appealable. HUD strongly recommends immediate cost-savings measures if your per unit cost inflation exceeds the RFIF or if there are other good reasons to believe that your PHA faces elevated shortfall risks in 2026. In addition, if you believe that HUD's estimated PUC trend is incorrect, please review your reported monthly HAP and Unit Months Leased (UML) in VMS and make any necessary corrections.

PHA Projected Annualized PUC growth: [Redacted by NAHRO.]