

NCSHA Housing Credit Connect 2019

The RAD Revolution

Where can I find guidance?

- FY 2018 Appropriations Act expanded RAD authority for Section 202 PRACs
- RAD for PRAC guidance will be included in Rev-4 of the RAD Notice (PIH 2012-32), expected in June / July
- Draft guidance was published for comment on the HUD FHA Multifamily “[drafting table](#).”
https://www.hud.gov/program_offices/housing/mfh/MFH_policy_drafts
- See [NP’s blog post 2/27/19](#), <http://housingblog.nixonpeabody.com>

Process

1. An Initial Submission of Interest to HUD

- Contact info, PRAC contract info, # units by BR size

2. Resident Notification and Consultation

- Notification letter & two resident meetings with opportunity to comment

3. Conversion Plan Submission

- CNA, environmental review, budget, scope of work

4. RAD Approval and Closing

Eligible Owners/Properties

- **Must be in good standing with HUD, including Fair Housing Compliance**
- **PRAC may be in initial or renewal term**
- **Property must have at least a 60 on its REAC**

PBRA – HAP terms & Rent setting

- We expect almost all owners will select PBRA
- Initial rents are limited to the lesser of “approved PRAC rents” or 120% FMR (or Small Area FMR)
- Contract will be for 20 years; rents adjusted by OCAF every year
- Must accept contract renewal, eligible for any renewal option under MAHRA

PBV – HAP terms & Rent setting

- If an owner opted for PBV initial rents would be limited to the lesser of “approved PRAC rents” 110% FMR (or Small Area FMR)
- A PBV contract would be for 20 years; regular rent adjustment for PBV contracts apply (no automatic OCAF adjustments, but rents increased are limited to no more than OCAF)
- Must accept contract renewal

Ways to boost rents:

- BBRI w/ CNA needs assessment – use replacement reserve as a placeholder for debt service (because debt service is not a factor in BBRI analysis)
- Service coordinator
- Make sure you're including all your costs (eg, shared IT)
- Small Area FMR
- HUD may modify PRAC rents at closing for replacement reserves or social service provision (increase from \$15 per month to \$27 per month for social services)

Rent bundling

- “Rent bundling” is different than project bundling
- HUD will allow the “bundling” of rents on either PBRA or PBV contracts
- Owner (or Sponsor) must be submitting applications for two or more projects
- Can not exceed aggregate subsidy for all projects
- Donor project must close first or simultaneously

Project Bundling

- Average PRAC project is about 40 units
(too small for LIHTCs or tax-exempt bonds)
- Bundling projects together helps get over the transaction cost hurdle
- One project owner, one financing
- Question as to whether can qualify for FHA-insured financing

Social Services

- Supportive services required
 - Must plan for service provision for life of project

- A budgeted expense
 - Part of BBRI / PRAC rent-setting
 - Service Coordinator encouraged

Occupancy

There is no rescreening of residents under a RAD conversion – current residents can not be excluded from occupancy

Under both PBV and PBRA the income eligibility will continue to be limited to very low income seniors – at or below 50% of area median income (AMI)

Davis Bacon

Davis Bacon will NOT apply to conversions to PBRA

Davis Bacon WILL apply to conversions of more than eight units to PBV

Non-profit involvement

- Non-profit control requirement
- More flexible than current 202 non-profit requirements:
 - Explicitly allows for LLCs
 - Non-profit can joint venture
 - Non-profit can own 51% of GP / managing member interest

Existing Capital Advance docs

- Existing Capital Advance documents are terminated
 - This includes debt & regulatory obligations
- A new Use Agreement is put on the property instead
 - Term = remaining term of Cap Advance docs + 20 years
 - In 1st lien position on title
 - Restrictions on sale / refi proceeds

Sale / Refi proceeds

- Use Agreement will require restrictions on sale / refi proceeds.
 - During remaining term of Capital Advance documents
 - For benefit of property, residents (eg, services) or other Affordable Housing Purposes (eg, another low-income deal)
 - Carve out for seller financing and HUD-approved sources and uses.
 - Possible carve-out for IOI loans?

QUESTIONS?



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Thank you!



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