Faircloth-to-RAD

April 26, 2021

Background

- The "Faircloth Limit" refers to the maximum number of public housing units a PHA that can be eligible to receive public housing capital and operating funds.

- Nationwide, PHAs have 220,000 units available under their Faircloth limit.

- Financing the development of public housing units has been a barrier to activation of remaining Faircloth authority.

- 538 PHA's have 20 or more units that can be built, **with 43 of these having more than 1000+ units of authority**

The Basics

Faircloth-to-RAD conversions:

- Develop units under the public housing mixed-finance program
- Pre-construction approval to convert the property to a long-term Section 8 contract following construction
  - Notice of post-conversion RAD rents
  - RAD Conversion Conditional Approval with form of RCC
- Approvals permit lender and investor underwriting of the Section 8 contract and Section 8 rents.

Faircloth-to-RAD Process
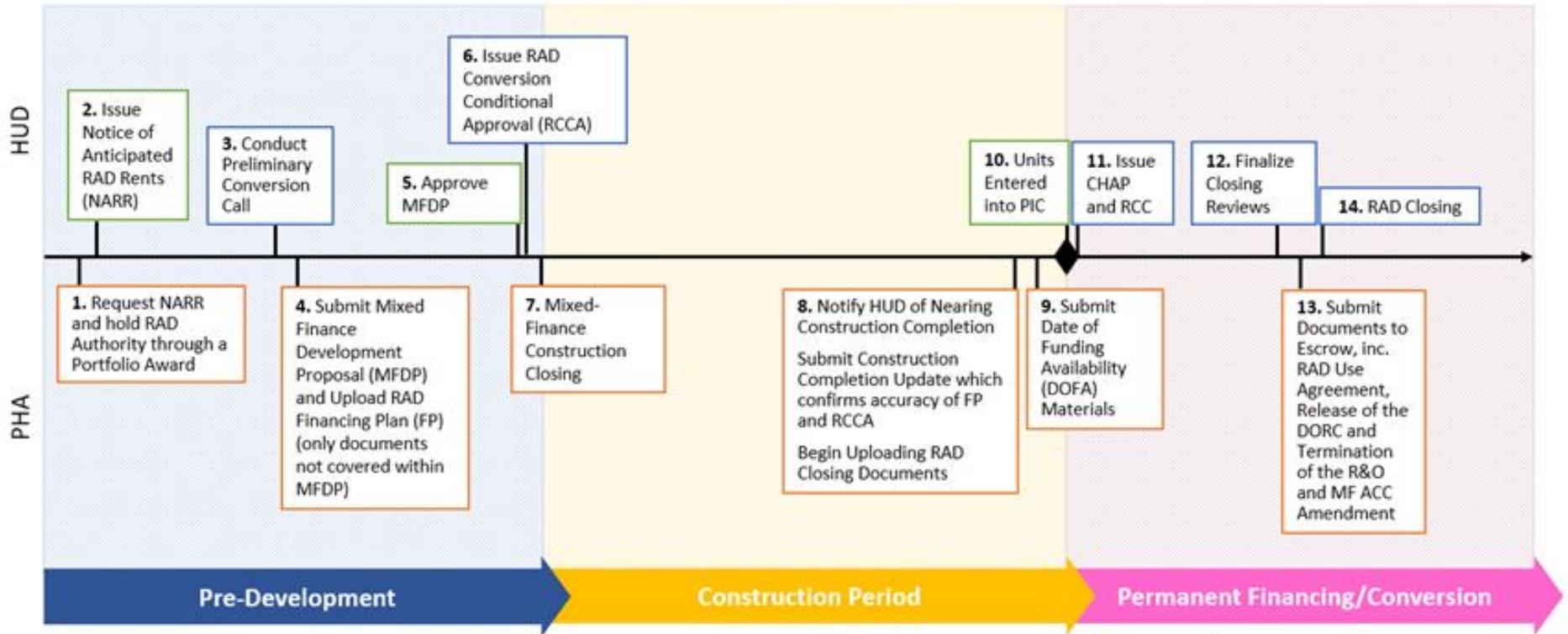
Note: The PHA has the option to begin leasing units as public housing or wait to lease as Section 8 after the units have completed the RAD conversion process. If units are leased as public housing, the PHA would have to execute new leases with the tenants in conjunction with the RAD Closing. Requirements of RAD Notice Rev-4 regarding resident notification and meetings must be met. For example, if residents move in after RCC and before closing, the resident notification and meeting requirements applicable to the period between RCC and RAD Closing must be met. See Guidance on Faircloth to RAD conversions for more information.

Pre-Construction Closing
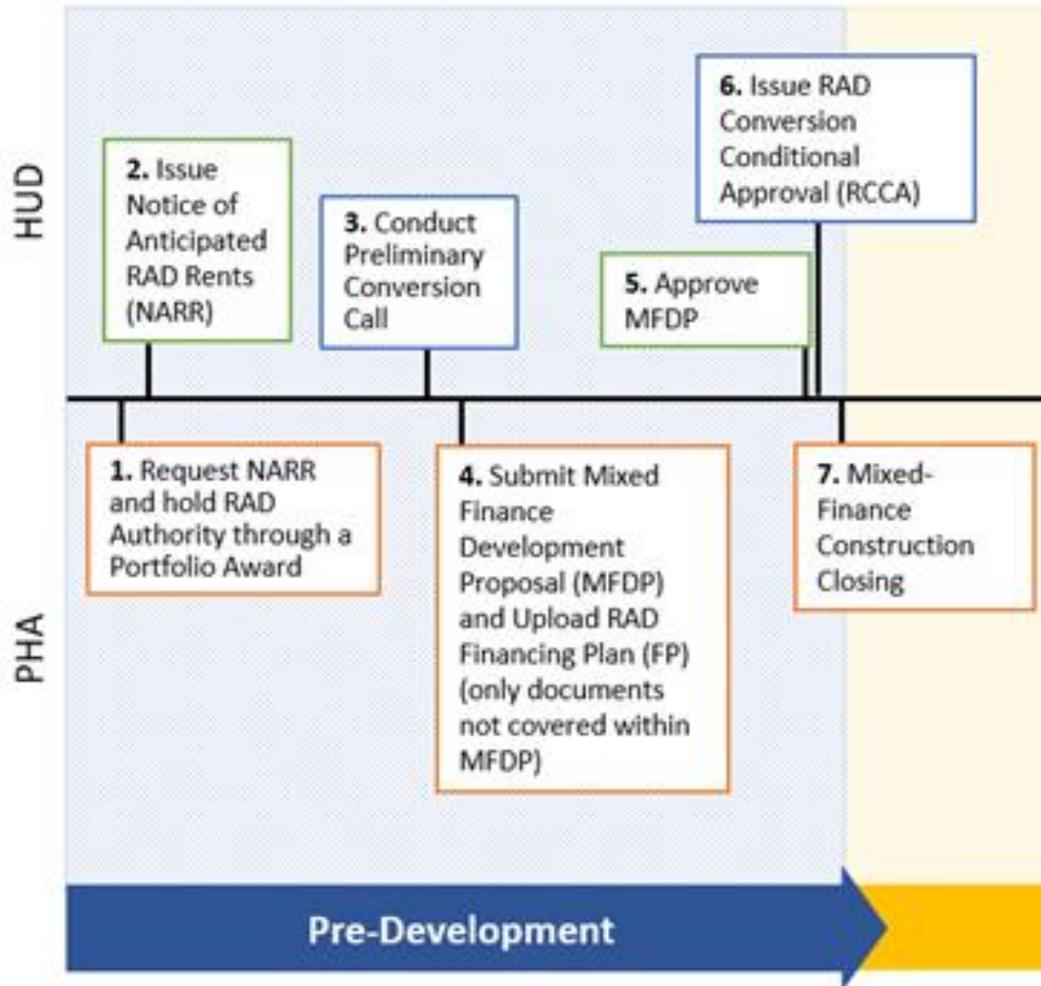
1. PHA initiates through the RAD Resource Desk
   - Information to calculate rent
   - Portfolio reservation

2. HUD Issues "Notice of Anticipated RAD Rents"
   - Establishes initial RAD Contract rents upon conversion

3. HUD hosts a preliminary conversion call
   - Coordinate conversion details

Contract Rent Setting

- RAD rents for Faircloth units are based on the estimated Operating Fund and Capital Fund levels for new units

- RAD rents are locked in – not subject to continued uncertainty

- PHAs and developers can use the contract rents established in the Notice of Anticipated RAD Rents to support lender and investor underwriting

Contract Rent Setting & MTW

Moving-to-Work (MTW) agencies can use the RAD MTW flexibility to supplement the RAD rents, potentially to the normal PBV rent

| Standard PBV		Faircloth-to-RAD	
PHA can project base some of its existing voucher funding.		HUD provides new funding to the PHA based on the RAD rents	
PBV HAP Rent =	$1,200	PBV HAP Rent =	$1,200
Tenant paid portion =	$300	Tenant paid portion =	$300
HAP subsidy from PHA funds =	$900	New HAP subsidy from RAD =	$600
		HAP subsidy from PHA funds =	$300
PHA repurposes $900 per unit from voucher ACC to project-based use. No change in the number of households getting rental assistance.		PHA repurposes $300 per unit from voucher ACC to project-based use. Three households served instead of one.	

Pre-Construction Closing
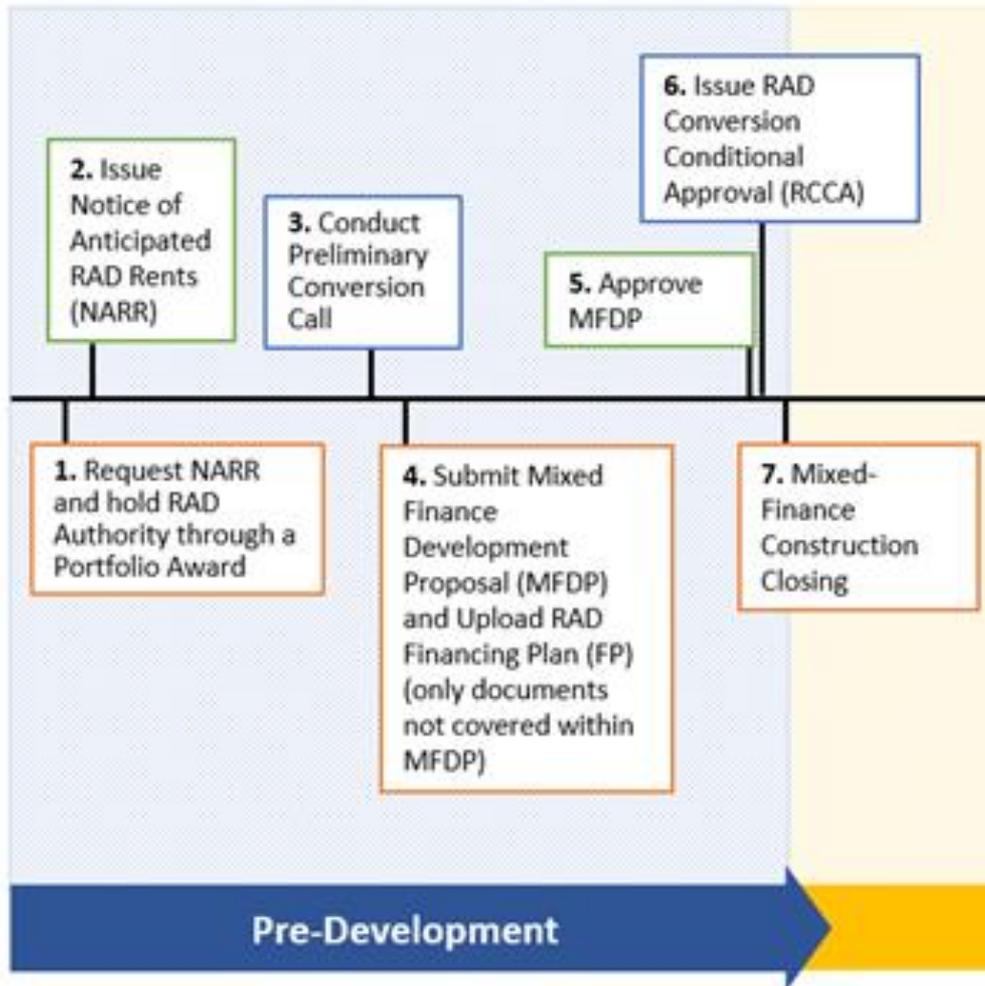
4. PHA submits Mixed Finance Development Proposal and RAD Financing Plan
   - MFDP covers all financial underwriting
   - RAD Financing Plan covers six program compliance areas
5. HUD Approves the MFDP
6. HUD Issues the RAD Conversion Conditional Approval – like RCC
7. Construction Closing

As Construction is Completed

8. As construction completion, PHA confirm no material changes
   - Completion Update
   - Sources & Uses
   - Begin closing documents review
9. PHA submits DOFA materials
10. Units entered into PIC
11. HUD issues CHAP and RCC
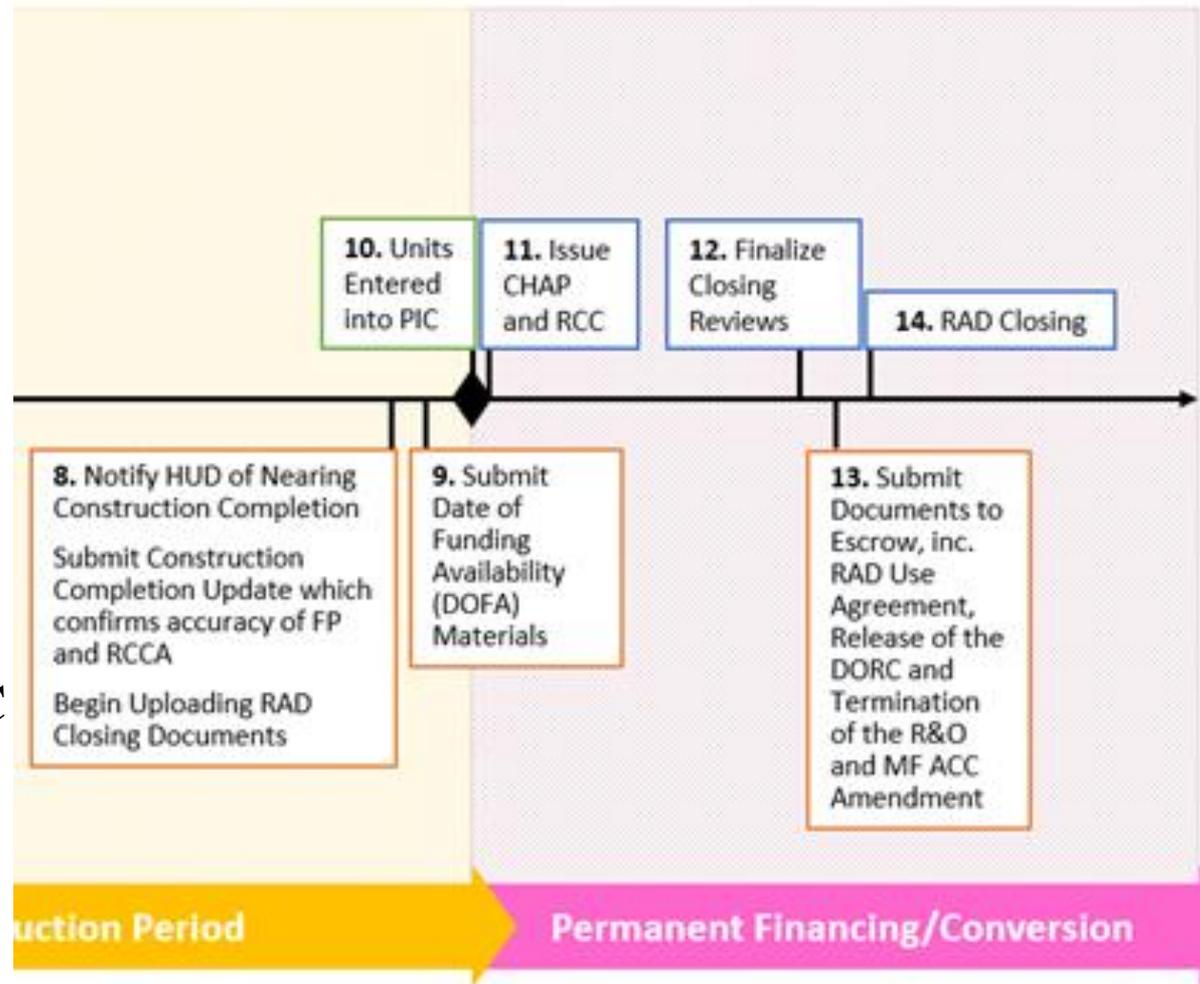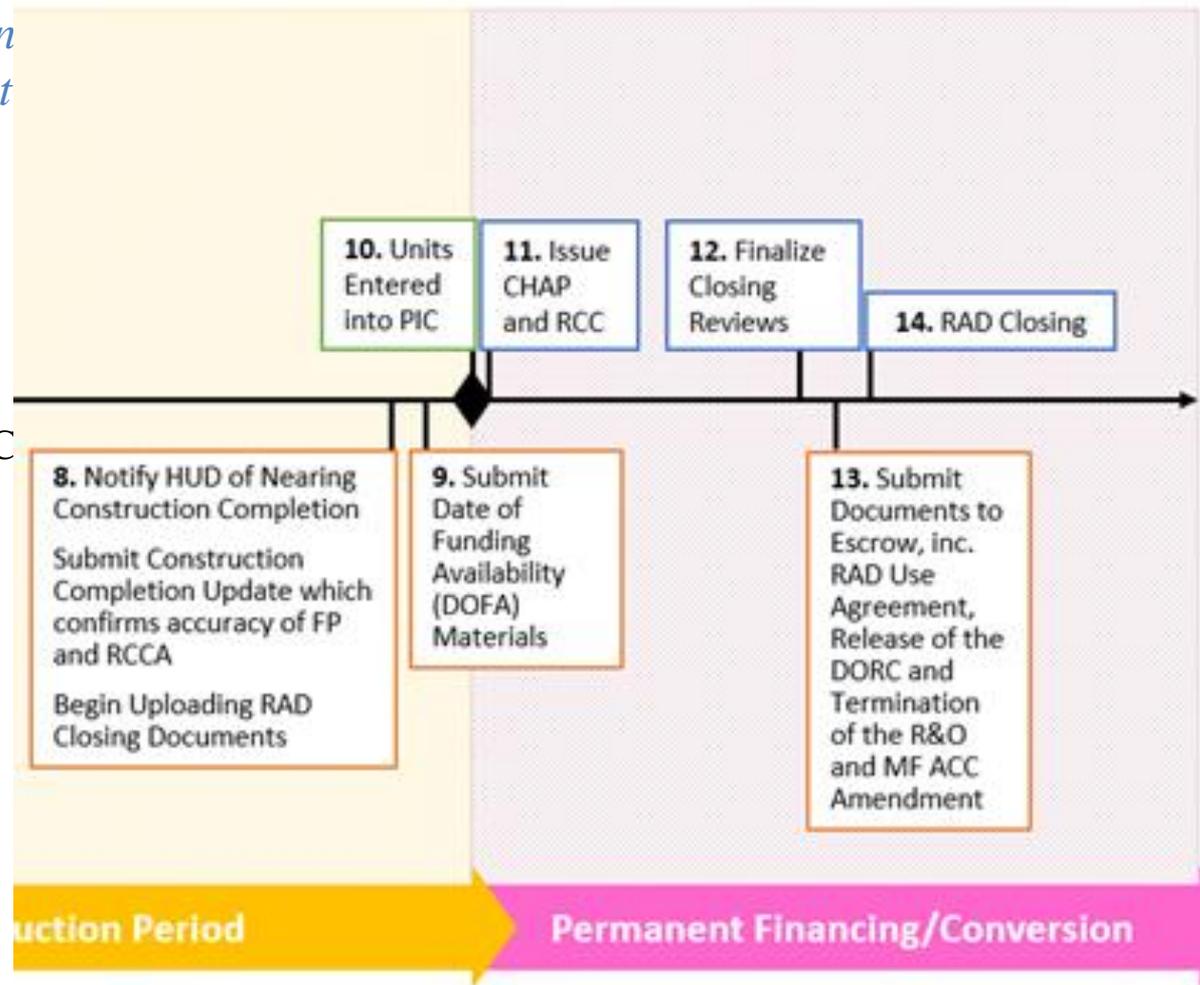
As Construction is Completed

Normal RAD conversion of an existing mixed-finance project

12. Finalize closing review
    – RAD Closing documents can be submitted before units are in PIC or after RCC issuance
13. Submit all Closing documents to escrow
14. RAD conversion

10. Units Entered into PIC

11. Issue CHAP and RCC

12. Finalize Closing Reviews

14. RAD Closing

8. Notify HUD of Nearing Construction Completion

Submit Construction Completion Update which confirms accuracy of FP and RCCA

Begin Uploading RAD Closing Documents

9. Submit Date of Funding Availability (DOFA) Materials

13. Submit Documents to Escrow, inc. RAD Use Agreement, Release of the DORC and Termination of the R&O and MF ACC Amendment

...uction Period

Permanent Financing/Conversion

Funding in the Year of Conversion

- All RAD projects are funded from public housing Operating and Capital Funds obligated in that year + tenant rents
- New Projects:
  - Capital Fund – no Capital Fund allocation since formula does not recognize new projects until the following year
  - Operating Fund – follow annual Operating Fund processing guidance; project must reach DOFA and submit materials prior to the "new project submission deadline" (generally in the Summer)
- Important to account for initial operating deficit in development budget
- Beginning January 1 of first calendar year after conversion, project is funded according to Section 8 HAP contract rents

Lease-up and Resident Notification

Begin leasing as public housing or wait until conversion?

- If conversion occurs prior to lease-up, residents admitted into the property are placed directly under a Section 8 lease

- If leasing begins prior to conversion:

    - Residents must be informed of pending RAD conversion and issued a RAD Information Notice (RIN)

    - Conduct all required resident engagement activities required following issuance of the RCC

    - Enter into leases contemplating the conversion from public housing to Section 8

Available Resources

- Guide on the sequencing of the RAD and mixed-finance development processes, which contains:
  - Template Notice of Anticipated RAD Rents ("NARR") – like a CHAP
  - Template RAD Conversion Conditional Approval ("RCCA") – like an RCC, issued simultaneous with the mixed-finance development approval
  - Mixed Finance Development Proposal (HUD 50157) modified for when RAD is contemplated
- The Mixed-Finance Webpage: www.hud.gov/program_offices/public_indian_housing/programs/ph/hope6/mfph
- The RAD Resource Desk: www.RADResource.net

How much Faircloth Authority is Available?

- HUD's Office of PIH is publishing an excel spreadsheet later this week that includes this information by public housing agency.

- Updated on a quarterly basis.

- Currently posted as a pdf here:

https://www.hud.gov/program_offices/public_indian_housing/programs/ph/capfund/2021pi

- Will be linked to from RAD Resource Desk

Thank You and Questions

For more information visit
www.hud.gov/rad

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www.hud.gov/rad webpage)