

# FACT SHEET



## Attention:

Owners of **Section 202 properties** interested in converting their Project Rental Assistance Contract (PRAC) to a Section 8 Housing Assistance Payment(s) (HAP) contract through the U.S. Department of Housing and Urban Development's (HUD's) **Rental Assistance Demonstration (RAD)** program

U.S. Department of Housing and Urban Development  
**Office of Recapitalization**



Are you an Owner of a Section 202 Housing for the Elderly Capital Advance PRAC property looking to **modernize** your property and place it on more **stable financial footing**?

Learn how HUD's RAD program can help!

This fact sheet is part of a RAD outreach initiative intended to further the understanding of 202 PRAC Owners on the RAD conversion process.

## What is RAD for 202 PRACs?

RAD is a HUD program that allows Owners of projects that receive funding through a PRAC under the Section 202 Housing for the Elderly program to convert their funding to long-term Section 8 Project-Based Rental Assistance (PBRA).

## RAD Notice

A full and complete explanation of these requirements can be found in Section IV of RAD Notice Rev-4, H-2019-09 PIH-2019-23 (HA), as amended by the Supplemental Notices, including Supplemental Notice 4B, which can be found here: **[Statutes, Notices, Regulations & Tools | HUD.gov](#)**.

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## Benefits of RAD Conversion

Owners choose the type of Section 8 HAP contract they prefer, a Project-Based Vouchers (PBV) contract administered by a Public Housing Authority (PHA) or a PBRA contract administered by HUD. The new contract has a term of up to 20 years and must be renewed.

Converting projects are released from all outstanding obligations under their existing Capital Advance Agreement.

Conversion safeguards the availability of assistance for future residents and provides Owners with an opportunity to:

- Increase cash flow through contract rents
- Access mortgage loans and tax credits
- Improve and modernize through repairs, rehabilitation, and new construction
- Recapitalize the reserve for replacements account

## Key Feasibility Benchmark

To successfully complete a RAD conversion, an Owner must demonstrate the project's ability to address short-term repair and long-term capital replacement needs, as identified in a Capital Needs Assessment (CNA).

## Eligibility to Participate

Section 202 PRAC Owners are eligible to request a RAD conversion if:

- The project is currently receiving assistance through a PRAC
- The Owner is in good standing with HUD and in compliance with fair housing and civil rights requirements
- The converting units meet HUD physical inspection standards

## Timeline for Closing a RAD Conversion

The time required to complete a RAD conversion is typically between 8 and 18 months, and depends on the physical needs of the project, the availability of funding to address these needs, and the amount of time the Owner has available to work on the conversion plan. The estimated time needed for each of the major steps in the conversion process is provided below:

- Submission of Interest (1 day)
- Resident Notifications and Meetings (Concurrent with development of a Conversion Plan)
- Development of Conversion Plan (6-12 months)
- HUD Review and Approval (1-3 months)
- Closing (1-3 months)



## Submission of Interest

- Create an account on the RAD Resource Desk and provide basic information
  - There is no obligation to complete the conversion process

## Resident Notifications and Meetings

- Notify residents of Owner's intent to participate in RAD
- Hold at least two resident meetings

## Develop RAD Conversion Plan

- Select preferred contract type (PBV or PBRA)
  - Can switch any time prior to conversion
  - If PBV, identify a PHA willing to administer contract
- Obtain a CNA and review:
  - Immediate repair/rehab needs
  - Initial deposit to replacement reserve requirement
- Request a Budget-Based Rent Adjustment (BBRA) and renew PRAC contract
- Identify potential rent increases available through RAD
  - Preservation Rents
  - 75% of reduction in existing Utility Allowances
  - Supportive Services of up to \$27 per unit per month (PUPM)
- Create an Operating Proforma
- Identify potential funding sources
  - Existing reserves, residual receipts, Owner equity
  - New mortgage loan financing serviced by project cash flow
  - Soft debt, grants, and tax credits
    - Apply for funding, as needed
- Obtain 3rd party reports per HUD Environmental Requirements
- Review/update Supportive Services plan

## Submit Conversion Plan

- Submit proposed Conversion Plan to HUD via the RAD Resource Desk
  - HUD will review and issue approval letter or request revisions

## Close Conversion

- Draft closing documents and submit to HUD
  - HUD will review and execute documents and then forward to escrow agent
- Owner executes closing documents
- Owner simultaneously closes additional funding, if required

## Contract Rents

The table below explains how initial contract rents are established and subsequently modified. These rules vary depending on whether the project is converting to PBV or PBRA.

<b>PBRA</b>	Initial Contract Rents	<p>Are set equal to the project's approved PRAC rents. Thus, it is important for Owners to apply for a Budget-Based Rent Adjustment (BBRA) before completing the RAD conversion process.</p> <p>When applying for a BBRA, Owners can request the Small Area Fair Market Rent (FMR) be used as the applicable FMR. HUD will waive the prohibition on initial contract rents higher than 120% of FMR, less any utility allowances, where necessary to ensure the ongoing provision and coordination of services or to avoid a reduction in project subsidy, except in cases where the Owner uses the special authorities described below to increase initial contract rents above the approved PRAC rents.</p> <p>To encourage conversions that include rehab and/or new construction using debt financing, HUD will increase initial contract rents by up to \$250 per unit per month (PUPM) if the cost of the rehab or new construction exceeds 60% of Housing Construction Costs, as published by HUD for the market area, or by up to \$100 PUPM if the cost of rehab or new construction exceeds 30% of Housing Construction Costs.</p> <p>In addition, for units with utilities that will remain tenant-paid, if the rehab or construction results in a reduction of the project's utility allowance, HUD will increase contract rents by 75% of the approved reduction in the utility allowance.</p>
	Rent Adjustments	Contract rents will be adjusted by the applicable Operating Cost Adjustment Factor (OCAF) at each anniversary of the HAP contract.
<b>PBV</b>	Initial Contract Rents	<p>Are established in accordance with 24 CFR Part 983, at the lesser of:</p> <ul style="list-style-type: none"> <li>• An amount determined by the PHA, not to exceed 110% of FMR (or any exception rent payment standard approved by the Secretary);</li> <li>• The reasonable rent; or</li> <li>• The rent request by the Owner.</li> </ul>
	Re-determined Rents	Owners may request an increase in rent at the anniversary date of the HAP contract by written notice to the PHA in accordance with 24 CFR 983.301(b)(2). The increase may not exceed the lesser of the OCAF adjusted rent and the PBV rent limitations in §983.301(b).

## Conversion Costs

Your Conversion Plan will include proposed sources and uses of funds.

Typical uses of funds include:

- Rehab & repair needs identified in the CNA
- An initial deposit to the Reserve for Replacement Account
- 3rd party reports, such as the CNA and a Phase I Environmental Site Assessment (ESA)
- Closing Costs, such as legal fees for the drafting of closing documents
- Resident relocation costs, if required

Sources of funds typically include some or all of the following:

- Existing reserves, residual receipts, and Owner equity
- Mortgage loan debt financing serviced by cash flow resulting from new contract rents
- Soft debt, grants, and historic or Low-Income Housing Tax Credits (LIHTCs)

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### For more information:

For additional information and assistance, please visit the following:

- RAD Notice, Rev-4, H-2019-09 PIH 2019-23 (HA) at: [\*\*Statutes, Notices, Regulations & Tools\*\*](#)
- RAD Resource Desk at: [\*\*www.radresource.net\*\*](http://www.radresource.net)
- RAD for Section 202 PRACs: [\*\*www.hud.gov/hud-partners/rad-rad202prac\*\*](http://www.hud.gov/hud-partners/rad-rad202prac)

HUD's Office of Recapitalization (Recap) administers the RAD program. You can email Recap at: [\*\*Rad2@hud.gov\*\*](mailto:Rad2@hud.gov)

