



Conversion of Section 202 PRACs under the Rental Assistance Demonstration (RAD)

September 26, 2019

BACKGROUND

Section 202 Background

Section 202 = Housing for the Elderly

Three Stages of Section 202

1. Pre-1974 Section 202 Direct Loan
2. Section 202 Direct Loans with Section 8 contracts (“202/8s”)
3. **Section 202 “Capital Advance” properties with Project Rental Assistance Contracts (202 PRACs)**
 - 2,800 properties (120,000 assisted units) placed in service between 1993 and 2018

Why RAD for 202 PRACs?

RAD was designed to preserve and recapitalize an aging stock of HUD-assisted housing by allowing properties to convert to long-term, Section 8 rental assistance contracts, which provides:

- Access to debt and equity to finance capital needs
- Strong platform for long-term preservation
- Robust resident rights

Congress authorized the conversion of 202 PRACs under RAD in the FY 2018 Appropriations Act

RAD Notice

- Housing 2019-09/PIH 2019-23 (“RAD Notice Rev 4”) published September 5th, 2019
- Four Sections
 1. Public Housing conversions
 2. Mod Rehab/SRO conversions
 3. Rent Supplement and Rental Assistance Payment conversions
 4. 202 Project Rental Assistance Contract (PRAC) conversions
 - ***New!***
 - *PRAC section had previously been posted to the Multifamily Drafting Table*

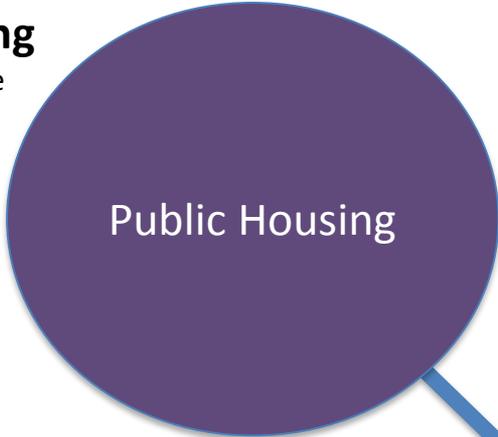
Owner Objectives

Owners could use RAD to:

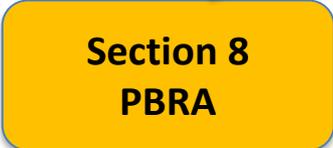
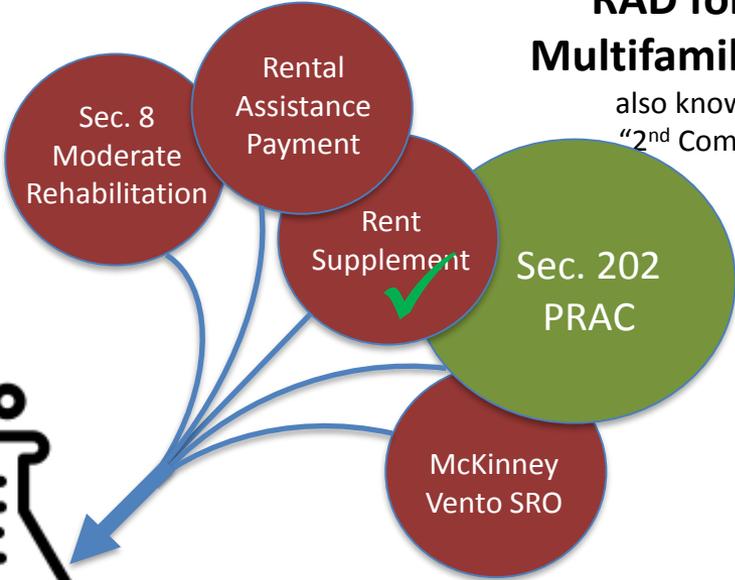
- Modernize aging elderly properties
- Stabilize property revenue
- Substantial rehab deteriorated properties
- Transfer assistance to better neighborhoods
- Thin densities and mix-incomes

Structure of RAD

RAD for Public Housing
also known as the "1st Component"



RAD for Other Multifamily Housing
also known as the "2nd Component"



PROGRAM REQUIREMENTS

Contracts and Rents

- Rents based on PRAC rents, which may be adjusted prior to conversion based on budget (e.g., justified by capital needs assessment or service coordinator salary)
- 20 year renewable contract
- Annual operating cost adjustment factor (OCAF)
- Section 8 contract imposes no limitation on use of project cash flow
- RAD Elderly Housing Use Agreement replaces Capital Advance Use Agreement & +20years of required affordability
- HAP contract must renew at least during term of Use Agreement

Project Based Rental Assistance

Appropriations Account	PBRA
Contract Administration	Performed by HUD
Contract Start	First of month at least 30 days after “closing”
Inspections	UPCS performed by REAC starting after any required work is completed
Rent Setting	Based on PRAC Rents, not to exceed 120% of FMR or Small Area FMR

Project Based Voucher (PBV)

Appropriations Account	TBRA
Contract Administration	Performed by Public Housing Agency (PHA)
Contract Start	Must align with PRAC anniversary date and be at least 90 days from “closing” date
Inspections	HQS performed by PHA
Rent Setting	Based on PRAC Rents, not to exceed 110% of FMR or Small Area FMR

Conversion Requirements

Capital Needs Assessment

- Identifies all immediate and long-term capital needs
- Must be consistent with MAP Guide requirements (except eTool)
- Conversion Plan must cover all needs through upfront capitalization (if applicable) and ongoing capital replacement reserve deposits
- Must be consistent with CNA submitted for any recent BBRI

Environmental Review

- Part 50 for PBRA or FHA-insured conversions. HUD performs review in HEROS
- Part 58 for all other PBV. Responsible Entity performs review

Davis-Bacon

- Not applicable for rehab of units previously assisted under the PRAC contract

Conversion Requirements

Ownership and Control

- Property must be owned or controlled by a non-profit entity (e.g. no change in ownership; transfer to another non-profit; or LIHTC entity controlled by a non-profit)
- Ownership structures that facilitate LIHTC use: (e.g. non-profit is GP in a limited partnership; Majority owner in an LP or LLC; long-term ground lease, control agreement, etc)

Refinancing Sales Proceeds

- Net refinancing or sales proceeds, with certain allowable exclusions, during the remainder of the original Capital Advance term are restricted to Affordable Housing Purposes

Conversion Requirements

Operating Reserves

- In lieu of residual receipt account, owner must establish and maintain an operating reserve account in an amount of \$250 per unit to be used for project purposes (unexpected expenses, delinquent receivables, etc)
- HUD approval is not required for withdrawal; but minimum balance is a condition of owner distributions of surplus cash

Conversion Requirements

Supportive Services for Residents

- Owners must describe services plan in Conversion Plan and contractually commit to ongoing services
- PRAC owners may already include a Service Coordinator and \$15 PUM for services in their PRAC budget, which would be captured in the Section 8 rent at conversion
- For properties converting through RAD, HUD may approve an increase in the project budget line item for service costs from \$15 (the current maximum) up to \$27 per unit per month, if warranted by services

Financing Sources

1st Mortgage Debt

- FHA-Insured debt:
 - 223(f) (light/mod rehab) or
 - 221(d)(4) (sub rehab/new construction)
- Conventional debt

Equity

- 4% LIHTC
- 9% LIHTC
- Historic Tax Credits

Other Secondary Financing

- HOME
- CDBG
- Housing Trust Fund
- Federal Home Loan Bank AHP
- **Existing “Residual Receipts” or replacement reserves**

RESIDENT RIGHTS AND REQUIREMENTS

- **Resident notices** and **resident meetings** required prior to conversion
- **Prohibition of re-screening** residents for Section 8 eligibility upon “move-in” to the property
- If rehab requires any relocation, residents have a **right to return** post-rehab and **may not be involuntarily displaced**
- **Uniform Relocation Act (URA)** applies to any relocation

Transfer of Assistance

Transfer of assistance refers to a change in the geographic site of the assistance. It has the potential to improve the location and quality of housing

HUD will assess:

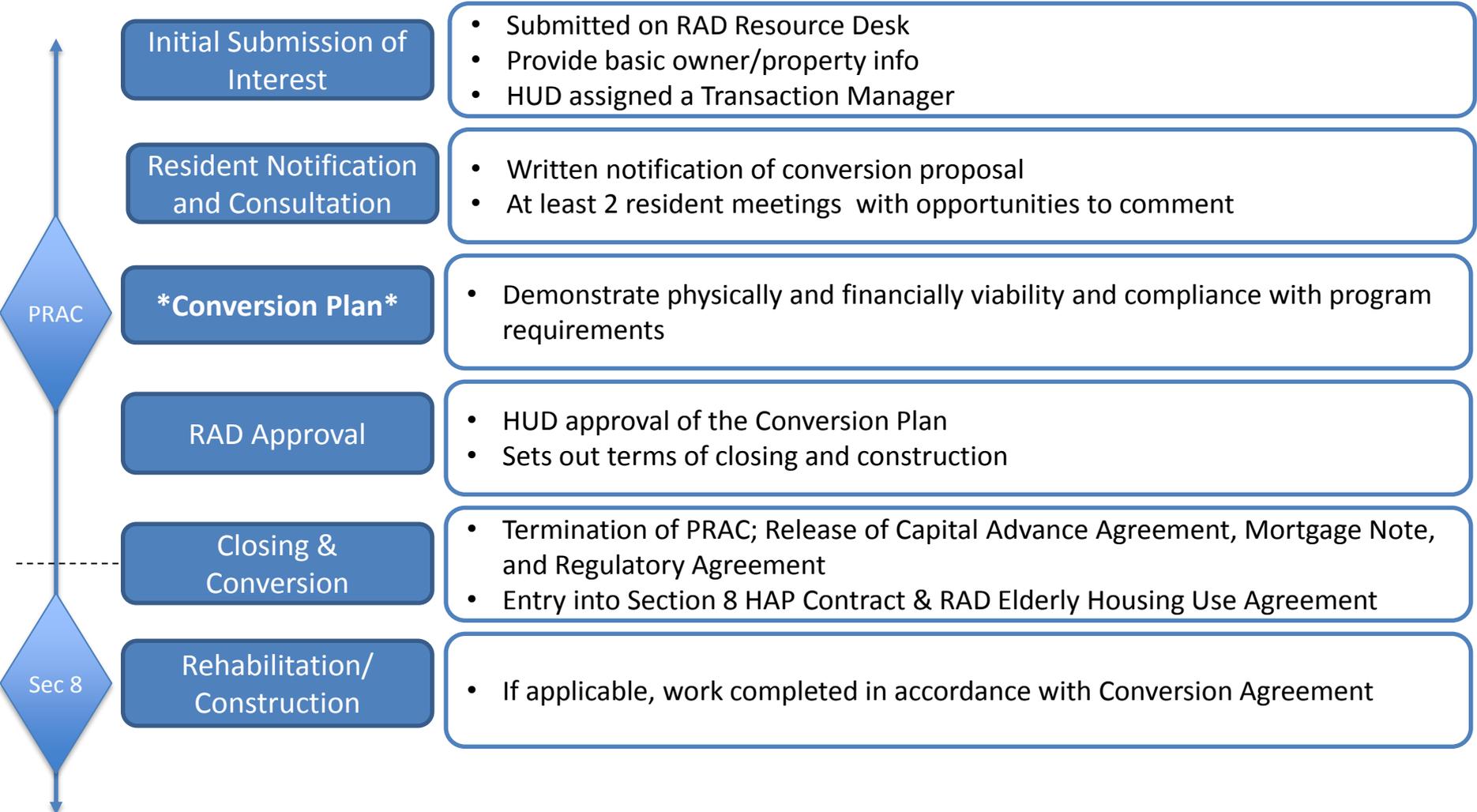
- that the transfer does not place housing in neighborhoods with highly concentrated poverty;
- whether conversion on-site is economically non-viable (physically obsolete or severely distressed)
- Impact on residents

Davis-Bacon wages would apply for any construction/ rehab on properties with nine or more units



CONVERSION PROCESS

RAD Conversion Process



Getting Started

- Owner submits Submission of Interest on www.RADresource.net with basic project and owner information
 - HUD assigns Transaction Manager
 - Provides guidance to owners
- Review PRAC budget to ensure resident services (\$15 PUM), service coordinator funding (salaries, etc), and replacement reserves are adequate
 - Owners may use MAP-guide compliant CNA to justify adjustment to monthly reserve deposits

Upcoming Webinars

Webinar	Date/Time	Registration
Public housing conversions	September 19, 2019 2:00 PM EST	Register Here
Section 202 PRAC conversions	September 26, 2019 2:00 PM EST	Register Here
Mod Rehab conversions	October 3, 2019 2:00 PM EST	Register Here
Resident rights in Public housing conversions	October 10, 2019 2:00 PM EST	Register Here
Resident rights in Section 202 PRAC and Mod Rehab conversions	October 17, 2019 2:00 PM EST	Register Here

COMPLETED

COMPLETED

All webinars will be recorded and will be available at www.hud.gov/RAD/library/notices and on www.RADresource.net

Thank You and Questions

For more information visit

www.hud.gov/rad

Join the [RAD LISTSERV](#) for news and updates

(link available at the bottom right of the

www.hud.gov/rad webpage)