



RAD Notice Revision 4

Section 8 Moderate Rehabilitation (Mod Rehab) and Single Room Occupancy (SRO)

October 3, 2019

BACKGROUND

Refresher

Section 8 Moderate Rehabilitation (Mod Rehab) – 17,500 units

McKinney Vento Section 8 Moderate Rehabilitation Single Room Occupancy (Mod Rehab SRO) programs support 13,000 units.

HAP Contracts renew year-to-year with 12-month terms and at restricted contract rent levels, which inhibits access to financing

Through RAD, Mod Rehab/SRO properties to convert to long-term Section 8 Housing Assistance Payment (HAP) contracts:

- Supports preservation through a long-term subsidy commitment, often at higher levels
- Leverages public and private investment to address capital needs
- Ensures residents' right to affordable housing

RAD Notice

Housing 2019-09/PIH 2019-23 (“RAD Notice Rev 4”) published September 5th, 2019

- Supercedes all prior notices, including Supplemental Notices
- 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!

Highlights

- Streamlines conversion requirements for most Mod Rehab conversions, especially for smaller properties
- Prohibits the rescreening of residents upon conversion and fully describes residents' right of return
- Creates an ability for Mod Rehab and SRO properties converting to PBRA to utilize contract rents based on the condition of the property following rehabilitation
- Provides an ability for owners of converting SRO properties serving the homeless to establish a leasing or occupancy preference that facilitates permanent supportive housing
- Exempts most conversions that involve the preservation of the current site from using Davis-Bacon wages

PROGRAM REQUIREMENTS

Eligibility

Eligible Properties

Active Mod Rehab/SRO contract in good standing

Physical condition: passing Housing Quality Standards (HQS) or Uniform Physical Condition Standards (UPCS)

Eligible Units

For conversions to PBRA, all units on Mod Rehab/SRO contract are eligible to convert

For conversions to PBV, ***in most cases all units on the Mod Rehab/SRO contract are now eligible to convert***

- vouchers are funded by new “Tenant Protection Vouchers,” which HUD currently provides for units occupied within the last 24 months
- All households/units can be covered under the contract because re-screening is prohibited

Contract Rent-Setting

	PBRA Contract Rent	PBV Contract Rent
Initial Rents set at the lower of	<p>a) Comparable market rents (determined by a Rent Comparability Study) or</p> <p>b) 110% of FMR</p> <ul style="list-style-type: none"> Owners may request to use Small Area FMR (zip-code based) With HUD approval, contract rents may be set up to 120% of FMR or Small Area FMR 	<p>a) Market rent levels (determined by PHA's Rent Reasonableness analysis) or</p> <p>b) 110% of FMR</p> <ul style="list-style-type: none"> PHA may be able to set rents up to 120% of FMR with exception rents or MTW designation
Adjustments	Annually adjusted by OCAF	Re-determined annually to Reasonable Rent/ 110% of FMR (see 24 CFR 983.302)

For PBRA conversions, owners may now request “post-rehab rents” with a Rent Comparability Study that shows both “as-is” and “post-rehab rents” that would be reflected in the PBRA HAP contract

Conversion Process Steps


Submission of Interest Owner provides basic property information to HUD through www.radresource.net; HUD assigns a “Transaction Manager”



Prior to submission of Conversion Plan, owners are required to:

- Notify residents, address comments
- Consult with local Continuum of Care (CoC) (SROs)
- Identify a PHA to administer the contract (PBV only)
- Prepare Conversion Plan documents

Conversion Plan. Owner submits all related due diligence



Approval and Closing. Close on financing, terminate Mod Rehab HAP contract, execute new long-term PBV or PBRA contract



6 –
12
Month
Process

Conversion Plan Submission

Major Components:

- Evidence of notification of residents and meetings
- Capital Needs Assessment (CNA)
- Rent Comparability Study (PBRA)
- Financing commitments
- Operating pro forma
- Development Budget
- Environmental Review

Capital Needs Assessment

Generally, converting properties must demonstrate that immediate and long-term needs can be addressed as part of the conversion. Form of evidence will depend on financing:

FHA Insurance

- CNA, rehab scope, and replacement reserves determined by MAP Guide

LIHTC (4% or 9%)

- CNA, rehab scope determined by equity provider
- HUD review of CNA not required as long as Annual deposit to replacement reserve will equal at least \$450

Conventional debt or no financing

- CNA must be performed by qualified professional
- Rehab scope and replacement reserves determined by HUD

Development Requirements

Development Budget & Pro Forma

- Relies on FHA and/or equity investor for underwriting: Proposed Financing, Development Budget, Pro Forma;
- Otherwise, Recap does underwriting

Davis-Bacon

- For conversions to both PBRA and PBV, Rehab or construction performed on the existing site is not subject to Davis-Bacon wage requirements
- Davis-Bacon would still apply to rehab or construction on a new site, as part of a transfer of assistance

Environmental Review

- Part 50 submissions must be made through the HUD Environmental Review Online System (HEROS)
- Radon testing now required
 - Part 50 – follow the MAP guide
 - Part 58 – unless property has no rehab or Responsible Entity examined Radon, owner must submit a Radon Report

Environmental Review

For conversions without any rehab and that are subject to Part 50, Rev 4 allows for “tiered” review. HUD has made program-wide compliance determinations for most of the applicable environmental laws and authorities, and will complete a site-specific compliance review only for:

- Coastal protection
- Flood insurance and flood plain management
- Contamination

Streamlined Conversion for Small Properties

Rev 4 creates a streamlined conversion option for Mod Rehab/SRO properties with 20 units or less

- Exemption from Capital Needs Assessment
- No Development Budget required
- Environmental Review “Tiered Review” (for PBRA)

Prohibition Against Rescreening

Current households cannot be excluded from occupancy at the Covered Project based on any rescreening, income eligibility, or income targeting.

Current households in the Converting Project will be grandfathered for application of any eligibility criteria to conditions that occurred prior to conversion, but will be subject to any ongoing eligibility requirements for actions that occur after conversion

Resident Right of Return

- Residents have a right to remain in or return to property. No resident may be permanent involuntary displaced
- If proposed plans preclude a resident from returning and resident object to the plans, the owner must alter the plans to accommodate the resident at the project.
- Uniform Relocation Act applies

Right of Return

To maximize resident choice, Owners may offer alternative housing options. Residents can voluntarily decline their right to return by providing written consent that is:

- ☐ **Informed** – written notification w/ counselling
- ☐ **Voluntary** – cannot be pressured and must be provided at least 30 days to make a decision
- ☐ **Documented** – retain evidence of notices, counseling and resident's decision

Permanent Supportive Housing Preference for SRO Conversions

SRO properties often serve households exiting homelessness in need of deep supportive services through a Permanent Supportive Housing model.

Rev 4 allows owners to adopt preference for households that qualify for services provided at the site, including disability-specific service:

- For PBV, follow HOTMA guidance (see Federal Register Notice 82 FR 5458 “Housing Opportunities Through Modernization Act of 2016: Implementation of Various Section 8 Voucher Provisions”)
- For PBRA, RAD notice provides detail on criteria that must be met and how the determination for meeting the criteria is made

Thank You and Questions

For more information visit

www.hud.gov/rad

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(link available at the bottom right of the
www.hud.gov/rad webpage)