



# **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

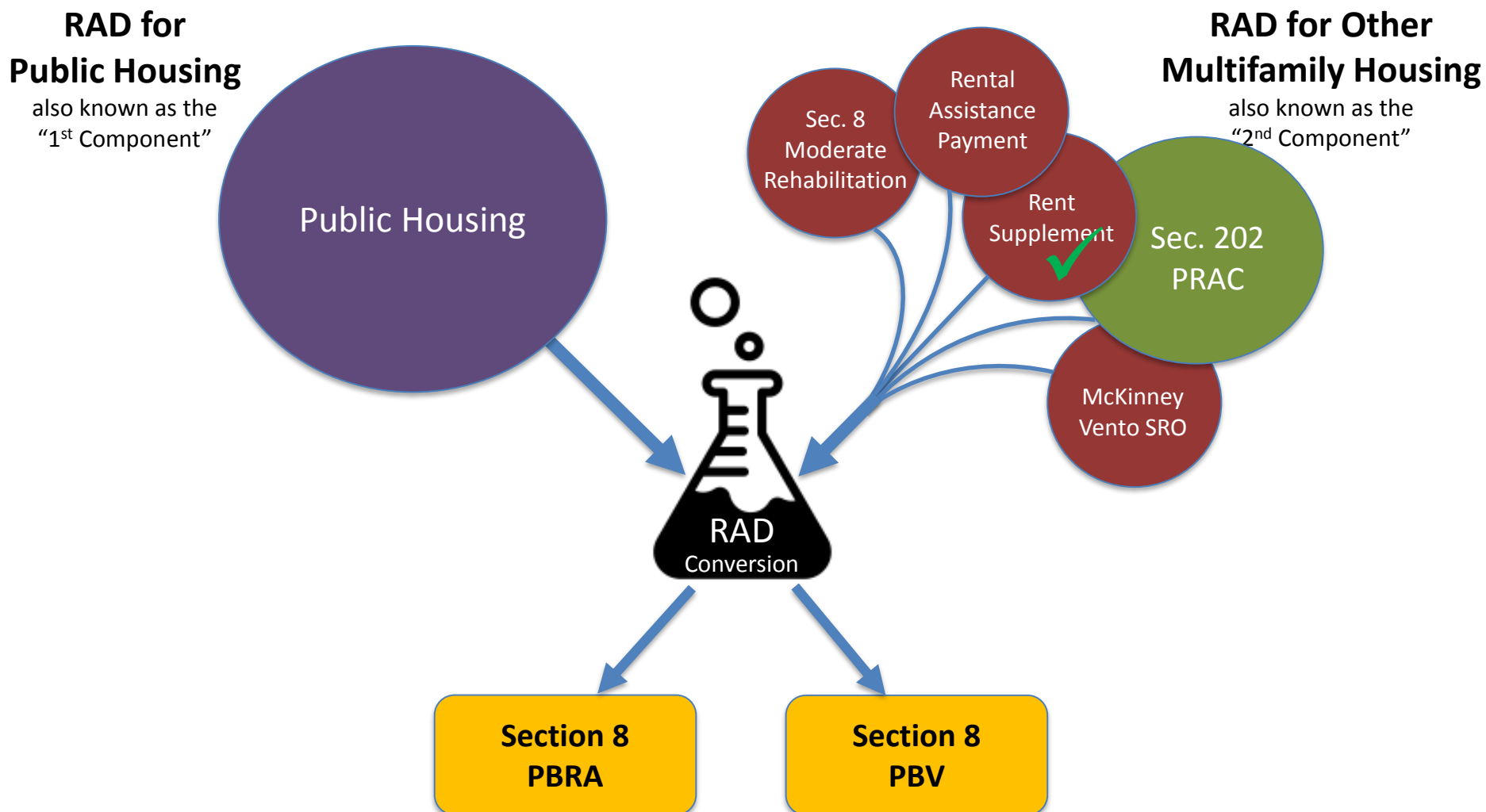
- Housing 2019-09/PIH 2019-23 (“RAD Notice Rev 4”) published September 5<sup>th</sup>, 2019
- Four Sections
  1. Public Housing conversions
  2. Mod Rehab/SRO conversions
  3. Rent Supplement and Rental Assistance Payment conversions
  4. 202 Project Rental Assistance Contract (PRAC) conversions  
**New!**
    - *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



# 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

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

# Project Based Voucher (PBV)

<b>Appropriations Account</b>	TBRA
<b>Contract Administration</b>	Performed by Public Housing Agency (PHA)
<b>Contract Start</b>	Must align with PRAC anniversary date and be at least 90 days from “closing” date
<b>Inspections</b>	HQS performed by PHA
<b>Rent Setting</b>	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

## 1<sup>st</sup> 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:

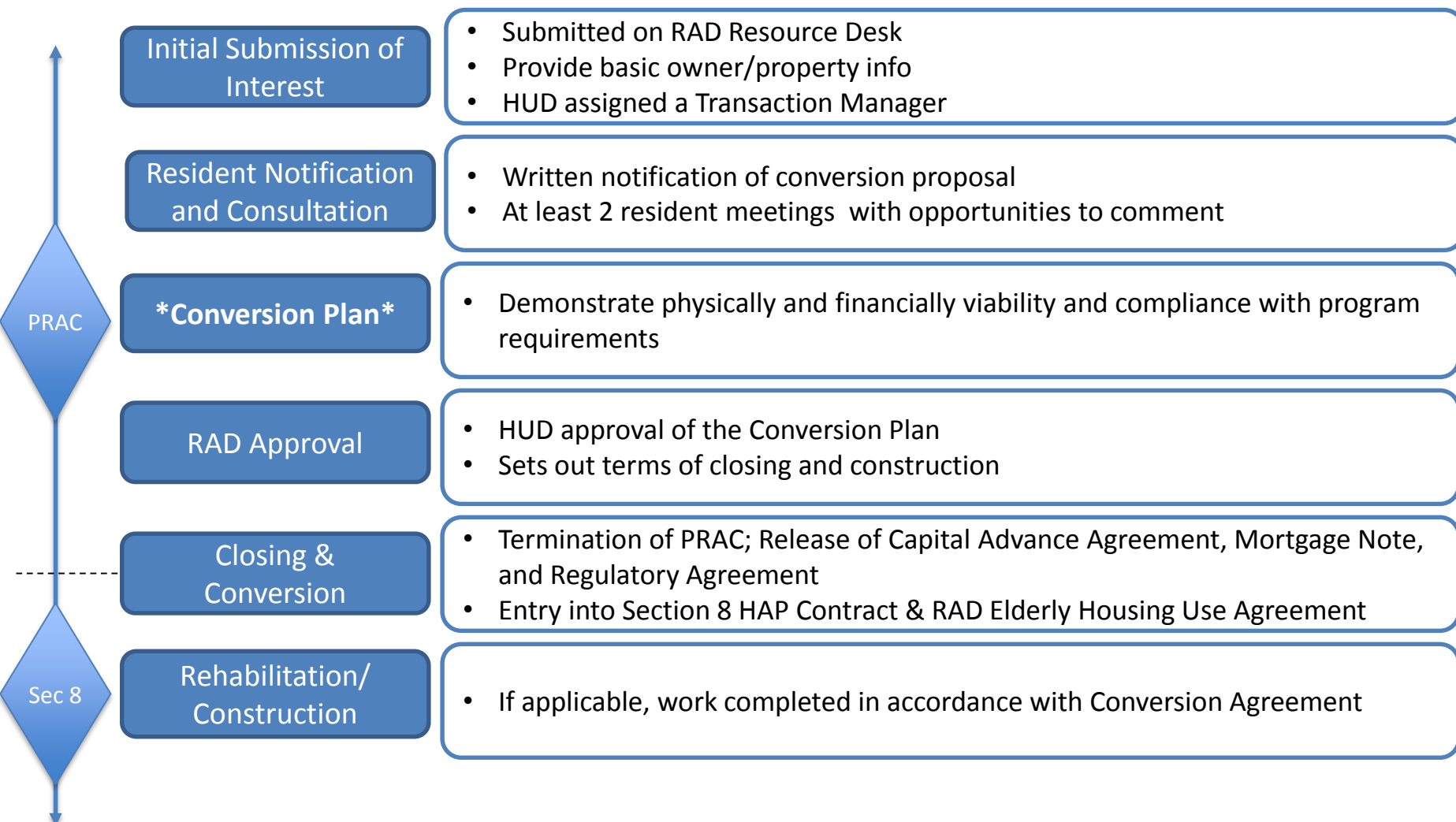
- that the transfer does not place housing in neighborhoods with highly concentrated poverty;
- whether conversion on-site is economically non-viable (physically obsolete or severely distressed)
- Impact on residents

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](http://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	<a href="#">Register Here</a>
Section 202 PRAC conversions	September 26, 2019 2:00 PM EST	<a href="#">Register Here</a>
Mod Rehab conversions	October 3, 2019 2:00 PM EST	<a href="#">Register Here</a>
Resident rights in Public housing conversions	October 10, 2019 2:00 PM EST	<a href="#">Register Here</a>
<b>Resident rights in Section 202 PRAC and Mod Rehab conversions</b>	<b>October 17, 2019 2:00 PM EST</b>	<a href="#">Register Here</a>

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COMPLETED

All webinars will be recorded and will be available at [www.hud.gov/RAD/library/notices](http://www.hud.gov/RAD/library/notices) and on [www.RADresource.net](http://www.RADresource.net)

# Thank You and Questions

For more information visit

[www.hud.gov/rad](http://www.hud.gov/rad)

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

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