

HUD's
Rental Assistance
Demonstration (“RAD”) Program

Panelists

- ❖ **Carol Oster, Development Manager, Rochester's Cornerstone Group LTD.**
Rochester, NY based affordable housing development firm, consulting/partnering with public housing agencies for real estate redevelopment/new construction and asset management.
- ❖ **Greg Bryne, Senior Project Manager, Rental Assistance Demonstration Program, Office of Public and Indian Housing.**
HUD Washington, DC coordinating implementation of HUD's Rental Assistance Demonstration (RAD) Program.
- ❖ **Michael Tonovitz, Vice President, CVR Associates, Inc.**
Tampa, Florida based affordable housing consulting firm focusing on organizational efficiencies by providing technical assistance and program management to Public Housing and Housing Choice Voucher Programs.
- ❖ **Michael Reardon, Partner Nixon Peabody LLC**
Washington, DC office representing public agencies on affordable housing issues and affordable real estate transactions. Prior to joining Nixon Peabody LLP, Mr. Reardon was Assistant General Counsel for Assisted Housing at HUD.
- ❖ **Robin Rubado, Asset Manager, Rochester's Cornerstone Group**
Rochester, NY based affordable housing development firm, consulting/partnering with public housing agencies for real estate redevelopment/new construction and asset management.

RAD Track Overview

❖ Five panelists present

(Q & A following each section):

- 1) RAD Program Overview
- 2) PHA considerations for RAD transactions
- 3) Financing for RAD conversions, rehabilitation and/or new construction
- 4) Legal considerations for RAD transactions
- 5) Asset Management
- 6) RAD application and timeline
- 7) RAD Inventory Assessment Tool Demo & Final Q & A

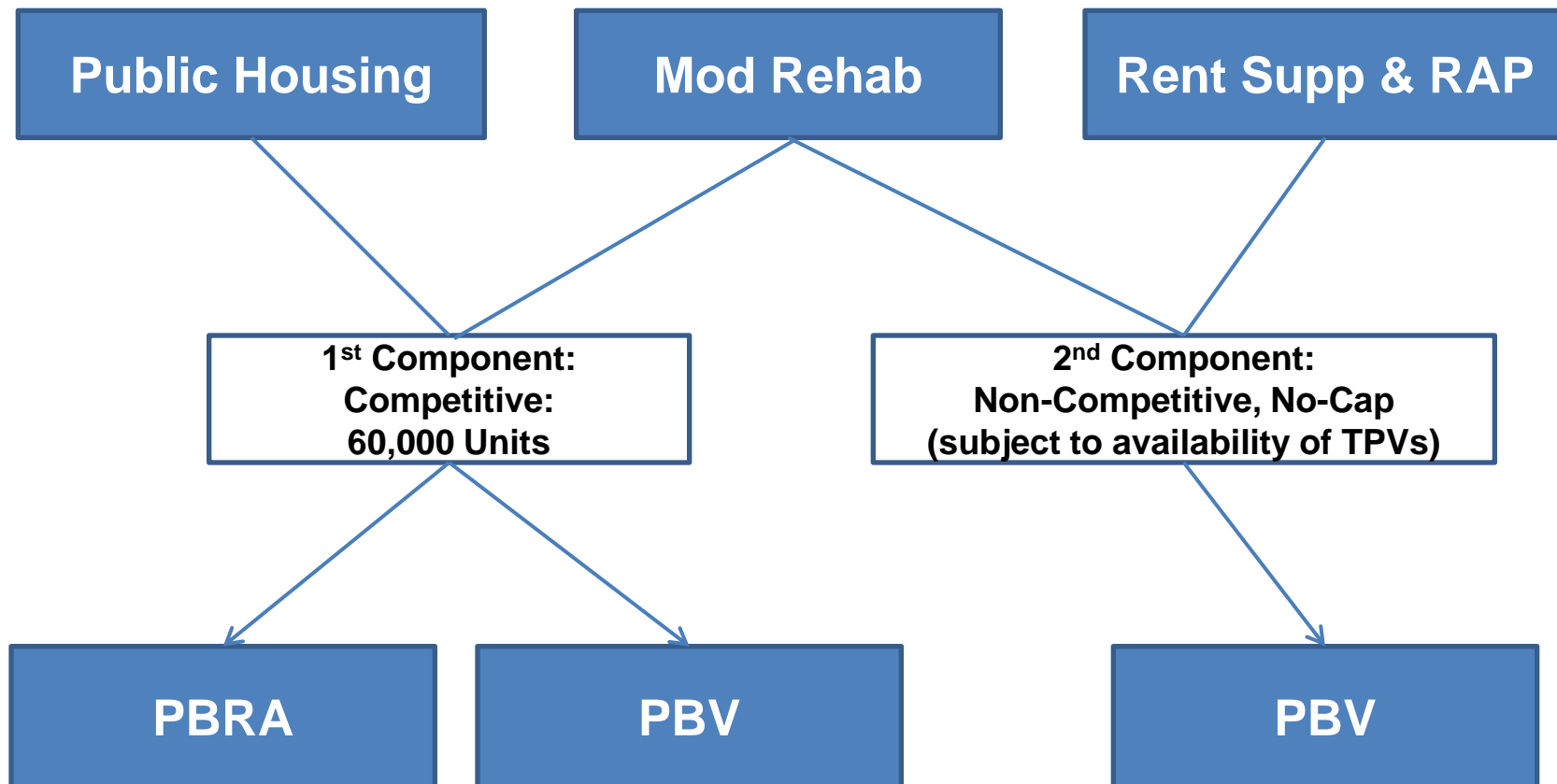


Key RAD Goals



- Build on the proven Section 8 platform**
- Leverage private capital to preserve assets**
- Offer residents greater choice and mobility**

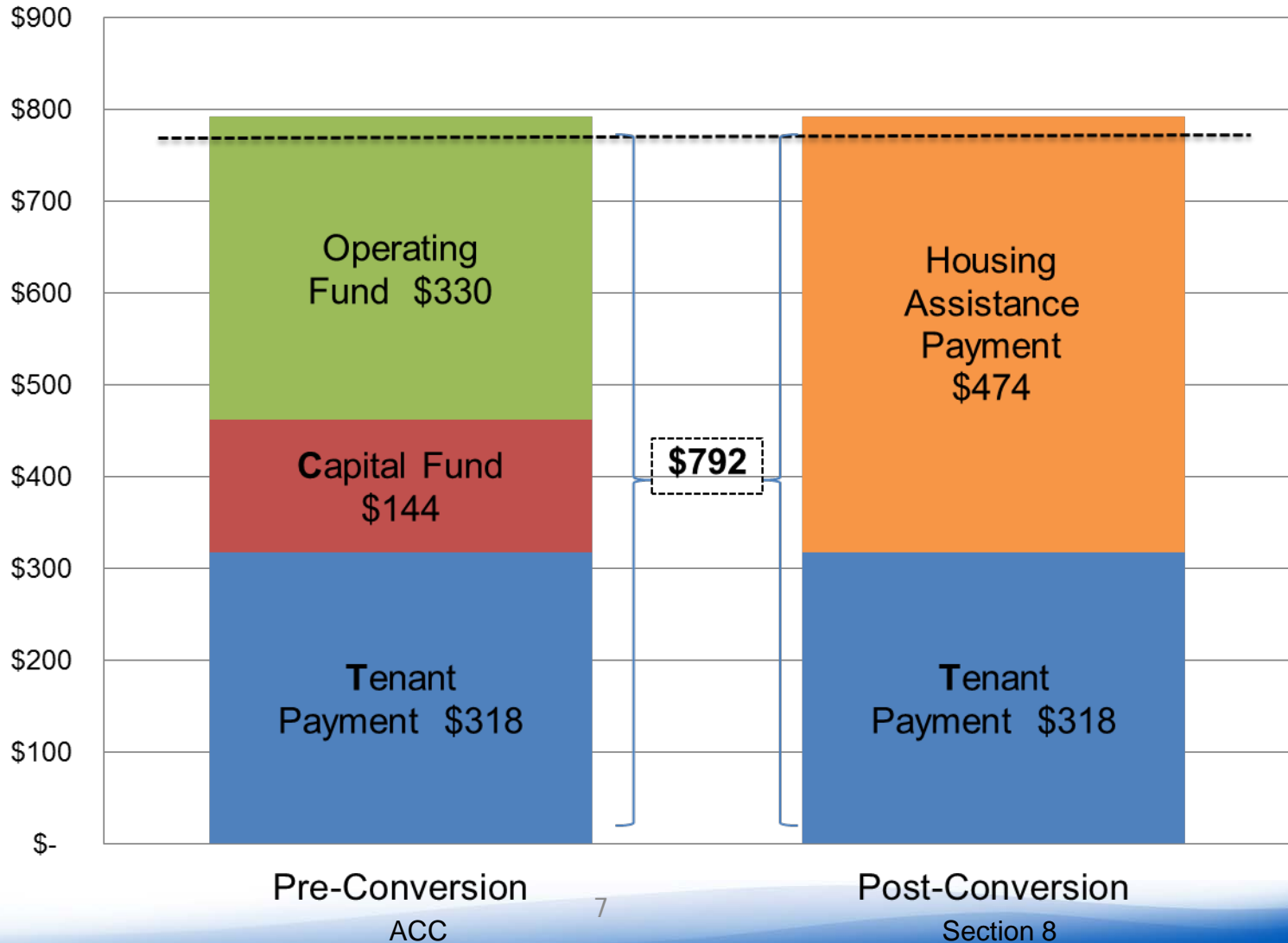
RAD Conversion Eligibility



Public Housing Conversion Rent Levels



Sample Public Housing Conversion
Per Unit Monthly (PUM)



RAD Inventory Toolkit Snapshot



RAD Conversion Planning Tool for PHAs						
Inventory Overview for Dearborn Housing Commission						
FIC Development Number	MI00000001		MI00000002		MI00000003	
Project Name	TOWNSEND TOWERS		KENNEDY PLAZA		SISSON MANOR	
Section One: Sizing Debt						
Total Units	79		119		135	
Weighted Avg # Bedrooms	1.05		1.00		0.94	
RAD Contract Rent (PUPA)	\$594		\$510		\$513	
Cash Flow Pro Forma						
Gross Potential Rent	\$163,307	\$7,130	\$728,576	\$6,122	\$831,823	\$6,162
Vacancy/Loss	(\$28,165)	(\$357)	(\$36,429)	(\$306)	(\$41,591)	(\$308)
Bad Debt/Loss	(\$11,266)	(143)	(\$14,572)	(122)	(\$16,636)	(123)
Other Income	\$9,480	\$120	\$14,280	\$120	\$16,200	\$120
Effective Gross Income	\$533,356	\$6,751	\$691,855	\$5,814	\$789,796	\$5,850
Operating Expenses	\$472,051	\$5,975	\$590,488	\$4,962	\$675,449	\$5,003
Replacement Reserve	\$39,500	\$500	\$59,500	\$500	\$67,500	\$500
Net Operating Income	\$21,805	\$276	\$41,867	\$352	\$46,847	\$347
Supportable Debt Service	\$0	\$0	\$0	\$0	\$0	\$0
Cash Flow	\$21,805	\$276	\$41,867	\$352	\$46,847	\$347
Maximum Supportable First Mortgage	Total	Per Unit	Total	Per Unit	Total	Per Unit
	\$0	\$0	\$0	\$0	\$0	\$0
SECTION TWO						
Conversion Type, Mortgage Terms, Unit Counts						
Type of Rental Assistance Contract	This Property	Global Input	This Property	Global Input	This Property	Global Input
	0	0	0	0	0	0
First Mortgage Key Business Terms	This Property	Global Input	This Property	Global Input	This Property	Global Input
Interest Rate	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
Amortization Term (year)	0	0	0	0	0	0
MIP/ other credit enhancement	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
DS CR	0.00	0.00	0.00	0.00	0.00	0.00
Supportable Mortgage Loan Amount	\$0	\$0	\$0	\$0	\$0	\$0
P+I Factor	0.000000%	0.000000%	0.000000%	0.000000%	0.000000%	0.000000%
P+I/MIP Factor	0.000000%	0.000000%	0.000000%	0.000000%	0.000000%	0.000000%
Unit Count	PIC Data	Proposed	PIC Data	Proposed	PIC Data	Proposed
Total	79	79	119	119	135	135
0 Bedroom	0	0	0	0	9	9
1 Bedroom	75	75	119	119	125	125
2 Bedroom	4	4	0	0	1	1
3 Bedroom	0	0	0	0	0	0
4 Bedroom	0	0	0	0	0	0
5 Bedroom	0	0	0	0	0	0
6 Bedroom	0	0	0	0	0	0

RAD Inventory Toolkit Demo



Newark Housing Authority
RAD Inventory Toolkit Demo

RAD Web Page



RAD Notice, application materials, and additional resources can be found at

www.hud.gov/rad

Email questions to rad@hud.gov



CVR
ASSOCIATES INC

Other RAD Considerations

FUNDING

- ❖ **RAD is revenue neutral in Year 1**
 - No new Funds from HUD!
 - Provisions for operating cost adjustments (“OCAF”)
 - Rents will never decrease
 - Protections from effects of Sequestration
 - PHA subsidies and Capital Fund appropriations are decreasing

CHOICE MOBILITY

Key Components

- ❖ Tenants assisted with PBV can move after one year with a voucher
- ❖ For PBRA units, tenants can move with a voucher after 24 months
- ❖ PHA can limit PBRA turnover with a voucher to 1/3 of turnover in voucher program
- ❖ Can limit moves to 15% of project
- ❖ Good cause exemptions in limited circumstances

PBV VERSUS PBRA

PBV

❖ **Pros**

- PHA administers assistance
- Administrative fees earned
- Management fees from both site and HCV program for COCC
- No REAC Inspections

❖ **Cons**

- Lower cap on maximum rents and thus less potential debt service (110% of FMR)
- Only 50% of units can receive assistance unless exceptions met
- Need Capacity to administer PBV assistance (must have existing HCV Program to self administer PBV)

PBV VERSUS PBRA

PBRA

❖ **Pros**

- Higher cap on rents support greater debt (120% of FMR)
- All units can be assisted

❖ **Cons**

- Must learn to use TRACS
- Subject to REAC Inspections
- HUD administers assistance so no administrative fees
- Possible higher operating costs because site must do subsidy calculations
- Choice Mobility is still applicable

SUPPORTIVE SERVICES

HUD Requirements for Exemption

- ❖ Applies at turnover, not for existing residents
- ❖ Can be FSS participation or any other supportive services program as defined by HCV Administrative Plan.
- ❖ Key components
 - Intake and Assessment
 - Case Management
 - Individual Action Plan with Goals
 - Tracking and Reporting

SUPPORTIVE SERVICES

Typical Program Goals

- ❖ Self-Sufficiency
- ❖ Upward Mobility
- ❖ Economic Independence
- ❖ Educational Achievement
- ❖ Quality of Life

SUPPORTIVE SERVICES

Sources of Funding

- ❖ Existing FSS Program
- ❖ Priority points for new HCV FSS coordinator positions in an upcoming FSS competitions
- ❖ Site's Operating Budgets (if allowed by funding sources)
- ❖ HCV Admin Fees
- ❖ Partnership Agencies
- ❖ 501 (c) 3 affiliates
- ❖ Grants

ACC UNIT/FAIRCLOTH LIMIT REDUCTION

- ❖ Current Capital Fund fungibility is lost
- ❖ Leveraging of Capital Funds for Debt lost
- ❖ Reserves become site specific
- ❖ Residual receipts might not be fungible depending upon ownership structure
- ❖ If PHA eliminates all ACC units, Agency Plan might not be required
- ❖ Could “De-Federalize” some PHA funds
- ❖ ACC units can not have Debt

OTHER CONSIDERATIONS

- ❖ Agency Plan Amendment Required
- ❖ Resident Participation Required
- ❖ Choice Mobility
- ❖ Physical Needs Assessment

PHYSICAL CONDITION ASSESSMENT

Requirements

- ❖ A detailed physical inspection of a property to determine critical repair needs, short- and long-term rehabilitation needs, market comparable improvements, and environmental concerns
- ❖ Tool is at www.hud.gov/RAD
- ❖ Must be completed by a qualified, independent third-party inspector
- ❖ Due to HUD within 90 days of CHAP issuance

PHYSICAL CONDITION ASSESSMENT

Key Components

- ❖ Utilities and Appliances
- ❖ Site and Infrastructure
- ❖ Windows and Doors
- ❖ Building Envelope and Roof
- ❖ HVAC and Domestic Hot Water
- ❖ Plumbing and Electrical
- ❖ Elevators
- ❖ Fire Protection
- ❖ Unit Interiors

CONSULTANTS

\$100,000 limit on use of PHA funds

Prior to the approval of a project's Financing Plan, a PHA may expend up to \$100,000 in public housing program funds in related pre-development conversion costs per project. Predevelopment assistance may be used to pay for materials and services related to proposed development and may also be used for preliminary development work. Public housing program funds spent prior to the effective date of the HAP are subject to public housing procurement rules.

CONTACT US

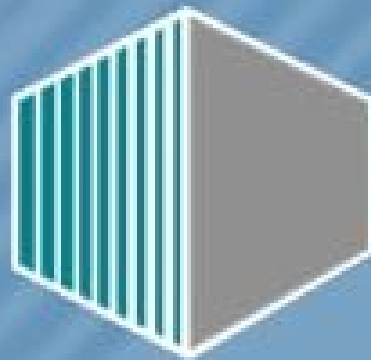
Michael Tonovitz, Vice President

mtonovitz@cvrassociates.com

(813) 223-3100 (585) 746-7956 cell



Rochester's
Cornerstone
Group, Ltd.



Rochester's
Cornerstone
Group, Ltd.



- ❖ RAD conversion provides access to debt & equity markets
- ❖ PHA retains 3rd party consultant to determine the project's capital needs and other project costs:
 - Repairs (Davis Bacon wage rates apply)
 - Soft cost including financing fees, architectural, LIHC allocation fees, etc
 - 10% development fee (LIHC transaction 10% acquisition/15% improvements)
 - Capitalized reserves

Financing RAD conversions, rehabilitation and/or new construction



❖ RAD assessment tool to estimate 1st mortgage, Apply to 1st mortgage lenders:

-Conventional lender construction & perm financing (Freddie, Fannie), 15 or 18 yr. term, 30 year amort., 80%-90% LTV, 6%-7.5% interest rate

-FHA insured HUD mortgage programs:

HUD Section 221(d)(4) new construction or substantial rehab- *1 year processing*
(LIHC > \$40,000/un hard cost; any amt. non-LIHC for cub. rehab. above 1) \$6500/un as adj to high cost or 15% appraised value after repairs or 2) replace 2 major bldg. systems, 3.6% rate, .45% MIP, 40 yr. term/amort., 90% proj based RA=90% LTC/1.11 x DSCR; LIHC=87% LTC, 1.15 x DSCR, non LIHC = 83%, 1.20 x DSCR

HUD Section 223(f) (no LIHC or Sect 8 required)-*120 days processing*

moderate rehab <\$6,500 hard cost/unit as adj to high cost, up to 1 major system, no more than 15% of appraised value, 3% rate, .45% MIP, 35 yr. term & amort., loan size lower of: 87% LTV (80% for cash out), 100% Refinance LTC, 90% acquisition LTC, DSCR: 1.15 90% proj. based, 1.76 x LIHC, 1,20 DSCR.

HUD Section 223(f) LIHC Pilot Program (LIHC resyn. w/ new LIHC or rehab; new LIHC const. take out ; 90% proj based w/ LIHC acq. rehab)-*90-120 days processing*

moderate rehab <\$40,000 hard cost/unit (HUD funds up to \$6500/un hard, remainder from LIHC), 3% rate, .45% MIP, 35 yr. term & amort., loan size lower of: 87% LTV, 100% Refinance LTC, 90% Acq. LTC, DSCR: 1.15 90% proj. based, x 1.176 x LIHC.

Financing RAD conversions, rehabilitation and/or new construction



Rochester's
Cornerstone
Group, Ltd.

- ❖ If additional “Gap” financing needed, identify sources, apply for grants:
 - PHAs available public housing funding, including Operating Reserves, Capital Funds, and Replacement Housing Factor (RHF), whether for rehabilitation or new construction.
 - CDBG local municipality
 - County HOME
 - Federal Home Loan Bank of New York
- ❖ Federal & State 9% Low Income Tax Credits
- ❖ 4% as-of-right credits coupled with tax exempt bond financing
- ❖ Historic tax credits

- ❖ New York State Homes and Community Renewal (“NYS HCR”) Unified Funding Application.
- ❖ Funding programs:
 - 9% low income housing credits (“LIHTC”) and State low income housing credits (“SLIHC”) allocation. Credits sold to limited investor for 99.99% project ownership.
 - Capital funds, Housing Trust Fund & HOME Program funds-1% interest only, 30 year term.
- ❖ Competitive application, 1 in 4 funded, per unit & project funding limits. Firm commitments needed from all other funding sources.
- ❖ Review Qualified Allocation Plan (“QAP”) & Capital Programs Manual (“CPM”) for program & application requirements.

- ❖ New York State Housing Finance Agency Funding Application (“NYS HFA”)
- ❖ Funding programs:
 - 4% as-of rights credits (“LIHTC”) coupled with tax exempt bonds
 - State low income housing credits (“SLIHC”) allocation . Credits sold to limited investor for 99.99% project ownership
 - Homes for Working Families (“HWF”) Loan-1% interest only, 30 year term
- ❖ Open round, however limited resources
- ❖ Review Qualified Allocation Plan (“QAP”) & HWF regulations for program & application requirements

LIHC transactions - consider partnering with an experienced LIHC developer



Why

- Expertise
- Leverage Capacity
- Raise Equity or Resources
- Share the Risk



How to Select

- Developer and Management Skills
- Technical Skills
- Compatibility: Experience working with partners, especially PHA & nonprofits
- Trustworthiness





❖ LIHC & SLIHC transaction financial guarantees to construction lender & equity:

- Construction completion
- Environmental
- Operating deficit
- Tax credit compliance
- Developer fee

Financing RAD conversions, rehabilitation and/or new construction



Financial transaction examples-FHA insured, 185 unit project – replacement value \$ 20 million

Sources

FHA 223(f) Loan	<u>\$4,000,000</u>	<u>21,622</u>
total	\$4,000,000	21,622

Uses

Capitalized reserve	\$449,000	\$2,427
Repairs	\$2,775,000	15,000
Development fee	400,000	2,162
Cash to owner	100,000	541
Transaction Costs/Financing Fees	<u>276,000</u>	<u>1,492</u>
total	\$4,000,000	21,622

Financing RAD conversions, rehabilitation and/or new construction



❖ Financial transaction example- 9% LIHC, 420 unit project

Sources

Loan (FHA 221(d)(4); conventional)	\$ 4,351,000	10,359
Seller Note	9,620,000	22,900
LIHC equity	<u>19,800,000</u>	<u>47,140</u>
total	\$33,771,000	80,410

Uses

Acquisition	\$ 9,620,000	22,900
Rehabilitation	18,601,000	44,290
Soft Costs	1,017,000	2,420
Financing Fees	662,000	1,580
Development Fee	2,100,000	5,000
Operating & Replacement Reserve	<u>1,771,000</u>	<u>4,220</u>
total	\$ 33,771,000	80,410

Financing RAD conversions, rehabilitation and/or new construction



❖ Financial transaction example- 4% LIHTC, 420 unit project

Sources

Loan (FHA 221(d)(4); Bond)	\$ 7,650,000	18,210
Seller Note	9,620,000	22,900
Deferred Developer Fee	1,050,000	2,500
LIHC equity	9,932,000	23,650
Other Capital	<u>6,149,000</u>	<u>14,640</u>
total	\$34,401,000	81,900

Uses

Acquisition	\$ 9,620,000	22,900
Rehabilitation	18,601,000	44,290
Soft Costs	1,017,000	2,420
Financing Fees	1,292,000	3,080
Development Fee	2,100,000	5,000
Oper. & RR Reserve/ Working Cap	<u>1,771,000</u>	<u>4,220</u>
total	\$ 34,401,000	81,900



Carol Oster, Development Manager

carol@rcgltd.net

(585) 424-1400

(585) 410-4830 cell

NIXON PEABODY

RAD Statute provides Ownership or Control by Public or Nonprofit Entity

Ownership means legal title

Control means ability to direct the financial, legal, beneficial, or other interests of the owner

Other forms of control

RAD Notice provides for the following priority in ownership

- Could be through contract, partnership or voting right of entity
- 51% or more interest in of the general partner of limited partnership

- Long term ground lease
- Subordinate seller (PHA) financing
- Right of first refusal in sale of project

- Capable public entity
- Capable non-public entity as determined by Secretary
- For-Profit entity to facilitate use of low-income housing tax credits

No New Financing or Debt Only Financing

- PHA or other public entity could be Owner with FNA or conventional financing
- Single Asset Borrower Requirement for FHA Financing
 - Must be eligible mortgagor under FHA guidance
 - Creation of PHA affiliate or Instrumentality
 - No competitive requirements for contractor selection

Considerations for PHA or Another Entity as Developer

- Development Financing or Tax Credit Experience
- Management Experience – section 8/LIHTCs
- Guarantees – HUD limitations on PHA guarantees
- Investor Requirements

Limited Partnership or LLC

- Need to create owner entity for tax credit purposes
- General Partner Role
- Investor Limited Partner Role

Ongoing Ownership Eligibility Requirements

- Standard or High Performer under PHAS and SEMAP
- Maintain compliance with HUD reporting and programmatic requirements
- No debarment, suspension of LDPs
- Compliance with all Fair Housing and Civil Rights Compliance

PBV and PBRA Considerations with respect to PHA ownership

- PHA Ownership Interest under PBV Program
 - Broad definition in regulations

Means that the PHA or its officers employees or agents hold a direct or indirect interest in the building in which PBV unit is located including titleholder or lessee, as stockholder, member or general or limited partner, or member of LLC, or an entity that holds any such direct or indirect interest

HQS inspection
must be done by
independent
entity

Rent
Reasonableness
test must be done
by independent
entity

Independent
entity may be
unit of local
government or
another PHA or
another HU-
approved public
or private entity

Must be paid
from PHA's
administrative fee
income

PHA Ownership under PBRA Program

- PBRA contract administered by State PBCA or HUD
- Contract is more like traditional section 8 contract with different requirements from programs that PHA generally operate

Tax Credit and Other Guarantees - PHA or an affiliate of PHA as owner or general partner in limited partnership or managing member in LLC would be required to provide guarantees to investors and lenders

- Completion Guaranty
 - Must provide for lien free completion of the project by date certain
 - LIHTC guarantees – assure placed in service date is met and investor receives all of its tax credits
- Environmental Indemnifications or Guarantees

HUD Model Language on Limitation on PHA sources of guarantees

2. **Guaranty Obligations and Indemnifications.** (A) Except as provided in subparagraph (B) of this paragraph, the Limited Partners of the Owner acknowledge and agree that the neither the Authority not the General Partner of the Owner (the “General Partner”), or any entity with a controlling interest in the General Partner (the “Controlling Entity”), has authority to provide the Limited Partners with guarantees or indemnifications involving the assets of the Project (as the term “Project” is defined in paragraph 1. [4] _____ herein, and as further defined in the ACC) or the assets of the Authority. Accordingly, the Limited Partner(s) acknowledge that public housing operating subsidies, or other receipts generated by the Project, may not be used to make cash flow distributions to the Limited Partner(s) and, furthermore, that they have no legal right of recourse under this Agreement against:
- i. any public housing project of the Authority, including the Project that is the subject of this Limited Partnership Agreement;
 - ii. any operating receipts of the Authority (as the term “operating receipts” is defined in the ACC); or
 - iii. any public housing operating reserve of the Authority reflected in the Authority’s annual operating budget and required under the ACC;
- B. The Authority may, with HUD’s prior written approval in accordance with section 30 of the Act and the ACC, pledge and grant to Owner an interest in its Authority Reserve solely to permit the use of such funds for eligible and necessary costs of the Project, as provided in the Regulatory and Operating Agreement and the Applicable Public Housing Requirements. In addition, any excess fees contained in the Authority’s Section 8 administrative fee reserve under 24 CFR § 982.155 shall not be subject to the restrictions in subparagraph (A) herein, nor are any other assets of the Authority arising under any program not administered by HUD subject to this restriction.

Contact us

NIXON PEABODY_{LLP}
ATTORNEYS AT LAW

Michael H. Reardon, Esq.
401 9th Street, NW, Suite 900
Washington, DC 20004
(202) 585-8304
mreardon@nixonpeabody.com

Asset Management



Rochester's
Cornerstone
Group, Ltd.



Rochester's
Cornerstone
Group, Ltd.

Regulatory Requirements for LIHTC/SLIHC are 15 years with a 35 Year extended use agreement, total 50 Years.

Once you have satisfied LIHTC requirements you should seek to satisfy any remaining or more restrictive requirements of your other programs.

Reporting Requirements:

- Syndicators Monthly, Quarterly and Annually
- NY State HCR Annually (Budgets and Audits)
- HUD Annually

Inspections Performed:

- Syndicator Annual File Testing and Site Visit
- NY State Every Three Years
- HUD REAC (If choose PBRA or have HUD Mort.)

Income Limits:

PHA up to 80% of the AMI

LIHTC program up to 60% of AMI, SLIHC 90% of AMI

Contact us



Rochester's
Cornerstone
Group, Ltd.

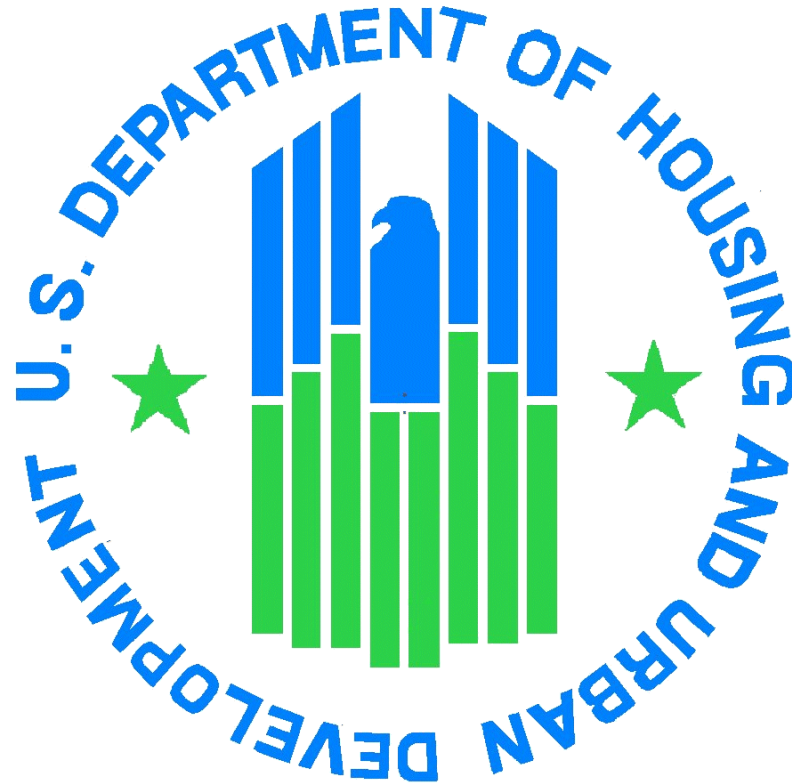
Robin Rubado, Asset Manager

robin@rcgltd.net

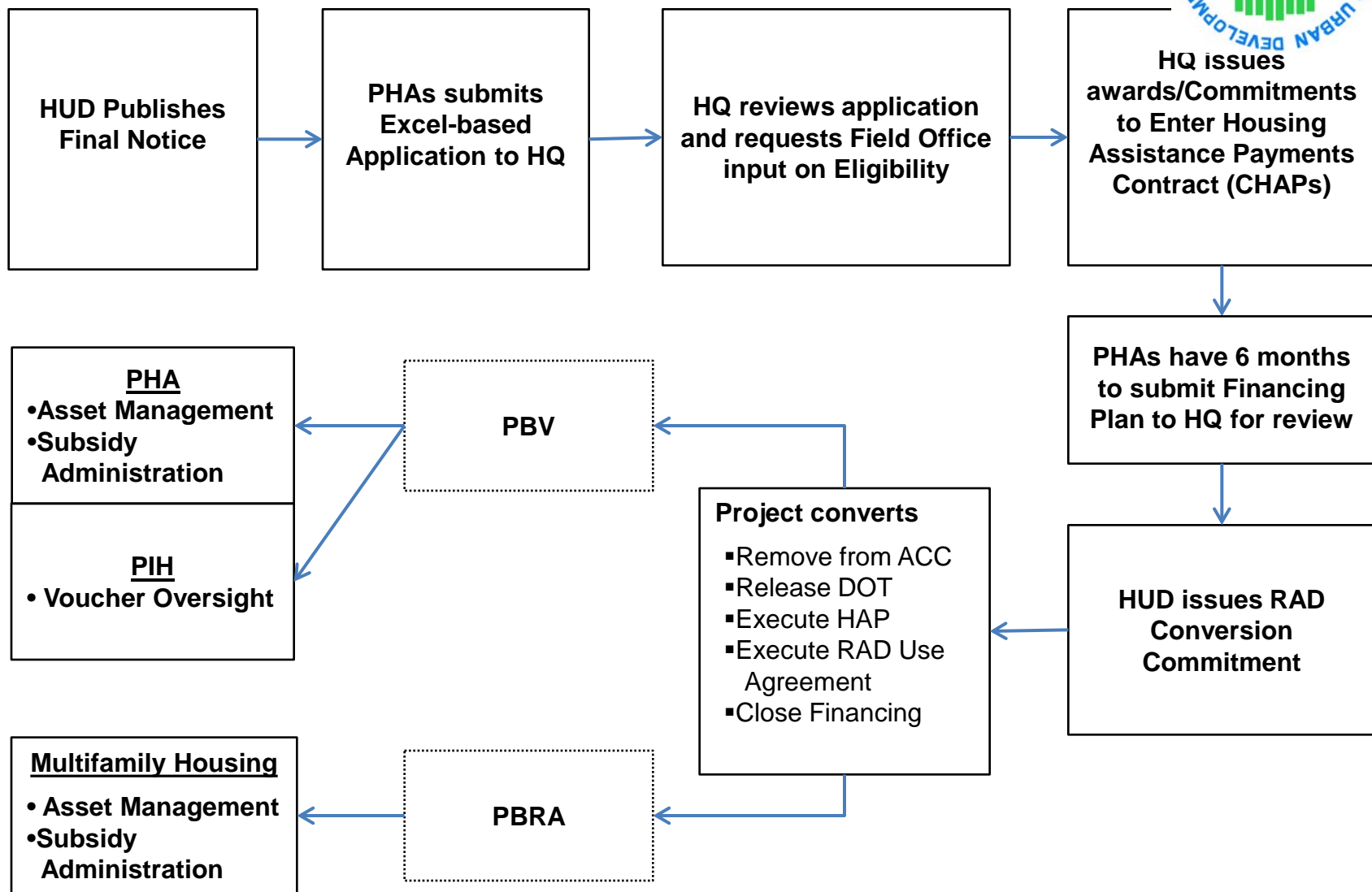
(585) 424-1400

(585) 802-5356 cell

RAD application and timeline



Conversion Steps – Public Housing



Application Snapshot



Rental Assistance Demonstration (RAD)		U.S. Department of HUD, Form HUD-5260 (DRAFT)						
Public Housing Program Application		Office of Public Housing, Office of Multifamily Housing						
<p>There are several explanation boxes that extend the full width of this form. Increase or decrease the height of the box as needed (click to the left on the horizontal line below the row number, then drag the line up or down as needed).</p>								
Section 1: PIC Development Number and Name								
Enter the PIC Development Number and Name.								
CA2010001								
Development Number	Name of Development ?							
Annandale Housing Authority	123456789456							
Public Housing Agency (PHA) Name	Data Universal Numbering System (DUNS) #							
Anthony Bond	999-999-9999	abond@aha.org						
Executive Director	Telephone Number	Email						
Section 2: Background Information on the PHA and the Project								
Enter the requested contact information and complete the below questions regarding the project.								
PHA Contact Name ?	Title	Telephone Number	Email					
Type of Conversion:		?						
Is this Project an existing Mixed Finance Project		?						
Do you want to designate this project as your PHA's priority project?		?						
Review the below table of project unit counts, by bedroom size, per the PIC data extract as of 06/01/12								
PIC Bedroom Distribution							Total Units	Average Bedroom per Unit
0-BR	1-BR	2-BR	3-BR	4-BR	5-BR	6-BR		
0	0	28	25	0	0	0	53	2.47
Is the above PIC information correct?				?	Yes	<i>Slip to proposed post-RAD-conversion unit distribution</i>		
Actual Bedroom Distribution (PIC corrected)							Total Units	Average Bedroom per Unit
0-BR	1-BR	2-BR	3-BR	4-BR	5-BR	6-BR		
							0	
Enter the date corrected or PIC ticket created (MM/DD/YYYY) 01/01/2012								
Proposed Post-RAD-Conversion Unit Distribution. Below, show the mix of units that you have proposed to convert, as well as other dwelling units at the project								
	0-BR	1-BR	2-BR	3-BR	4-BR	5-BR	6-BR	Total Units

RAD Inventory Assessment Tool Demo & Final Q & A



❖ RAD Inventory Assessment Tool Demo
Volunteers?

❖ Final Q & A

Thank you for joining us!