NEW LONG-TERM RENTAL ASSISTANCE CONTRACTS FOR THE PRESERVATION OF PRE-1974 SECTION 202 DIRECT LOAN PROPERTIES

WEBINAR

November 29, 2018
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Presenters

Will Lavy
Office of Recapitalization

Minnie Monroe-Baldwin
Office of Recapitalization

Vincent O’Donnell
Cloudburst Group

Margie Maisonet
Federal Practice Group, LLC
Overview

Preservation Options
• Available tools that can be used to preserve pre-1974 Section 202 Direct Loan properties and extend affordability of the units.
• Training Goal: Provide clarity on the preservation steps and requirements.

Prepayment / Refinance
• Guidance for the Prepayment and Refinance of Section 202 Direct Loans in Notice H 2013-17.
• Access to Project-Based Vouchers (PBVs) and Senior Preservation Rental Assistance Contracts (SPRAC), as described in Notice H 2018-02.

Matured / Maturing Loans
• Guidance in Notice PIH 2018-02/H-2018-01, describing opportunities for obtaining Project-Based Vouchers (PBVs) when Section 202 Direct Loans mature.

Q&A
• Q & A session with the presenters and other HUD Subject Matter Experts.
Characteristics of Pre-1974 Section 202 Properties

1959 - 1974

- Non-Profit Sponsor
- Direct Loan
  - 3-3.75% Interest
- Originally No Rental Assistance

DID YOU KNOW?

- There are 78 Remaining Pre-1974 Section 202 properties with 8,800 Units.
- Most of these loans will mature between 2019 and 2024.
- The portfolio has an aging in place population with an increasing need for services.
- Most of these Direct Loans have never been recapitalized despite being in service for over 40 years.
Preservation Challenges

- Lack of rental assistance
- Limited rents
- Expiring affordability restrictions
- Rehab needs

This webinar focuses on HUD's tools to address these challenges
Preservation Options

Preservation Options are now available for Pre-1974 Section 202 Direct Loan Properties to...

- **Enhance Revenue**
  - Improve project revenue by adding rental assistance.

- **Maintain Affordability**
  - Ensure ongoing affordability by providing subsidy through Project-Based Vouchers or SPRAC.

- **Promote Leverage**
  - Allow owners to leverage debt and equity to recapitalize the property.
Two Preservation Tracks for Pre-1974 Section 202 Properties

Prepayment & Refinance

Most Often Recapitalize

Maintain Affordability:

- Project-Based Vouchers for any units occupied within the past 24 months
- SPRAC Assistance

Matured or Maturing

Recapitalization Not Required

Maintain Affordability:

- Project-Based Vouchers for occupied units
Preservation Through Prepayment & Refinance

Notice 2013-17

- Provides HUD’s prepayment requirements; most Pre-1974 Direct Loans require HUD’s permission to prepay.
- Outlines the Owner’s submission requirements.
- Details the approval process.

Notice H-2018-02

- Sources of rental assistance:
  1) Prepayment triggers Tenant Protection Vouchers for unassisted units that were occupied within last 24 months (made available by PHA as Project-Based Vouchers)
  2) SPRAC assistance is reserved for unassisted units not qualifying for TPVs
- Outlines Owner’s submission requirements.
- Identifies roles and responsibilities at HUD and with the Public Housing Authorities (for PBVs).
Preservation Through Prepayment & Refinance

Prepayment Requirements

• **HUD must approve most** pre-1974 Section 202 prepayments.
• **Direct Loan must be active** and not matured to qualify for incentives including:
  • Potential deferral of Flexible Subsidy repayment.
  • Subordination of existing Direct Loan permitted if necessary for recapitalization.
  • Increased use of proceeds.
• **Must renew existing Section 8 contract for 20 years, if applicable.**
• **Include Form 9808** (Request for Prepayment of Section 202 or 202/8 Project).
• **Debt Service reduction not required** if physical needs will be met, at least to the extent determined by a Capital Needs Assessment (CNA).
  • Capital Repairs must meet the test for “substantial rehabilitation” as defined by the FHA MAP Guide (waiver may be approved, if justified by CNA).
Preservation Through Prepayment & Refinance
Prepayment Requirements (cont.)

- No rent increases for unassisted residents
- Tenant Notice and Comment (24 CFR Part 245)
- Use of Project Reserves
- Energy Efficiency in Capital Repairs
- 20-Year Use Agreement
- Compliance Review
- Part 50 Environmental Review
- Temporary Relocation Only
Preservation Through Prepayment & Refinance
Focus on Permitted Use of Proceeds

Generally, to benefit tenants of subject property or for housing & services in other nonprofit-owned HUD-assisted senior housing

Up to 15% of social service costs

Rehabilitation, modernization, retrofitting, additions or other facilities in, or adjacent to, property

Transaction costs

Developer fees

Rent reduction for unassisted tenants
Preservation Through Prepayment & Refinance
Focus on Project-Based Vouchers (PBVs)

- PHA and Owner may “project base” vouchers, providing rental assistance at the project level.
- Section 8 HAP contracts with Public Housing Authority (PHA), not with HUD.
- Rent limit: rents set at lower of “reasonable rents” or 110% of FMR.
- Contract term: up to 20 years, subject to appropriations; may be extended another 20 years.
- Long-term contract supports financing against income stream.

- PHA manages waiting list.
- Owner may screen voucher holders referred by PHA.
- Tenant mobility after one year. PHA fills vacancy with another voucher holder.
- PBVs used on pre-1974 Section 202 properties:
  - Exempt from PBV competitive selection requirements
  - Do not count against PHA’s PBV program cap
  - Exempt from PBV income-mixing requirements
  - Tenant consent is not required to project-base the tenant protection voucher funding
Preservation Through Prepayment & Refinance
Focus on Senior Preservation Rental Assistance Contract (SPRAC)

• Per Notice H 2018-02, SPRAC can cover units at property that are not covered by PBV contract or do not receive any other form of assistance.
• Eligibility: Pre-1974 Section 202 properties with original interest rates of 6% or less, as part of a recapitalization to address the physical needs of the property.
• Long-term 20-year contract, subject to appropriations, supports financing against income stream; same rules as project-based Section 8.
• Initial Rents: Lesser of Rent Comparability Study (RCS) or 150% of Fair Market Rents (FMR).

• SPRAC funding is first-come, first-served.
• HUD is the contract administrator.
• Guidance: https://www.hud.gov/program_offices/housing/mfh/presrv/presmfh/sprac_contracts
Preservation Through Prepayment & Refinance
Summary of Preservation Process Through Prepayment with PBV and SPRAC

1. Owner Contacts Office of Recapitalization by Email to Pre1974Section202@hud.gov (Including SPRAC Interest, if Applicable)

2. Concept Call Held

3. Owner Submits Waiver Requests & Prepayment Application

4. PHA Selected and Determines Initial Number of PBVs

5. Recap Initiates Prepayment Approval Processing

6. Prepayment Approved

7. Recap & HUD PIH Coordinate on Voucher Funding

8. Subject to Funding Availability and Unit Eligibility, SPRAC may be Awarded

9. Owner Has One Year from Approval to Close
Preservation for Matured/Maturing Mortgages

Notice PIH 2018-02 / Notice H 2018-01

• Provides eligibility criteria for rental assistance (TPVs): at-risk tenants in low-vacancy areas.
• Outlines Owner’s submission requirements.
• Discusses roles and responsibilities for HUD and Public Housing Authorities.
Matured/Maturing Mortgages Requirements

- Property must be located in a low-vacancy area.
  - For more information, please review this list of low-vacancy areas.
- Mortgage must have matured after February 8, 2013 or will mature within 180 days from Owner’s submission.
- Owner submits basic property information and documents.
- Owner may request project-based vouchers or enhanced vouchers (i.e., tenant-based). PHA must be willing to administer voucher contract.
- Certifications required for compliance with civil rights laws and tenants not receiving other subsidy.
- PBV program rules are as previously noted (See Slide # 14).
Owner must identify:

- At-Risk Tenants with Rent Calculations
- Not-At-Risk Tenants with Rent Calculations
- List of Ineligible Tenants (Failed to Provide Income Information)
Matured/Maturing Mortgages Requirements (cont.)

Owner may identify, but not required to provide:

- A Capital Needs Assessment
- Proposed Financing
- Proposed Repairs (nonetheless property must meet Housing Quality Standards)
Summary of Preservation Process for Matured/Maturing Mortgages

1. Owner Requests Subsidy to Office of Recapitalization
2. Initial Eligibility Determination
3. Owner Submission Reviewed
4. PHA Selected
5. Recap and PIH Coordinate on Funding
6. Request Approved
7. PBVs or Enhanced Vouchers Issued
Resources

Overview of Guidance

Key Concepts For Preservation Of Pre-1974 Section 202 Direct Loan Properties

Notice H 2013-17

Updated Requirements for Prepayment and Refinance of Section 202 Direct Loans
https://www.hud.gov/sites/docs/13-17hsqn.pdf

Notice H 2018-02

Refinancing of Pre-1974 Section 202 Direct Loans and Subsequent Issuance of TPVs or SPRACs

Notice PIH 2018-02/H 2018-01

Funding Availability for Set-Aside Tenant-Protection Vouchers – Fiscal Year 2017 Funding

HUD’s website on Pre-1974 Section 202 Direct Loan Preservation:
https://www.hud.gov/program_offices/housing/mfh/presrv/presmfh/mf_sprac

To contact Recap with any questions and/or to request a concept call, please send a message to Pre1974Section202@hud.gov
Thank you for participating!

Please send additional questions to Pre1974Section202@hud.gov