Will: Well, welcome, everybody. My name is Will Lavy, I'm with the Office of Recapitalization at HUD. Thank you for joining this webinar describing how owners of properties with pre-1974 202 Direct Loans can secure new long-term rental assistance contracts to preserve and make improvements to their properties.

Just a little bit of housekeeping, this webinar is going to last approximately 90 minutes. We'll be posting all the materials on our website. Please minimize the other screens you've got so you can pay full attention to this riveting webinar. If you experience any difficulty on either audio or video, please just try logging off and logging in, or you can request help by using the Q&A on the WebEx toolbar. You can send in your questions at any point. We'll probably stop at the end of the presentation. We'll turn to the questions on the air. During the presentation, all for just, this will be new data. To access the Q&A pod, click down the arrow on the chat icon at the top right of the control panel and then click Q&A. We will get through as many questions as we can during the session, but any we don't get to, we will address afterwards.

So, I'm lucky to be joined today by Minnie Monroe-Baldwin, also with the Office of Recapitalization, both Vince O'Donnell from the Cloudburst Group and Margie Maisonet from Federal Practice Group. Vince and Margie will lead us through a bunch of the presentation and Minnie will be helping with the Q&A at the end.

So, in today's webinar, we're hoping to walk you over, give you an overview of the available tools that can be used to preserve the pre-1974 Section 202 Direct Loan properties, extend the affordability of the units, with the goal of providing clarity on the preservation steps and requirements. Just at a high level, prepayment guidance is found in Housing Notice 2013-17. Following a prepayment, owners can access Project-Based Voucher contracts and SPRAC contracts, which is detailed in a separate notice, Housing Notice 2018-02. We will explore in this presentation what all these terms mean, as we know Project-Based Vouchers and SPRACS are likely new concepts to many folks. Additionally, as loans mature, there's guidance in PIH, in Housing Notice 2018-02, especially 2018-01, which describe how to obtain Project-Based Vouchers at that point. And, then we will end with Q&A.

So, just a little bit of background, the stock we're talking about developed between 1959 and 1974. We have non-profit sponsors, they were originally developed with Direct Loans, direct low-interest loans, and originally had no rentals. Since then, a few of these properties have ended up with some Section 8 assistance. But for the most part, these lack any rental assistance. There are about 78 properties covering about 8800 units across the country. Most of the remaining loans are maturing just in the next few years. But as you'll learn in this webinar, that makes sense for many of these loans to be prepaid to enhance preservation options. The portfolio has an aging in place elderly population with an increasing need for services, and because of the way these loans and properties were set up initially, most have never received a thorough Recapitalization over their lifespan.

So, they have a unique set of challenges, which we're trying to address, trying to address here. As I said, they lack rental assistance, they come from an era when the owner was expected to serve low-income households in exchange for a low-interest loan. The owners cover expenses from tenant rents rather than from any additional rental assistance. So, they offered unlimited rents, because owners have to balance affordability and making sure tenant's rents are low enough so that low-income families and low-income elderly can afford them, and maintaining the property, property liability. As I've said, the affordability restrictions are expiring as the loans mature, and they've accumulated some rehab needs. The good news is it's a really strong ownership class, of mission-driven, non-profit owners who have been stewarding these properties effectively for decades.

So, a goal in this, in this whole effort is to create preservation options that will improve project revenue by adding rental assistance, insure ongoing affordability by providing subsidies through Project-Based Vouchers or SPRACS, and to promote leverage, to allow owners to leverage debt and equity to Recapitalize the property.

Two preservation tracks that Margie and Vince will talk you through, prepayment and maturity through, at a high level, and Margie and Vince will go into greater detail, high level through prepayments. Most often we would see a Recapitalization of the property and the affordability of the property would be maintained and extended through a new Project-Based Voucher contract for any units occupied within the past 24 months, as well as SPRAC assistance to fill in any gaps that might be there at the property. At maturity, Recapitalization is not required, and affordability would be maintained through Project-Based Vouchers, because SPRACs are not authorized to be issued at that time. In other words, if either of these events, HUD issues new voucher funding, no new tenant protection vouchers to Public Housing Authorities and the Public Housing Authority and owner can agree to project-base the funding in a long-term contract. So, that's really the mechanism that we're relying on, at prepayment or maturity, new voucher funding is issued to housing authorities, housing authorities would enter into new Project-Based Voucher contracts with owners. Thus, providing rental assistance at these properties. Technically, all properties at one point or another will be eligible for either of these options, and this webinar will help you think through how to proceed. Generally, an owner should certainly consider prepayments whenever possible as it maximizes the number of units that could be covered under a rental assistance contract.

So, with that, I will turn it to Margie Maisonet, who will go into greater detail on the preservation option when prepaying and refinancing one of these loans.

Margie: Thank you very much, Will. Good afternoon, everybody. I just want to reiterate, because I know we have folks who work only or own or manage only pre-'74 202 properties, but it's also possible that we have folks who deal with other 202 properties that are not covered by this session. And, my friend, Vince, reminded me this afternoon an easy way to tell if you have one of these properties is, we still call it by the FHA number, even though there's no FHA insurance, the first three digits of your project number is the local office that originated the loan. And, then you should have an SH followed by three digits, and that's the category of, that we're talking about today, the pre-'74 202s. So, if you have a property that's not in this category, 202 prepayment processing will be like it's been for years. You'll work with your local multifamily field office. They'll process it and send it to the Office of Asset Management in Washington headquarters, versus this universe where the processing will be consolidated by the Office of Recap in coordination with the HUD multifamily field office and the Office of Public Housing, Office of General Counsel is needed. But they will be your primary contacts.

So, here we go. Will mentioned Notice 2013-17, a very comprehensive notice. What I like about it is that it consolidated four or five prior guidance documents, notices, FAQs, all in one place. And, the thing to remember about this notice is that it discusses those prepayments that require HUD's approval to prepay, and those that don't. So, all of these pre-'74 properties should require HUD's permission to prepay, but we always tell folks, look at your business agreements. Every once in a while, you find something that you're not expecting, but we're pretty comfortable that all of these properties require HUD's permission to prepay. The notice walks you through all the documents that you have to submit and examples. It has an example as an exhibit, the use agreement that's going to be required. So, I think it's a very good notice, I think it still holds up pretty well. But again, just be mindful whether or not you require HUD's permission to prepay. If you don't, you can still follow the notice, I just tossed that in a bonus. So, I think over the last few years, HUD's position on some of these prepayments, opportunities have gotten more progressive, allow for more flexibility for owners and in terms of proceeds and distributions. And, I'll talk a little bit about more shortly.

The other notice that we'll mention is Notice H-2018-02. Please note that this notice only addresses additional project-based subsidy for this specific universe of properties. So, if you have a property that's not a pre-'74, this is not your notice. And, again, it talks about the tenant protection vouchers, and excellent policy change that came about recently. Because, this hasn't been the case for a while, that for a while there, HUD was only issuing vouchers for units that were occupied on the date of prepayment. And, now they'll allow for prepayment any vouchers for units that were assisted within the last 24 months. So, that's good news. And, then again, SPRAC assistance will be made available, but it's on a first-come/first-serve basis for units that wouldn't otherwise get tenant protection vouchers. Similar to the first notice, this one outlines the owner submission requirements and also tells you who plays what role at HUD and the housing authorities. And, then, one thing that is also possible in terms of increasing revenue, not just the new Project-Based Vouchers, but some of these properties do have Section 8. Some of them may be partial Section 8 or 100% Section 8. If you go back to 2013-17, they also outline the opportunity to get Section 8 rent increases to also increase the revenue at the property.

All right. So, let's talk about some of the prepayment requirements. Again, HUD must approve most of these prepayments. The direct loan must be active, that's very important, particularly if you're getting close to your maturity date, in order to be able to take part in some of these incentives that you have. If you get to maturity, then that's when you deal with Vince O'Donnell and not Margie Maisonet. You know, a couple of the things, there's a potential if you have a flexible subsidy loan that would otherwise be due when you prepay the loan, you could potentially get that waived, or at least part of it waived. HUD allows for the subordination of the existing debt if needed. If you're getting a new loan and you're not paying off the 202, that's kind of rare, but it is possible. And, you get increased use of proceeds if you follow the notice. If you do have a Section 8 contact at the property, you have to renew it for 20 you. So, if you have seven years remaining, you do preservation exhibit for seven years and then you get a new contract for another 20 years. The primary application part of your prepayment package is the Form 9808, the Request for Prepayment. What I like about it, it's a very easy form to fill out. You don't have to write a book, as long as you answer all of the questions, it's actually quite easy to fill out. And, this category of properties, debt service reduction is not required, mostly because these properties have interest rates of 3% to maybe 3.75%, so that used to be the deal that if debt service was required then you have to, you had to do sub rehab. So, recognizing that some of these properties do have capital repair needs, but maybe they're not, you know, they might not write to the sub rehab level. And, so especially with the increased limits now in the HUD map guide. So, with the waiver, you could potentially get a waiver if the capital needs assessment determines that sub rehab is not required, and you would submit that with your package. Another reason to be concerned with timing is just anecdotally, we've heard it could take several months for the prepayment itself to get approved, and then you still have to get the closing. So, you want to make sure that if you are refinancing and you have new debt, that you get all of that lined up, that if you're using FHA insurance, you can, you know, you continue to work with the local field office on FHA. But, we know it takes time for you to get your third-party reports, to get waivers approved, any other financing, and then, of course, if you have Section 8 and you're working with a contract administrator and you need a rent increase, they're going to need time to process the rent increase and also the Section 8 renewal.

A little bit more on the prepayment requirements. Generally, no rent increases for unassisted residents and so, you know, it's not that you can never get a rent increase on those units. You can have a reasonable rent increase, what you would ordinarily be supported by your budget, that could be okay. If you need a much steeper rent increase and these tenants don't qualify for subsidy, one of the ways you can offset is by the use of proceeds, and you'll see that in one of the future slides. But generally, the concern is if you have, you know, you have a 3.5% loan and now, you're not going to get that, your debt service is going to go up and you need to make repairs, you also don't want to affect the affordability of the residents who don't qualify for subsidy. I'm sure all of you will be familiar with the Tenant Notice and Comment requirements, 24 CFR Part 245, where you're required to give 30 days for tenants to comment on the proposal and then submit their comments and your responses as part of your pre-application process. The notice talks greatly about the use of project reserves, specifically on residual receipts, any residual receipts over $500 could be used for supportive services. You do have to separate that money until closing. And, then on the reserve for replacement, anything over $1,000, again, could be used for supportive services or things like rehab or potentially a new facility. If you're refinancing more than one 202 at a time, you might be able to put those funds together and build an additional facility of cafeteria or something to benefit the residents. And, energy efficiency and capital repairs, really what the notice talks about, that if you're replacing appliances, HUD likes to see energy star. It's not, like you have to do Geo Therm or anything like that, but basically energy star. There's a 20-year use agreement required on all prepayments that require HUD's permission to prepay. You could actually ask for a longer term if you want to. For example, if you're doing tax credits and you want to match it up to your tax credit use agreement. But the minimum is 20 years. HUD will perform a compliance review, similar types of things that you're used to already, I'm sure. You know, how are you doing on physical, financial management, that will be done, coordinated by Recap working with the local field office. All prepayments require Part 50 Environmental Review. If you're using FHA insurance, that review will be done by the multifamily production staff. If you're not using FHA insurance, it will be done by the Office of Recap. In these properties, you can only do temporary relocation. The notice has more information on that. I also want to step back for a second on the use agreement. Generally, that's going to have to be in first position, unless you're using FHA and you have tax credits, then you follow the map guide rules for that. On these that do have Section 8, generally, they tend not to be, you know, we've not seen new regulation ones that are subject to offset for certain amounts. So, we don't expect to see it in this universe, but you should, you know, be mindful of that if for some rare reason you do have a new regulation Section 8 contract. Those rules would also apply.

All right. So, let's talk about some of the permitted uses of the proceeds. And, one of the things that the notice does, it distinguishes on a purchase and acquisition transaction, and one where the owner is just refinancing and staying in. So, there are differences there. If it's a sale and acquisition then there are no restrictions on the proceeds to the seller, as long as the notice requirements are met. And, then the purchaser, you can see some of the general permitted uses to benefit the tenants, obviously. You can use some of the proceeds to pay up to 15% of social service costs, like a service coordinator or kind to get services. That 15% potentially could be waived, so look at the notice for that, if that's something you'd like to do. Obviously, you can use proceeds to rehab or modernize that I mentioned previously. You can use some of them for transaction costs. The nice thing is you can, if you're doing FHA and you have a completion assurance escrow, you can show this at the source on your development budget as outside money outside of the loan and it qualifies. You can earn a developer fee, only on the sale of the property. And, then again, I previously mentioned that you can use some of the proceeds for any unassisted tenants, particularly if your rents are going way up. All right. If it's not a sale transaction, it's a straight refinance, I just wanted to mention that the notice says the first thing you have to use the proceeds on are repairs, and then helping out unassisted tenants who might need with the rent, and then these other sources that are here on this screen. But there is a priority order if you're refinancing, but not changing ownership.

All right. Talking a bit about Project-Based Vouchers, Will mentioned that the housing authority and the owner may project-base the vouchers, so that attaches them to the property versus housing choice vouchers, where the tenants can take them. And, then the Section 8 HAP contract if you're doing PBV, is with the Public Housing Authority, not with HUD, not like what you have if you have a Section 8 contract with HUD. The rents are set at the lower of the reasonable rent of 110% of the fair market rent. The contract terms up to 20 years, it could potentially be extended to another 20 years, but every year it's, they are subject to annual appropriation. And, of course, if you're getting outside financing, your lenders love to see these project-based contracts, because it supports financing against the income stream. It's a form of credit enhancement. And, if you couldn't, you know, why would you ever pass up the chance to get a project-based contract, in my opinion? On the vouchers, the housing authority manages the waiting list, but the owner is eligible to screen the voucher holders referred by the housing authority. Now, this next bullet, tenant mobility after one year, the housing authority fills the vacancy with another voucher holder. That assumes that the housing authority has the voucher to give. If not, the tenant will, you know, they'll have to wait, so it may not be immediate, but they are eligible to move after one year and get a voucher. Now, the regular PBV programs have certain limitations on the housing authority in terms of how many units they can do and how many units could be project-based within a particular property. That, those rules don't apply for this universe of properties. So, for example, they're exempt from the housing authority's competitive selection requirements. These vouchers don't count against the PHA's PAP, ongoing vouchers. There are also no income mixing requirements that have to be met like in a traditional PBV property. And, then tenant consent is not required to project-base the PBV funding.

Now, SPRAC, which was one of my favorite small programs of all time that I was lucky enough to work with Recap on several years, and excited to see that new funding was provided. I will tell you that for this year, it is up to $5 million. I did previously mention it's on a first-come/first-serve basis, so when you submit your application, if that's something that you're interested, you know, please put that in there. The notice talks about the units that SPRAC can cover. It'll probably be, traditionally, it's those that wouldn't qualify for a voucher or potentially vacant units. The eligibility, again, SPRAC is only for pre-'74 202 properties, so the nice thing is you're not competing with the rest of the 202 universe. It's a long-year, 20-year contract, very similar to regular project-based Section 8s that you're already familiar with. And, then the initial rents on a SPRAC project, it's the lesser of the Rent Comparability Study or 150% of the fair market rents. HUD will be the contract administrator, so on these properties, I'm sorry, these contracts, you're not dealing with the housing authority for these units. You could potentially have some units administered by the housing authority and some administered by HUD. And, you can see the URL there where you can get additional information.

So, let's do a little overview. Here's kind of the process, the way it's going to go. The owner contacts Recap by email, the email is there, it's also on the last slide of the presentation. And, then again, let us know if you're, let Recap know if you're interested in HUB. A concept call will be held between the field office and will be invited along with the owner and their group as well as Recap. And, this is really a call to kind of say, "Here's what I'm looking at, here are the waivers I think I'm going to need. This is when I'd like to prepay by, this is the type of financing I'm using." HUD may have questions, you may have questions, but it's really a good way to get the, to get the ball rolling and kind of set the expectations for what's going to be needed. And, we recognize some of you are working with folks who've done this many, many times, so I think it'll be a smooth process. All right. So, then submit your waiver request early, just because they can take a little longer to get going, along with your prepayment application. Again, the notice will tell you everything you need to include. Then a PHA is selected and they determine just an initial number of PBVs, or what you might be eligible. It may be as high as, you know, all of your unassisted units, and then they might, you know, back them up from there, if you have vacancies, that type of thing. But you got to have a baseline to start with, and that's when that happens. And, then Recap will initiate the prepayment approval processing, the prepayment gets approved. This will be in the form of a letter, which may have conditions attached to it. And, then it will also have like your payoff instructions and all of that, so and where to send the funds and everything. So, after that, Recap and Public Housing coordinate, they get, you know, tighten up that voucher funding number that's going to be needed subject to availability. If there's any SPRAC money and the property qualifies for some SPRAC money, then that will get awarded as well. And, then the owner also has one year from approval to close. As I mentioned earlier, the sensitivity of the timing and how long it could potentially take, I, you know, anecdotally, we think it could be tougher than if your mortgage is maturing in the next six to nine months, that might be, that might be tough to fill. So, the sooner you get rolling, I do know from some of the consultants I've worked with in the past that some of them are already working. They start having early conversations with the lenders and then the tax credit folks and all of that before they even have the concept call with HUD. So, we always encourage that.

All right. And, with that, I'm going to turn it over to Vince O'Donnell.

Vince: Thank you, Margie. Hello, everyone. So, what I'm going to talk about now is the second mechanism for infusion of additional project-based assistance. Again, I think the name of the game here in this webinar is that these properties don't have 100% rental assistance now, and so in the recapitalization we're talking about ways to add rental assistance in order to support recapitalization through leveraging debt and equity. So, this notice that I'm going to discuss, is PIH 2018-02 and Housing H-2018-01. It's a joint notice. It's generic in the sense that it provides a resource for many different triggers for eligibility, including Section 202 pre-'74 Section 202s. It is incremental rental assistance to protect tenants who are not protected by other more familiar mechanisms such as prepayment of a 236 or a Section 8 opt out or termination. Important to realize about this is that this mechanism provided by Congress protects at-risk tenants who are in occupancy at the time of the triggering event. It's not something that it protects unit count, it protects the tenants themselves. Another feature of the current notice is that it provides an objective definition of what we mean by at-risk tenants, and that's important, because it smooths the way and makes the process more objective.

So, on the next slide, some requirements here, this is for any eligible property that comes in through this notice, not just a pre-1974 202s, but all the properties that use this resource must be located in what's called a low-vacancy area. And, HUD this year in this notice has expanded the definition of low-vacancy area so that pretty much most properties will be eligible under that criterion. Also, HUD has established a five-year look back, so that properties where the triggering event, the mortgage maturity in our case, could be as long ago as five years, back to February 8th, 2013, or will mature within 180 days after the owner's submission. So, HUD has kind of expanded the time window here in doing that, because many properties reach a point where they say, "Whoops, it's too late for me to prepay," or "It's already matured, and I didn't realize I could do this." Now, there's an opportunity to go back and fill that gap. The owner has to submit a significant amount of basic property information, including information about individual tenants. And, here, I just want to emphasis this, it's really important that when you make your submission, really you should get it right the first time, because there's a lot of what I would call retail information that's required about individual tenant eligibility. And, unless that information is complete and the records are there, it can't be processed and it will stop. And, this process weaves through a number of parts of HUD in order to get completed, including the Office of Recap and the Office of Public and Indian Housing, and local PHAs. So, it's important to get that package right so that it can move smoothly. The owner has a choice and the owner can request Project-Based Vouchers, which we're talking about here as a mechanism to support financing, or the owner does have a choice of not requesting that and simply requesting enhanced vouchers to protect the tenants as individuals and give them portable vouchers. We're promoting the use of the Project-Based Vouchers, because that enables the property itself to be better financed for improvements. And, in either event, it's necessary to find a Public Housing Authority, a PHA that's willing and able to administer the voucher contract, whether they're Project-Based Vouchers or enhanced vouchers. The owner must also include certifications that demonstrate compliance with the number of other requirements such as civil rights law, and in order to be eligible for this subsidy, there has to be a certification that the tenant is not receiving some other rental assistance subsidy. This is for the Project-Based Vouchers side as with the prepayment situation, generally speaking, the whole body of rules and regulations for the Project-Based Voucher program apply as previously noted. And, in this notice for the maturing mortgage track, there's an Attachment C in the notice which I recommend looking at this very carefully. It's an excellent summary of the Project-Based Voucher rules that are applicable to this situation.

Moving along, the owner in terms of the information about tenants, in the application, the owner must identify essentially three groups of tenants, those that are at risk—I'll define that in a minute—with the appropriate calculations to demonstrate that, tenants who are not at risk, just the opposite of that, and tenants who are ineligible because they chose or failed to provide income information. So, in terms of the at-risk definition, as I said before, there's an objective formula. The tenant's income, and there's some adjustments to that income, is compared with, in an urban area, the small area FMR, and you know, non-urban area the area-wide FMR. And, the ratio is just computed, the tenant's adjusted income to the FMR and the cutoff is 30%. So, they're deemed to be at-risk if that ratio is higher than 30%. For tenants who come out to be not at risk from that calculation, the Public Housing Authority will review all of this, because they have to make the ultimate determination about the tenant's eligibility for the voucher, whether it's an enhanced voucher or a PBV. So, there will be a second review, so tenants who think they should've been eligibility have the opportunity to have the PHA take a look at that. For tenants who did not provide the information, and there can be tenants there, for example, if a tenant is in a pre-'74 202, but their income is going off and they no longer re-certify, because they're not required to or they, for one reason or another, if they haven't, if there's not income information for them, then they don't get the opportunity for the second review. The other thing is the, if the tenant has been re-certified in the last 12 months, that income can be used in the documentation. If the tenant has not been re-certified within 12 months, then there needs to be a new certification. So, the whole tenant eligibility process starts with a very specific set of notice requirements. This is a little different from the 245 standard 30-day notices that you're used to with things like rent increases. It has a very specific set of things that have to be recited and told to the tenants about what this opportunity is and what will happen to them if they don't participate. So, read that very carefully. That's in Attachment A of the notice.

In the prepayment track as you heard from Margie, in order to refinance without decreasing debt service, there has to be a demonstration that the project's physical needs are going to be met. In this case, as I said earlier, the, what's being protected here is the tenant, individual tenants are eligible by virtue of the loss of the affordability guarantee. And, so the eligibility doesn't require something about the property itself. However, it's always a good idea to explain to HUD what you're doing and why you're doing it. And, so the owner is not required to, but certainly can offer to HUD a description of the capital needs assessment for the property and any proposed financing that's going to support any proposed repairs. In any event, these vouchers cannot be used, project-based or enhanced voucher at the property unless it does meet the housing quality standards.

So, to summarize, I would say in terms of the overall process, the first thing is, again, do the homework at the front end, get that tenant notice out as early as you can, and begin the process of aggregating the individual tenant information as part of your, as a central part of the package. A very important update here, the notice, as I said, it addresses a number of different triggering events. For this particular triggering event, a maturity of pre-'74 202s, where you start is different. The notice instructs people to start with the field office, the regional or satellite office, but for pre-1974 202s, the owner's request goes directly to the Office of Recapitalization at headquarters. And, the email for this is at the end of the, it's in the last slide. That policy was changed in June, it was effective July 5th. So, the owner comes in to Recap and the first step is the initial eligibility, which is primarily, is the triggering event, a qualified event. Then the, if so, then the submission is dealt with, reviewed in detail, Recap will then select the Public Housing Authority that's going to be involved in processing the vouchers, including the tenant eligibility and receiving funding through, through financial relationship with PIH. So, Recap and PIH will coordinate on that funding and finally, there'll be an approval and the vouchers will be issued.

So, that's the end of the discussion of that notice. I'm going to hand this over now to Minnie Monroe-Baldwin, who's going to take questions and answers.

Minnie: Okay. Thank you, Vince, and thank you, Margie for excellent presentations. It seems that we have a very knowledgeable audience. We don't have very many questions that have come in, but we would like to address those that did and possibly add to the conversation, have some conversation about some questions that we have pretty much been dealing with on several cases that we're currently working on that are participating in this program.

So, the first question is rent levels, will rent levels be raised to post-rehab levels? Well, first, the first part of that question, or first part of the answer to that question is that when you go through this particular program of prepayment, converting tenant protection vouchers to PBV contracts through the local Public Housing Authority, that will be a separate contract that will have rent set separately under the prescribed PHA rules for rent-setting. And, you may also have a SPRAC contract that per our notice 18-02, has the requirement of the lesser of, for rent-setting, the lesser of comparable market rent or 150% of FMR. So, in the case of the SPRAC, where there is a rent comparability study engaged, we require that the rent comparability study be in accordance with Chapter 9 of the 4350.1, which is the Housing Management Handbook here at HUD. And, there is then the opportunity that rents could be sized at a post-rehab level. So, in summary, the answer to that is you could have varying rent levels, but yes, you could have post-rehab rents, but only on the SPRAC units.

The next question is does the one year to close from approval go beyond the 202 maturity date? And, that answer is no. As Margie indicated, I think she put forth a couple of examples, but the idea is that you will start, you are pulling your documents, working through to see when your loan matures and coming into us with a concept, having discussions early enough so that your transaction can be completed and consummated before the mortgage matures. If you're coming in today and your mortgage matures in 2019, then that would be the one year to get it done. You would have the whole year there to get it completed. Margie, you want to add something to that?

Margie: Sure. We've seen examples before in the past, where the folks think they have a certain maturity date. Then maybe there was a fire years ago at the property and then some of the proceeds went to do rehab and some of the proceeds were directed to use to pay toward the mortgage. So, one of the things that you're going to want to do when you have the concept call is, you know, say, "HUD, here's what we're showing, can you verify if this is what you're showing as well for our maturity date?" If they have to, they can then coordinate with the Fort Worth Accounting Center just to make sure that everybody's on the same page as to what the true maturity date is.

Minnie: Thank you. Okay. We have another question. If a property, if a post-1974 property has already refinanced and currently has an FHA loan, if that property refinances through a conventional loan, so in essence they're on their third refinance, prior to the HAP expiration, will the property be eligible to renew the HAP when it expires under option four at exception rent? Unfortunately, I am unable to answer that, but Margie, do you have, where this is pretty much focused on the…

Margie: Pre-'74.

Minnie: …pre-preservation tool here and not focused on the HAP options.

Margie: Right.

Minnie: But what we…

Margie: Well, but when you refinance, you keep your protected status, your exempt status, exempt being exempt from having your rents marked down under mark to market the first time you refinance. The second time you refinance, you do lose that protection. So, the rent, you can renew under any other renew option for which you're eligible for, but the rents can potentially come down, particularly based on a rank comparability study. But you do lose that protected status once you refi for a second time.

Minnie: Okay. Thank you. I learned something. Another question, another question, Hi, Margie.

Margie: Hi.

Minnie: You know that SPRAC can cover units not covered under a PBV contract. The rent setting seems advantageous under SPRAC versus PBV, that is 100 and, up to 150% FMR SPRAC, 110% FMR PBV. And, most owners I work with prefer the contract be administered by HUD. Do owners have the option to just apply for SPRAC at all units subject to funding, or is SPRAC only available for units that can't qualify under the PBVs? And, I'll let you answer that, since they addressed you.

Margie: Who was that by the way?

Minnie: Brian _____ [0:24:00].

Margie: Okay, okay, okay. Yes, unfortunately, and I think, Brian, you may have had a SPRAC project originally, if I recall, back about five years ago when we did them with Recap. No, owners, unfortunately, do not have the option just to request SPRAC funding only. The notice is very specific that PBVs first and for any units that don't qualify for PBV, those units could potentially get SPRAC. And, so as I mentioned earlier, yeah, it could be a little tricky. You can have, you know, if you have properties at 50% Section 8, maybe HUD is the contract administrator on that with the PBCA. And, then you have the housing authority administer the vouchers, and if you're lucky enough to get some SPRAC projects, units, then you know, that would be a separate contract as well. But, unfortunately, you cannot come in for just SPRAC only.

Minnie: Okay. Thank you. So, the questions are rolling in now. The next question is if we have a 20-year Section 8 HAP that expires in 2027, what if the loan matures? Do we need to do anything, or will the Section 8 contract continue until expiration at 2027? Well, there are a couple of questions here, and the first part is if we have a 20-year Section 8 HAP that expires, what if the loan matures? Then at loan maturity, of course, it would be either paid or possibly you would prepay before 2027, which you note to be the maturity date. And, that contract will continue until its expiration. The second question here is do we need to do anything? Well, I guess I just answered that. Or, will the Section 8 contract continue until expiration? And, that is yes, it would continue until 2027.

Vince: And, then at that time, it can be renewed under the normal Section 8 renewal guide rules.

Minnie: Right.

Margie: And, in some cases, you might be able to terminate it early and so a new 20-year contract and then add the seven years on. So, for that, so, you know, recommend that you go to the Section 8 renewal guide. But that, you have that potential as well. You don’t have to wait for it to expire.

Vince: Because, if the expiration is close to the maturity date, then you have the opportunity to prepay ahead of time so that you can get your new financing in place and extend the contract, as Margie described.

Minnie: So, we have some other subject matter experts in the room that you will most likely be working with. A question here, can you project-base enhanced vouchers if the tenants agree? I’m going to ask Shelonda [PH] to answer that, or Will.

Will: Sure. So, under either the, under, following either prepayment or maturity, tenant consent is not required in order to project-base the vouchers. Obviously, you should be consulting and speaking with the tenants about the impact, but the tenants would be protected by remaining in their units under a Project-Based Voucher contract.

Minnie: Thank you, Will. Vince, you want to add something to that as well?

Vince: Yes, I think it’s important that, essentially, what you have is a tenant protection voucher, and if it goes to the tenant directly, it’s an enhanced voucher. This is in a maturity situation. And, if it’s project-based, it loses the enhanced voucher characteristics, and it becomes a project-based voucher. So, it no longer has the enhances market rent and it no longer has some other attributes of enhanced vouchers such as a minimum rent requirement. So, there are certain things that go with the way you deploy the Section 8 and it just has those characteristics, depending on which door you go through.

Minnie: Okay. Thank you. And, I actually passed one question, which is very similar. When you say tenant consent is not required to project-base the PBV funding, does that mean that the SPRAC or PBV contract can be issued to cover units that are currently occupied by tenants with portable vouchers? So, this program—go ahead, go ahead, Will.

Will: I was just going to say if there are residents at the property with tenant-based vouchers already, no, if you are going to include those tenants under the PBV HAP contracts, those tenants would need to consent to relinquish their voucher.

Minnie: Right. And, we do see that. Several projects we're working on now, they have residents who are helping towards voucher holders and the, in accordance with what you're saying, if those were, if those residents give consent and there's some discussion between the Public Housing Authority and the owner, they could possibly add those to the project-based contract through this particular program, which would be a nice benefit to possibly have just one contract.

So, what happens if a PHA does not want to participate?

Margie: We send Minnie to go with them.

Minnie: To the audience, that's probably an inside joke that I'm not aware of.

Margie: It's a complement.

Minnie: Thank you. So, actually, we have some negotiations and what we would do would be to work to find an alternative, so to speak, that would have jurisdiction. Recap would work directly with the Public Housing Office at the local level to assure that we can get a participant.

Vince: It's more likely to be a problem if he ever chooses Project-Based Vouchers that some PHAs don't have a Project-Based Voucher program. So, in that situation, it might be a little harder. Pretty much any PHA is likely to accept enhanced vouchers, because they're just adding to their voucher pool.

Minnie: Okay. So, I think that pretty much takes us through the questions that have come in. I'm looking at Shalonda and Kinyatta [PH]. Are there other things that we think should, we could address, of questions that we've received?

Unidentified Female: To date.

Minnie: We did receive a question about, we've received question about the age limit. And, of course, 202, the age limit is statutorily defined as 62. This probably is not a matter of when residents move to Project-Based Voucher contract through the Public Housing Authority. But for SPRAC that age is the limit and requirement. So, that was one question that we've seen. Another question has come in. Some more to add, Vince?

Vince: Yeah, it's interesting. If you go through this with the prepayment track, then you're going to have a prepayment use agreement which continues that same age limit. If you have gone through the mortgage maturity track and you have a Project-Based Voucher contract, then you just have a Project-Based Voucher contract.

Minnie: Right.

Vince: It's no longer a 202, no longer has a 202 use agreement, so it is no longer actually age-restricted.

Minnie: That's right.

Vince: So, the owner has some flexibility there and they may still want it to be a senior project, but they can perhaps redefine what they mean by that.

Minnie: Right, right. And, that's a good thing to point, that with your prepayment on these loans, you are executing a use agreement that pretty much continues the elderly feature of the property.

Will: And, Minnie, we have a new question here. It says, "Thank you for doing this. This is a great presentation. Will these slides be available?"

Minnie: Yes, they will be available. As a matter of fact, this session has been recorded. Within the 30-day period, we expect to upload and post the recording, the slides and answers to any questions that we may receive in our mailbox as, through a frequently asked question format.

Margie: I'd to add one thing that I didn't mention in my presentation that Vince did in his, in terms of the matured mortgages. And, sometimes, you're going to have residents that don't want to provide income information. That's also true on the prepayment side, where that could be a challenge as well, for those unassisted residents are not going to want to give income information for whatever reason. Either they think they're not eligible or they're not comfortable giving the information and they're not currently required to recertify. So, you could also have that same situation in a prepayment scenario, and in that case, those residents, not only would not get a tenant protection voucher, they also would not qualify for SPRAC without that information.

Minnie: Okay. Thank you.

Will: Margie, I've got another question for you. So, it seems like if you prepay your loan there's a lot of advantages. You can get more units covered into the PBV contract and the possibility of getting a SPRAC contact for any other units. But if an owner's maturity date is say four or six months out, do they have, is it viable for them to actually prepay within that period, or are their options more limited?

Margie: I personally think their options are more limited. I'd be interested if any of the—I'm not a practitioner, to be honest with you—if anybody out there in the audience has been able to get one from prepayment application to closing within six months, I would love to hear about that. I don't want to say it's impossible.

Vince: You just have a lot to do.

Will: It would be a very big list.

Vince: One thing you could do is instead of lining up your permanent finance in that time, line up bridge financing just to carry out the prepayment. HUD would still have to make a determination that you rehab plan was viable, but that's a way that you could cut off some of the long-term processing of permanent financing, debt and equity.

Margie: Great idea.

Minnie: Okay. Are there any other questions here? I don't believe so. I do have one that came through our mailbox, which is Pre1974202@HUD.gov. We are currently working with an organization that owns a HUD 202 property for the elderly. The property is in dire need of rehabbing and is looking for a 4% LITEC [PH] transaction to finance the rehab. Would these residents qualify for those, for these vouchers? Well, I think, actually, in this case, it would be a project-specific answer. We would have to know more details about the type of 202 financing. As we talk today, this is specifically on the pre-'74 direct loans, and so more information would be needed to determine whether or not the vouchers would be triggered by your particular transaction.

Vince: But, if it is a post-1974 property, we'll have a 100% Section 8 contract…

Minnie: Contract already…

Vince: …or a…

Minnie: …on the property…

Vince: …SPRAC contract. So, it will be fully assisted if it's post-'74.

Minnie: Right, right.

Vince: And, if it's pre-'74, then it's subject to all the _____ [0:56:16].

Minnie: Right, which kind of gets us to the end, that this particular program is for, the pre-'74 direct loans where residents have not ever been assisted. And, this is a wonderful opportunity to assure very, very close to 100% of a project-based contract to provide rental assistance and financial stability for the property. So, with that, as the, I think, is there one last question? Two last ones? They're pointing out to me here, actually, three or four. Oh, so one question is how do we, how long does it take to review the rehab plan? That is a little cumbersome question there, because we actually, as a part of the prepayment, we would be reviewing your capital needs assessment, but an overall rehab plan per se, I'm not sure specifically what the question is. So, if you have more details to provide, you can email us again at that Pre1974202 mailbox, and we'll be happy to discuss.

Margie: So, one thing I do recommend is that when you do hire somebody to do your capital needs assessment, using the guidance on, you can find it in multiple places, certainly within the map guide, the multifamily production site, HUD.gov/red also has information. You have to hire somebody who's licensed and certified and qualified to do this work. There's going to be a CNA e-tool that talks about the needs of the property over the 20 years. There also has to be a narrative included, so it will take HUD less time to review it if you get somebody who's done these before. You know, not to state the obvious, but there are a lot of good companies out there that have been doing them for years. This is a newer version of it, but the better CNA you provide, the less time it's going to take HUD to review it.

Minnie: Thanks, Margie. Another question is our 202 direct loan matures December 2019. We want to apply for LITEC 4% combined with FHA debt to maximize on recapitalization. However, it might be four to five years out for the LITEC, the 4% approval. Would we be eligible for FHA HUD financing four to five years out, three to four years from the original 202 maturity?

Will: If a property matures and you're hoping to keep the property affordable to very low-income families, then you should absolutely take advantage of getting as much Project-Based Voucher assistance as possible. And, then at whatever point you're ready to take on the new financing, you'll have rental assistance, long-term rental assistance contract already in place. If you're hoping to cover more of the property with rental assistance, then you'd have to refinance before the December 1, 2019 maturity date, which might be possible within a year. But you're looking at probably a complex transaction, so you have to get started pretty quickly.

Margie: Yeah.

Minnie: Okay. And, we do have a couple more questions. What type of programs are available for a situation where no refinancing or capital improvements are needed, but it is still beneficial to operate at the current 202 regulations, but with no debt? Can a relationship with HUD be maintained?

Vince: I'm thinking out loud. The prepayment track is about prepayments. The fact of refinancing isn't really required. If you have a way to prepay it, some other source of funds, it's not going to be encumbering the property, although I'm not sure what that would be, but if you had, you just follow the prepayment rules and then you're eligible for the PBVs or the SPRAC. I think that would work. In all likelihood, though, you would have a source of funds to make the prepayment, although it might be a kind of a small amount, because you're at the end of the term.

Minnie: the last payment

Vince: So, it might be, you know, a few thousand dollars, so you'll, maybe you don't have to borrow for that. I guess that's possible. You would still qualify for the rental assistance.

Margie: And, the 20-year use agreement.

Vince: That's right, that's right.

Minnie: So, that person has provided a phone number, so we will make sure that we do some follow-up and have further discussions.

Vince: Sure, the specifics, yeah.

Will: Minnie, if an owner wants to talk through their specific situation and just wants to talk it through with a real live person and what their best options might be, how would they get in touch with us?

Minnie: Okay. So, they, to get that voice, they can contact several people, myself, Shalonda Lincoln and Kenyatte Winston, and we're all at 202-402, for Minnie, it's 2635, for Shalonda Lincoln, it's 2617, and for Kenyatte, 6044. And, we do answer our phones.

Okay. So, we still have some time and we have another question. If the tenants were in a position to acquire the property and preserve the existing senior affordable housing, what programs should they apply for? Well, actually, I'm not sure we have any programs to apply for per se.

Vince: There's not a HUD program for that.

Minnie: Right.

Vince: But I think what would be necessary is the tenants would have to form an ownership entity that would be, and that entity would have to apply for financing and potentially for equity. It would frankly be a heavy lift to accomplish that as a new ownership entity without a track record. I say that as someone who's worked with thousands of units of tenant-based purchases. It's a very difficult thing to do, and since the, since 2008, it's much, much harder to get equity for a tenant-based cooperative or non-profit. So, it's really more on the financing side that, where the challenge is, not, it's not HUD's, it's not a HUD issue, but it's whether you can get the financing with a tenant ownership entity.

Minnie: Thank you. Okay. Our next question is if the units meet the PBV occupancy requirement, does that mean they do not qualify for SPRAC? And, that answer pretty much is yes. The point is for there to be rental assistance available to residents, so the first opportunity and the first option is to get them contracted through the local housing authority. And, of course, our notice 18-2 specifically says after you have exhausted with the local housing authority, then any remaining units that have not been covered there would be eligible for the rental assistance through SPRAC.

Anybody have anything else to add there?

Vince: I think that's to maximize the, SPRAC is the scarcest resource.

Minnie: Right.

Vince: And…

Minnie: That's a good point.

Vince: …and tenant protection voucher account is, is a much bigger resource, and so I think HUD wants people to go to the bigger resource first to maximize the use of the most scarce resource in SPRAC.

Minnie: Does prepayment approval, Margie, require, with a sale, require the new owner to be a non-profit?

Margie: Yeah. The notice talks about what the ownership requirements are, so it's, you know, generally, yes, a non-profit 501C3 or C4, or you could have, for example, in, you know, if you're going to refinance using tax credits, where the ownership control is actually, the general partner is a non-profit and then, of course, you would have your, your for-profit limited partner. So, I don't have the citation directly in front of me, but if you look in the notice, it talks about what the ownership requirements are.

Minnie: Thank you. One more. Okay. If a property has recently completed an appraisal, can they use that in lieu of a PCNA? Well, actually, no. An appraisal will be valuing the property, and the PCNA is the needs assessment for repairs, the repair needs assessment and determination of the, sorry, basically, the property needs assessment to determine the immediate and/or any repairs that are required out through, generally, in what we require a 20-year period. So, they're basically two different tools for different information about a property.

Okay. So, the comment, the answer that you just discussed, Margie, we will send, the person has listed their email address, the non-profit requirement.

Margie: Yeah. It's actually on page 12 of the notice, if that helps.

Minnie: And, that's the 2013-17 notice.

Margie: Correct, yeah.

Minnie: All right. I think this has been a great session. No additional questions are in. So, remember, we see this as an excellent tool to preserve, the Pre-1974 Section 202 Direct Loans. Give us a call. We gave our phone numbers, and we also have a mailbox, the Pre1974202@HUD.gov. And, we hope to hear from you. Our goal is to get the remaining ones all done through this program. Thank you very much, and this ends our webinar.

[End of audio]