



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

Special Attention of

All Multifamily Hub Directors
All Multifamily Program Center Directors
All Multifamily Operations Officers
All Multifamily Directors of Project Management
All Multifamily Field Counsel

Notice H 2011-03

Issued: February 1, 2011

Expires: January 31, 2012

Cross References:

Subject: Policies and Procedures for the Conversion of Efficiency Units to One-Bedroom Units

A. **Purpose**

This Housing Notice sets forth the Department's policies for Owners seeking to convert efficiency units to one-bedroom units in certain types of HUD-assisted and/or insured housing. The Hubs and Program Centers (PC) are responsible for reviewing requests to convert units pursuant to the requirements of this Notice. Hub Directors may approve conversion requests within their jurisdictions if the proposals conform to the requirements of this Notice. Although the policy outlined in this Housing Notice solely addresses the conversion of efficiency units into one-bedroom units, the Department will continue to consider conversion requests for other unit types on a case-by-case basis.

B. **Background**

The Department has received requests from Owners of assisted housing to convert efficiency units to one-bedroom units. Owners have indicated that such conversions will better serve resident needs, alleviate recurring vacancies, and provide the financial relief necessary to avoid default. The Department understands that conversions may be necessary to ensure that projects are preserved and resident needs are adequately met. As such, the Department has developed policies and procedures to permit the conversion of efficiency units to one-bedroom units provided it can be demonstrated that the conversion is warranted by local market demands for affordable housing and results in the long-term financial and physical repositioning of the project. See also: February 1, 2008, Memorandum on Policy and Procedures on the Conversion of Efficiencies into One-Bedroom Units.

C. **Applicable Programs**

The requirements outlined in this Housing Notice apply to the following assisted and/or insured projects:

- Section 202 Direct Loan with or without Rental Assistance

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- Section 202 Capital Advance with Project Rental Assistance Contracts or Project Assistance Contracts (PRAC and PAC)
 - Section 811 Capital Advance with Project Rental Assistance Contracts (PRAC)
 - Section 236 insured and non-insured with or without Rental Assistance
 - Section 221(d)(3) Below Market Interest Rate (BMIR) with or without Rental Assistance
 - Section 8 Project-Based Rental Assistance with or without FHA insurance
 - Rental Assistance Payment (RAP)
 - Rent Supplement Assistance Contract
 - Properties subject to a HUD Use Agreement or Deed Restriction

D. **Programmatic Requirements**

An Owner's request for unit conversion must be analyzed by the Hub/PC and must meet the following programmatic requirements:

1. The Owner must be in compliance with all business agreements with the Department. In the event of non-compliance that the Owner believes will be cured through a conversion, a description of how and when compliance will be achieved must be submitted. The Hub must concur that the conversion will cure all outstanding non-compliance issues. Any non-compliance that will limit the ability of HUD to analyze a conversion request must be cured prior to submission. For example, the required financial analysis cannot be completed if annual financial statements (AFS) have not been filed.
2. The proposed conversion must be warranted by local demands for affordable housing. The Owner must provide evidence of all efforts to market the units proposed for conversion and must provide evidence of demand within the geographic market area for the proposed post-conversion unit type.
3. In accordance with the Multifamily Unit Conversion Checklist (Attachment 6), the average vacancy rate in the efficiency units was at least 25 percent for at least 24 months or documentation must be shown that supports that the proposed conversion units are functionally obsolete.
4. If the unit conversion is part of the project's refinance, the debt service coverage ratio must be 1.1 or greater.
5. The proposed conversion must only involve units of the same subsidy type. For example, a Section 236 project with a Section 8 contract covering 50 percent of the units may only convert Section 8 units to Section 8 units and Section 236 units to Section 236 units.
6. For any proposed conversion of units assisted by a project-based rental assistance contract, the proposal must establish that the conversion will not result in an increase in the amount of existing budget authority available to the

project. This analysis must be conducted the Hub/PC and approved by Headquarters prior to the issuance of a conversion approval. The Department has no statutory authority to increase the project's budget authority to effectuate a conversion, and therefore, lacks the authority to grant any such request.

7. The proposed conversion must not result in any violation of Section 504 of the Rehabilitation Act of 1973 or HUD's implementing regulations at 24 CFR Part 8, including 24 CFR Section 8.23 (Alterations of Existing Housing Facilities).
8. The conversion of efficiency units to one-bedroom units triggers HUD's Lead-Based Paint Laws – both the Lead Safe Housing Rule and the Lead Disclosure Rule. As such, the lead requirements are referenced in this Notice. In this regard, the Lead-Based Paint Poisoning Prevention Act (42 USC 4821-4846), the Residential Lead-Based Paint Hazard Reduction Act of 1992 (42 USC 4851-4856), and implementing regulations at 24 CFR Part 35 apply to conversion of efficiency units to one-bedroom units. Therefore, the proposed conversion must be in compliance with the Lead Safe Housing Rule. Once the conversion is complete, the Lead Disclosure Rule applies to the sale or lease of that housing.
9. For the purposes of applying 24 CFR Section 8.23(b), conversion of two efficiency units into a one-bedroom apartment constitutes an "alteration of a dwelling unit." For further guidance regarding Section 504 applicability and requirements, please refer to HUD Handbook 4350.3, REV-1, Chapter 2.
10. All proposed conversion construction projects will qualify as such only if the conversion process includes items not listed in HUD Handbook 4350.1, Chapter 4, "Reserve Fund for Replacements," Section 4-9(A).

E. **Programmatic Requirements Applicable to the Conversion of Units Assisted by Section 8, PRAC, PAC, Rent Supplement, Rental Assistance Program, and Section 236 Interest Reduction Payments**

General Policy Applicable to all Subsidy Types

The Hub/PC must perform an analysis of the existing budget authority to ensure there are sufficient funds available to support the proposed rents after the unit conversion. The conversion of units must not result in an increase in the amount of existing budget authority available to the project. The Hub/PC Director must submit their analysis to the Director, Office of Asset Management in Headquarters for approval. If approved by Headquarters, the Hub/PC may issue final approval of the unit conversion request.

The revised rent structure may not be effective until the rehabilitated units are ready for occupancy. HUD will inspect the project and establish the date of occupancy

when construction is complete. If applicable, the Owner must have received any required local approvals prior to HUD approval.

Section 8

The policies outlined in the Section 8 Renewal Policy Guide shall prevail unless inconsistent with the requirements of this Notice, in which case the latter requirements will apply.

1. Post-conversion unit rents must be established at the lesser of:

- the current one-bedroom unit rent; and
- the combined unit rents of the two converted efficiency units.

Future rent setting pursuant to the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA) may be based on the converted unit type configuration.

2. The conversion may not combine units assisted under an original Section 8 HAP contract with units assisted under a Section 8 HAP contract that has undergone renewal pursuant to the MAHRA. When a portion of the units involved in a unit conversion are already part of a MAHRA contract, and other units involved in the unit conversion are part of a Loan Management Set Aside (LMSA), all units involved in the unit conversion must be combined and covered by one MAHRA contract. “After receiving and processing the OCAF renewal worksheet, the PM/CA shall provide the Owner with a revised rent schedule, i.e., Exhibit A (form HUD-52530b-1). The revised Exhibit A will amend the existing Section 524 contract, and the revised rents will go into effect on the day following the anniversary date of the contract.” Exhibit A: Description of Contract Units to Project-based Section 8 HAP Contracts identifies contract units by number of units, number of bedrooms, and contract rent. Conversions contemplated by this Notice will require an amendment to Exhibit A.
3. Where the proposal concerns only units assisted under an original Section 8 HAP contract, the Multifamily Hub or PC may provide a letter to the Owner indicating that the Department will renew the existing contract, subject to the availability of sufficient appropriations, under the terms and conditions of the Section 8 renewal authority in place upon contract expiration/termination.
4. Section 8 contract rents may exceed Low Income Housing Tax Credits (LIHTC) contract rent restrictions. The HUD restriction that Section 236 Market Rent is also calculated as a budget-based rent, adequate to satisfy all of the operating costs of the project, including debt service, which has not been decreased by scheduled decoupling/Interest Reduction Payments (IRP), reserve requirements, and authorized Owner distribution levels, remains in place regardless of the

level of LIHTC rent. If/when a group of tenants' LIHTC rents are greater than the rent levels set forth in HUD's Section 236 Program, Owner/Agents must adhere to the limits specified in the Section 236 Program.

5. Nonprofit controlled ownership entities may not use Mark-Up-to-Market. They must use Mark Up to Budget under Chapter 15 of the Section 8 Renewal Policy Guide, available at: <http://www.hud.gov/offices/hsg/mfh/exp/guide/s8renew.pdf>.
6. If the Owner will be prepaying the mortgage as part of the conversion process and the Section 8 contract is an "Old-Regulation" State Housing Finance Agency (HFA) form of HAP contract for New Construction or Substantial Rehabilitation projects, i.e., the November 1975 version of form HUD-52645A ("1975 HAP Form")¹, it terminates automatically upon full prepayment of the original, permanent financing provided by a Housing Finance Agency (HFA). In such cases, the Owner is to be provided with the following three options:
 - a. Renew the project-based Section 8 contract under MAHRA under any option for which it is eligible;
 - b. Execute a HAP contract extension amendment, Attachment 1, which extends the contract to the natural maturity date of the original HFA mortgage; or
 - c. Opt out of the Section 8 contract.

These options apply only to HFA-administered November 1975 HAP contracts.

7. The Owner of a project with a renewal Housing Assistance Payment (HAP) (post-MAHRA) contract must agree to terminate that contract (HAP 1 in the example) and accept HAP contract renewals for a minimum of:
 - a. 20 years (HAP 2 in the example), and
 - b. Agree to execute an additional HAP contract (HAP 3 in the example) as follows:
 - i. If the original HAP contract had an expiration date five or fewer years from the time of the approved unit conversion, an additional five-year HAP must be executed by the Owner.
 - ii. If the original HAP contract had an expiration date six or more years from the time of the approved unit conversion, an additional ten-year HAP must be executed by the Owner.

¹ <http://www.housingpreservation.org/bedroom/unit%20conversion-attachment1.pdf>

Example: An Owner has six years remaining on the project's existing HAP contract (HAP 1). The Owner's proposal for a unit conversion is accepted, HAP 1 is terminated, and the Owner executes a new 20-year HAP contract (HAP 2), and simultaneously agrees to execute an additional HAP contract (HAP 3). Finally, at the expiration of HAP 2, HAP 3 must be executed for ten years, according to the scale in Section E(7)(b)(ii).

8. If a unit conversion is approved, the Owner must agree to amend the HAP contract to require compliance with the financial reporting and physical condition standards of 24 CFR Part 5. Such an amendment shall be required to the extent that the HAP contract(s) for the project undergoing conversion do/does not already explicitly require compliance with 24 CFR Part 5 Subparts G and H.

PRAC and PAC

The proposed operating budget for the project should be reduced to reflect savings resulting from the unit conversion. If the new operating budget is not reduced, the Owner must explain why there is no adjustment and provide a justification for maintaining existing budget levels.

Rent Supplement and Rental Assistance Payments

Post-conversion unit rents must be established at the lesser of the current one-bedroom unit rent or the combined unit rents of the two converted efficiency units.

Section 236 Interest Reduction Payments

If the project is insured under Section 236, the conversion application will be subject to the review of the Section 236 Mortgage and/or the IRP Agreement for reduction of unit requirements. Please refer to Attachment 2.

F. Pre-Submission of Proposal

The Owner must consult with HUD staff prior to submitting a unit conversion request in order to review project eligibility and submission requirements.

G. Owner Submission Requirements (At their discretion, Hub Directors may have local counsel review documents provided to the Department as part of the conversion package.)

The Owner must submit an original and three copies of the conversion request to the local HUD office. The request must include the following documentation:

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1. **Conversion Request Letter:** Letter signed by the Owner that includes the project name, project number, contract number, a listing of all principals of the ownership/management entities, including their Employer Identification Numbers (EINs) and Social Security Number (SSNs), and a detailed description of the proposed conversion.
 2. **Consent of the Lender:** The existing mortgagee of record, or in the event that the mortgage is prepaid, the new mortgagee, must consent to the proposed unit conversion. The consent letter must be on the mortgagee's letterhead and signed by an officer or the individual authorized to execute documents on behalf of the mortgagee.
 3. **Vacancy Information:** Documentation evidencing an average vacancy rate of at least 25 percent of the units for a period of at least 24 months or documentation which supports that the proposed conversion units are functionally obsolete. Supporting documentation will be at the discretion of the Hub Director. See Attachment 6, the Multifamily Unit Conversion Checklist, for more information.
 4. **Marketing Efforts:** Documentation of the Owner's leasing and marketing efforts during the two-year period prior to the conversion request. The documentation must include a summary of those efforts and their results. Evidence of Owners' efforts can include: property traffic reports or other reports showing interest, advertising details, age and/or income waivers requested, and final action of HUD, i.e., approved, approved with conditions, etc. In addition, Owners can provide local community organizations contacted as part of the marketing effort that includes the organization's name, address, and contacts. Owners can provide local housing authority(s) wait list information for the prior 24 months, and other affordable housing provider contacts made demonstrating that there is minimal or no demand for the efficiency type units.
 5. **Evidence of Need for Conversion:** A list of leased and un-leased units (assisted and unassisted) and tenant application and turnover documentation for the prior two-year period.
 6. **Rental Information:** Actual pre-conversion and projected post-conversion rent schedules including the unit type, unit rent, unit size, and unit square footage.
 7. **Annual Operating Statement:** Actual pre-conversion and projected post-conversion operating statements formatted using the profit and loss reporting template in the Financial Assessment Subsystem. The post-conversion operating pro forma must demonstrate that the project will perform at a debt service coverage ratio of at least 1.10. For conversions involving a refinancing, a pre-conversion and post-conversion balance sheet must also be

submitted. The Owner should use the same format as the profit and loss statement.

In cases involving the use of LIHTC, allowed project expenses may include only those usual and customary fees and expenses for operating a tax credit property, including payment of:

- a. The equity syndicator's asset management fees, if separately charged to the property;
 - b. The state allocating agency's compliance and asset monitoring fees;
 - c. Mandatory interest payments of up to one percent due on subordinate debt provided by a governmental lender; and
 - d. Deferred developer's fees, plus accrued interest at the applicable federal rate which may be deferred for no more than 12 years. The deferred developer's fees may be included as an operating budget line item but may only be paid from surplus cash. The project rents must not exceed market rents for comparable units in the area. At the end of the 12-year fee deferment period, the project rents must be reassessed since the deferred fee will have been fully paid.
8. **Sources and Uses of Funds Statement:** A detailed sources and uses statement identifying the estimated cost of the proposed conversion must be prepared. The cost estimates must have been obtained within six months of the date of submission of the request. The Owner must also indicate the status of all funding commitments included in the sources and uses statement.
9. **Project Capital Needs Assessment (PCNA):** A PCNA must be provided that was completed no later than twelve (12) months prior to the submission for the conversion request. The PCNA must contain all of the information required by the Multifamily Accelerated Processing (MAP) Guide, Chapter 5, Paragraph 5.26 and Appendix 5M.
10. **Proposed Rehabilitation:** A description of the proposed scope of work, including plans and specifications as required by local code. The design of the units proposed for conversion must be consistent in character with that of any project units that are not part of the proposed conversion and must be designed to meet current market demands and resident needs.

The Department strongly encourages Owners to consider installation of and upgrade to energy related components within the converted units during the conversion construction. All Owners are required to operate properties at the lowest reasonable cost. The use of cost effective energy savings devices,

including those labeled Energy Star™, should be reviewed routinely as well as when changes to the physical plant are under consideration.

11. **Evidence of Notice to Tenants:** Notice to Tenants, in accordance with the requirements of 24 CFR Part 245.15, will only apply to the occupants of units included in the conversion. Notification of tenants residing in units which will not be part of the unit conversion is not required. If all of the units included in the unit conversion are vacant, no tenant notification is required. If tenants occupy units which will be converted (to one bedroom units), such occupants must be notified in accordance with 24 CFR 245.15. For pre-1978 housing that will become target housing as a result of the conversion, a lead-based paint disclosure must be completed in accordance with the requirements of 24 CFR Part 35, as described in Paragraph H of this Notice. The Owner must complete the tenant notification procedure required by Paragraph H prior to the submission of a conversion request. The term “major capital additions” is defined as “capital improvements which result in a change in the total number of bedrooms in the project.” The following documents must be included in the conversion submission to evidence compliance with these tenant notice procedures:

- a. A copy of the Notice to Tenants;
- b. Copies of all comments submitted by the tenants and/or their representatives;
- c. Owner’s written evaluation of the comments; and
- d. Owner’s Certification of Compliance with 24 CFR Part 245, as required by this Notice (Attachment 3).

For pre-1978 housing that will become target housing as a result of the conversion, a copy of the completely filled-out and signed lead disclosure format for each affected lease (see Paragraph H.6).

12. **Displacement of Residents:** A certification that there will be no permanent displacement of residents (Attachment 6).
13. **Temporary Relocation Plan:** The Uniform Relocation Assistance and Real Property Acquisition Policies Act (URA), which covers “persons displaced as a direct result of Federal or federally-assisted projects” may apply to these conversions because “Federal financial assistance [is] ... anticipated” (49 CFR Section 24.1(b) and Section 24.2(a)(22) in conjunction with the conversion, in which case, the relocation requirements and tenant notifications are more specific and extensive than shown in this Notice or in 24 CFR Part 245. More generally, see the URA regulations at 49 CFR Part 24. In the event that the conversion will involve the temporary

relocation of tenants, a relocation plan must be submitted that identifies the affected units and tenants, estimates the relocation costs and provides a timetable for the relocation. The Owner must also indicate what steps will be taken to minimize the temporary relocation of the tenants. Where necessary, the Hub Tenant Relocation Specialist must review and approve any relocation plans.

14. **Tenant Selection Plan:** In the event that temporary relocation of tenants is required, the Owner must amend their Tenant Selection Plan to give the right of first return to any tenant temporarily displaced by the unit conversion.
15. **Unit Conversion Agreement:** A copy of the proposed Unit Conversion Agreement must be executed by the Owner and the mortgagee of record (Attachment 5).
16. **Environmental Review Requirements:** The Hub/PC must perform an environmental review pursuant to 24 CFR Part 50 and document its efforts on form HUD-4128² – Environmental Assessment and Compliance Findings for the Related Laws. Certain rehabilitation and improvements of multifamily residential buildings may be categorically excluded from environmental assessment requirements under the National Environmental Policy Act (NEPA), see 24 CFR 50.20(a)(2), but remain subject to compliance with applicable related environmental laws and authorities. In such cases, the Environmental Assessment part of the form HUD-4128, Part B, “Environmental/Program Factors,” would not have to be filled out.

H. **Tenant Notification Requirements**

1. Capital improvements that result in a change in the total number of bedrooms in a project (e.g., a conversion of an efficiency unit into a one-bedroom unit) constitute “major capital additions” within the meaning of 24 CFR Section 245.405(d) (2010). See 24 CFR Section 245.705(b) (1996) (illustrative examples removed in 1996 as part of White House initiative on regulatory streamlining). At least 30 days, but not more than 120 days, before submitting a request to HUD for an approval to convert the efficiency units into one-bedroom units, the Owner must serve notice of the proposed conversion in accordance with the posting requirements of Section G, Item 11 of this Notice.
2. The Owner’s notice must contain all information required by 24 CFR 245.410. In addition, the notice must inform the tenants that a meeting will be held within

² <http://www.hud.gov/utilities/intercept.cfm?/offices/adm/hudclips/forms/files/4128.pdf>

5-7 days of the notice at which the Owner will describe the proposed conversion. The location, date and time of the meeting must be suitable and convenient for the tenant population. Comments received by the Owner at this meeting must be included in the Owner's submission to HUD as required below.

3. The Owner's notice must describe that the tenants have a right to participate as provided by 24 CFR 245.420. The tenants, and any legal or other representatives acting on behalf of tenants individually or as a group, must have the right to inspect and copy the materials the Owner will submit to HUD with their conversion request. This information must include all of the items required by 24 CFR 245.419.
4. If the Owner makes any material change during the tenant comment period to the documents to be submitted to HUD, the Owner must notify the residents of the change in accordance with 24 CFR 245.420. The tenants must be provided 15 days from the date of service of this additional notice (or the balance of the applicable comment period, if longer) to inspect and/or copy the materials as changed and to submit any comments on the proposed action. If HUD's processing of the Owner's conversion submission results in any material changes, the Owner must provide another notice to tenants informing them of the changes and providing an additional 30-day comment period.
5. In accordance with 24 CFR 245.425, upon completion of the tenant comment period, the Owner must review the comments submitted by the tenants and/or their representatives and prepare a written evaluation. The Owner must include the items listed in submission requirement #G-11 with their conversion request to HUD.
6. In accordance with 24 CFR 35, Subpart A, Disclosure of Known Lead-Based Paint and/or Lead-Based Paint Hazards Upon Sale or Lease of Residential Property (the "Lead Disclosure Rule"), if the housing will become target housing as a result of the conversion, that is, if the housing was constructed prior to 1978, or is not housing for the elderly or persons with disabilities (unless any child who is less than 6 years of age resides or is expected to reside in such housing).

Additionally, if the housing:

- a. Has not been found to be lead-based paint free by a certified lead-based paint inspector; and
- b. The leases are not short-term leases of 100 days or less with no lease renewal or extension allowed; then the Owner must comply with the Lead Disclosure Rule. Specifically, the Owner must:

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- i. Disclose to the tenant the presence of any known lead-based paint and/or lead-based paint hazards;
 - ii. Provide available records and reports about lead-based paint and/or lead-based paint hazards;
 - iii. Provide the tenant with an EPA lead hazard information pamphlet; and
 - iv. Attach the specific disclosure and warning language stated in that subpart to the leasing contract before the tenant is obligated under the contract.

Information resources are described at the end of this section.

7. Once the conversion is complete, if the housing will become target housing as a result of the conversion, as described in paragraph H.6, above, the housing will be covered by HUD's Lead Safe Housing Rule, 24 CFR Rule Part 35. In addition to, Subpart B and R Information resources are described below.
8. Once the conversion is complete, if the housing will become target housing as a result of the conversion, as described in paragraph H.6, above, the housing will be covered by the Environmental Protection Agency's (EPA's) Renovation, Repair, and Painting (RRP) Rule, 40 CFR Part 745, especially Subpart E, covering renovation, repair and painting projects that disturb lead-based paint in target housing. In particular, firms (including contractors, and Owners, if they conduct the work themselves or by their staff) conducting such work in target housing must be certified and must follow specific work practices to prevent lead contamination. Information resources are described below.
9. See Lead Safety resources below:
 - a. See HUD's Lead Disclosure Rule web page, www.hud.gov/offices/lead/enforcement/disclosure.cfm. In particular, the lead disclosure pamphlet can be downloaded in any of six languages, and the disclosure format, used for documenting compliance with the Rule, can be downloaded in English and Spanish.
 - b. See HUD's Lead Safe Housing Rule webpage, www.hud.gov/offices/lead/enforcement/lshr.cfm.
 - c. See EPA's Renovation, Repair, and Painting (RRP) Rule website home page, www.epa.gov/lead/pubs/renovation.htm, and the information linked to that home page.
 - d. Further information about HUD's and EPA's lead safety rules and lead safety in general is available from the EPA/HUD/CDC-sponsored

National Lead Information Clearinghouse, 1-800-424-LEAD (5323), www.epa.gov/lead/pubs/nlic.htm. Hearing- or speech-challenged individuals may access the phone number through TTY by calling the toll-free Federal Relay Service at 1-800-877-8339.

I. Use of Reserve for Replacement Funds

Hub/PC Offices may receive requests to convert efficiencies using Reserve for Replacement Account funds. Those requests should be processed following the requirements of this Housing Notice. However, these additional requirements apply:

1. The Owner must submit a copy of the current one (1) bedroom waiting list and the field office must verify that there is sufficient demand (based on a review of the property data) for the converted units.
2. The Owner must submit to the Hub/PC office for review, a Reserve for Replacement Account analysis. The review must ensure that there will be sufficient reserve funds after the costs of the conversion, to cover necessary project needs and maintain an adequate reserve for replacement balance.
3. The field office may approve Reserve for Replacement Account releases for the conversion that takes the account below the field office's minimum balance. However, the field office must perform an analysis of the increased cash flow derived from the conversion to ensure that the account can be replenished within one year after the property begins receiving rent for the converted unit(s).

J. Multifamily Housing Hub/Program Center Responsibilities

The Hub/PC must review the submission to ensure that all programmatic requirements contained in this Housing Notice and the submission requirements identified in Paragraph G have been satisfied. The review should be completed within 15 business days of receipt of the submission. If the submission is incomplete or fails to satisfy any programmatic requirements of this Housing Notice, the Owner must be advised of the deficiencies in writing. It is strongly recommended that field office managers and supervisors impose a requirement that submissions be fully complete prior to beginning reviews. Additionally, incomplete requests and those that do not meet the threshold requirements shall be returned immediately identifying all deficiencies.

Upon receipt of an eligible project and complete proposal, the Hub/PC must review the request in accordance with the requirements of this Notice within 60 days. The Hub/PC must analyze the proposal and verify supporting documentation. The pro-forma operating statement should be compared against a sample of high performing

comparable projects using OPIIS or iREMS, sample verifications of third party data should be made to ensure currency and accuracy, proposal estimates and assumptions regarding post conversion debt service must be reasonable and supportable, etc. The Hub/PC must determine whether the proposed conversion will financially and physically reposition the property as affordable housing for the long term. The Hub/PC must determine what other actions are required of the owner to achieve the desired result. For example, if the long term viability requires changes in expense levels, those changes must be specified by the Hub/PC, accepted by the Owner, and accomplished concurrently with the conversion.

Architectural and Engineering (A&E) staff must determine the acceptability of the proposed scope of work and must approve the proposed architect and contractor. A&E staff must also monitor work progress and ensure compliance with Davis-Bacon Wage Rates, if applicable.

The Hub/PC must summarize their review and incorporate the findings of A&E and any other applicable technical disciplines using the attached Multifamily Unit Conversion Checklist (form HUD-92040).

Approval letters should direct the Owner to execute a Unit Conversion Agreement, a revised Rental Schedule, and an amendment to the Section 8 Contract. The Hub/PC should follow the steps outlined in form HUD-92040 for implementing the reconfigured rents. Copies of conversion approval letters should be sent to the Office of Asset Management in Headquarters in order for the program's effectiveness to be evaluated and to facilitate future program changes. This will ensure that the program is designed to adequately meet market needs.

K. Paperwork Reduction Act

The information collection requirements contained in this document, apart from those for lead safety, are pending approval by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB control number 2502-New. The information collection requirements contained in this document for the Lead Disclosure Rule, the Lead Safe Housing Rule, and the EPA's Renovation, Repair, and Painting Rule, are approved by OMB under the Paperwork Reduction Act of 1995 and assigned OMB control numbers 2070-0151, 2539-0009, and 2070-0155, respectively. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB control number.

If you have questions regarding this Housing Notice, please contact your local HUD office or contact your desk officer in the Office of Asset Management located in Headquarters.

/s/

David H. Stevens
Assistant Secretary for Housing-
Federal Housing Commissioner

[Attachments](#)