Developing Successful RAD Conversions of Assistance

August 23, 2012
Developing Successful RAD Conversions of Assistance

• What PHAs, Owners, & Residents Have Been Asking About?
  – Public Housing
  – Mod Rehab
  – Rent Supp/RAP

• Financing Transactions
  – Debt
    – FHA—including new FHA-LIHTC Pilot
    – Conventional & Subordinate

• Equity
  – 4% LIHTCs
  – 9% LIHTCs

• Q & A
Welcome to In-Person & Webcast Audiences

RAD Slide Deck Overview

• Q&A to clarify along the way

Moderated Discussion with Q&A
TODAY’S PANEL

Lenders & Investors

• Catherine Pharis – Managing Director, Wells Fargo
• Emily Phillips – Underwriter, Enterprise Community Investments

HUD RAD Team

• Greg Byrne – PIH
• Diane Thompson – PIH
• Margaret Salazar – OMFP
• Lynn Wehrli – OAHP
• Patrick Costigan – Office of the Secretary
Public Housing
- Capital repair needs in excess of $25.6B across portfolio, or $23,365/unit
- Section 9 funding platform unreliable (pro-rations, cuts), prohibitive in accessing private debt and equity
- Losing 10,000-15,000 hard units/year

Section 8 Moderate Rehabilitation (Mod Rehab)
- Cannot renew on terms needed to secure financing

Rent Supplement (Rent Supp) & Rental Assistance Payment (RAP)
- No option to renew when contracts expire
KEY RAD GOALS

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

**1st Component:** Competitive, 60,000 Unit Cap
- PBRA
- PBV

**2nd Component:** Non-Competitive, No-Cap (subject to availability of TPVs)
- PBV

Public Housing

Mod Rehab

Rent Supp & RAP
1\textsuperscript{st} Component

- Public Housing & Mod Rehab
- Can compete to convert assistance to
  - Project-Based Rental Assistance (PBRA) or
  - Project-Based Vouchers (PBV)
- Cap of 60,000 units (applications must be received by 9/30/2015)
- Convert at current funding only
- Choice-Mobility, with limited exemptions
- Extensive waiver authority to facilitate conversion
- Initial application period: September 24 – October 24, 2012
2nd Component

- Mod Rehab, Rent Supp, & RAP
- Upon contract termination/expiration, convert Tenant Protection Vouchers (TPVs) to PBVs
- No cap, but subject to availability of TPVs
- Choice-Mobility requirement per PBV program rules
- Limited waiver authority to facilitate conversion
- Prospective conversion authority through 9/30/2013
- Retroactive conversion authority back to 10/1/2006 (convert by 9/30/2013)
Q & A
WHAT PHAS HAVE BEEN ASKING ABOUT?

1st or Competitive Component of RAD

• From Application to CHAP to HAP – Processing Requirements
• Defining RAD-Eligible Projects
  – Splitting AMPs
  – When Section 18 (demo/dispo) applies
• Current Funding Allocations & Rent Setting
• Choosing between PBVs or PBRA
• Procurement
  – Predevelopment expenses
  – Loans
• Resources & Tools
At conversion, PHAs will convert funding to a Section 8 contract rent.
PBRA Cap

- Lower of:
  - Current funding or
  - 120% of FMR (less utility allowance)
  - EXCEPT where current funding is below market, wherein rent is limited to 150% of FMR

PBV Cap

- Lower of:
  - Current funding
  - 110% of FMR (less utility allowance)
  - Reasonable rent
RAD Conversion Guide for PHAs

Rental Assistance Demonstration
Conversion Guide for Public Housing Agencies

This RAD Conversion Guide (Guide) is intended to assist public housing agencies (PHAs) as they prepare to apply for conversion of assistance under the Rental Assistance Demonstration (RAD) pursuant to PIH Notice 2012-32 (Notice). Accompanying the Guide is an Excel-based RAD Inventory Assessment Tool (Tool) available on the RAD website to help PHAs conduct first-level assessments of which properties in their inventory might prove to be viable candidates for conversion of assistance under RAD. The Guide and Tool are intended only as planning aids for PHAs. In the event of any discrepancy among the Guide or Tool and the RAD Final Program Notice, the provisions of the Notice govern. For more complete information and supporting materials on RAD, visit the RAD website at www.hud.gov/rad.

The Guide is organized in five phases:

1. Planning;
2. Identifying RAD projects: Building a preliminary Operating Budget and a preliminary Development Budget;
3. Resident Protections and Choice Mobility;
4. Assembling Your Development Team; and
5. Confirming Financing Partners.

The companion Tool will be most useful in Phase 2. The process of preparing to apply for RAD is likely to be an iterative one, wherein initial judgments are later reshaped or superseded as information about a potential project develops. For example, a lender’s underwriting process...
RAD Inventory Assessment Tool for PHAs

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- **First Mortgage Financing Terms**
  - Interest Rate: 0.000% annual rate
  - Amortization Term: 0 years
  - MIP or Other Credit Enhancement: 0.00% per year
  - Debt Service Coverage Ratio: 0.00

- **Type of Rental Assistance Contract**
  - PBRA or PBVs?

- **Initial Operating Expense Assumption**
  - Operating Expenses: No global input
Resident Processes, Rights, Responsibilities

• Transposing Section 6 to Section 8

Choice-Mobility

• PBVs
• PBRA

PBVs

• Ability to choose income-mixing option if offered
  – Multiple choices: immediate, after 1 year
  – No involuntary displacement

• If “family property” exemption for > 50% assistance
  – Offer supportive services for mobility

Resident Education
Public Housing Resident Provisions

• Resident Procedural Rights
  – Consistent with Section 6 of the 1937 Housing Act

• Resident Notification Prior to and During Conversion

• No Rescreening of Residents at Conversion

• One-for-One Preservation or Replacement
  – Must convert all or substantially all units in covered project

• Family Self-Sufficiency & Resident Opportunities and Self-Sufficiency
  – FSS & ROSS participants may continue in programs

• Resident Participation & Funding
  – PHAs must recognize legitimate tenant organizations
  – PHAs must provide $25 per occupied unit annually for resident participation per current Public Housing program rules
Q & A
**Mod Rehab - 1st & 2nd Components**

- **Public Housing**
- **Mod Rehab**
- **Rent Supp & RAP**

**1st Component:**
- Competitive, 60,000 Unit Cap
  - PBRA
  - PBV

**2nd Component:**
- Non-Competitive, No-Cap (subject to availability of TPVs)
  - PBV
1st or Competitive Component – Convert to PBRA or PBVs

- Contract Rent = Current Funding (subject to rent caps)
- Contract Term
  - PBRA – 20 yrs
  - PBV – 15 to 20 yrs
- OCAF Rent Adjustments
- Competition
- CHAP-Financing Plan-HAP
- PBV Income Mixing & Voucher Program Cap
2nd Component – Convert to PBVs

- Financing Plan Approval
- Contract Term: 15 years
- Contract rent determined under PBV rent requirements
- PBV rent adjustments
- Choice-Mobility
- PBV Income Mixing and Voucher Program Cap
Q & A
Rent Supp/RAP - 2nd Component Only

1st Component: Competitive, 60,000 Unit Cap

Public Housing -> PBRA

Mod Rehab -> PBV

Rent Supp & RAP -> PBV

2nd Component: Non-Competitive, No-Cap (subject to availability of TPVs)
# Rent Supp/RAP Eligibility

<table>
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<tr>
<th>Requirement</th>
<th>Prospective</th>
<th>Retroactive</th>
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| **Eligible Properties** | • Active Rent Supp or RAP contract  
| | • Contract expires or terminates by 9/30/2013  
| | • If expiration is FY14 or later, HUD will accept and prioritize by date a letter of interest from owner subject to available funds  
| | • Previously received Rent Supp or RAP assistance  
| | • A triggering event (contract termination due to prepayment or contract expiration) occurred on or after 10/01/2006  
| | • Vouchers were provided to residents of the property as a result of the triggering event  
| **Eligible Units** | • **Rent Supp or RAP contract units**: Original contract units occupied in 24 months prior to contract expiration or termination  
| | • **Unassisted**: Eligible in RAD conversion if EVs would be provided to unassisted residents due to qualifying preservation-eligible mortgage prepayment  
| | • Units occupied by income-eligible households with TPVs from mortgage prepayment or contract expiration |
GEOGRAPHY OF RENT SUPP/RAP PROPERTIES

Highly Concentrated in a Few States

- NY 29%
- CA 15%
- MI 12%
- NJ 15%
- MD 4%
- Other 7%
- VA 2%
- WA 1%
- PA 3%
- CT 1%
- IL 6%
- MA 15%
- MN 2%

Total: 100%
Q & A
Debt
  • Conventional
  • Secondary
  • FHA
    – FHA Streamlining
    – LIHTC Pilot

LIHTCs
  • 9% considerations
  • 4% issues
    – 50% test
    – Bonds: T-E, PHA-PABs, private placement

RAD Capital Marketplace
  • [www.radcapitalmarketplace.com](http://www.radcapitalmarketplace.com)
Section 223(f)
- Refinance or acquisition
- Minor/moderate repairs ($6,500/unit*high cost factor)
- Permanent debt with repair escrow - up to 35 years
- 90% rental assistance: DSC 1.15; Loan to Value: 87%
- Affordable: DSC 1.176; Loan to Value: 85%

Section 221(d)(4)
- Substantial rehab: 2 major building systems
- Construction/permanent debt all in one - initial/final closing
- 40-year financing
- 90% rental assistance: DSC 1.11; Loan to Cost: 90%
- Affordable DSC 1.15 Loan to Cost: 87%

Market Interest Rates – Historically Low
Objective

Increase FHA’s affordable housing production by completing FHA loan processing in 120 Days, from application to closing.

Approach

• Senior staff as designated underwriters at each Pilot Hub
• Revamped Process – Not linear with multiple experts, but all review done by designated underwriter
• Use of only one FHA program adapted for use with tax credits: 223(f)
3 Project Types

• Acquisition and/or refinancing with moderate rehabilitation for developments with 90% PBRA (includes RAD projects)

• Permanent financing of newly built or substantially rehabilitated projects (3-year rule waiver projects)

• Permanent financing and moderate rehabilitation of stabilized tax credit projects being re-syndicated with new tax credits
Eligible Projects: Other Requirements

- Tax credit or Bond Cap allocation in hand
- Located within selected Pilot Hub areas (or in the case of RAD projects, underwritten in an assigned Pilot Hub)
- Using MAP lender approved for the Pilot
- Low risk, meeting sustaining occupancy requirements
- Eligible for 223(f) Loan program, adapted to the Pilot program: Highlight is allowance for rehab expenditures of up to $40,000/unit
Contact Information

Project documentation posted on the MAP page at:


Questions? Please contact:

Lynn Wehrli
(202) 402-5210
lynn.wehrli@hud.gov
UPCOMING RAD EVENTS

- Region IV Mixed-Finance/RAD Workshop
  Panama City, August 29-30, 2012 (POSTPONED DUE TO WEATHER)

- Making a RAD Deal Work
  Chicago, September 6-7, 2012

- Kentucky Housing Association Annual Conference
  Louisville, September 17, 2012

Find more and updated information on the RAD web page at [www.hud.gov/rad](http://www.hud.gov/rad) under the Events section
Welcome to the Rental Assistance Demonstration Capital Marketplace (RAD Capital Marketplace). The site is designed to encourage contact and information sharing among housing authorities (PHAs) and multifamily owners considering a RAD conversion and the lenders, investors, development partners, financial intermediaries, professional financing advisors, consultants, that offer services and products that PHAs and owners may wish to use in preparing their application and/or financing plan.

The site has been developed collaboratively by National Equity Fund, Inc. (NEF), Council for Large Public Housing Agencies (CLPHA) and Enterprise Community Investment, Inc. One of the goals of RAD (Notice PIH-2012-32) is to demonstrate how the conversion of current assistance to long-term project-based Section 8 rental assistance contracts can generate access to private debt and equity to address immediate and long-term capital needs of the public housing stock and Rent Supp, RAP and Section 8 Mod Rehab multifamily housing at risk from being lost from the affordable stock. The Initial Application Period for the limited, competitive component of RAD for public housing and Mod Rehab properties opens on September 24, 2012 and closes October 24, 2012. Owners of eligible Rent Supp, RAP and Mod Rehab properties may submit conversion requests for Section 8 Project Based Vouchers only on a rolling basis. Program rules and application instructions are outlined in the Notice, which can be found on the RAD webpage: www.hud.gov/raa

If you would like to post your information please choose the type of Entity that you are:

- PHA/Owner
- Lender
- Investor/Syndicator
- Consultant/TA
- Developer/Co-Developer

Search by company type: [Dropdown] Search by State: [Dropdown]
• In-Person Qs

• Webcast-submitted Qs
KEY DATES

1st Component (Public Housing & Mod Rehab)
- Initial Application Window Opens: 9/24/2012
- Initial Application Window Closes: 10/24/2012
- Public Housing Ongoing Application Window Opens: 10/25/2012
- Initial CHAP Awards: 10/2012

2nd Component (Mod Rehab, Rent Supp, & RAP)
- Rent Supp/RAP Requests for Conversions Under Interim Authority: 3/8/2012
- Rent Supp/RAP/Mod Rehab Requests for Conversions Under Final Notice: 7/26/2012
RAD Notice, application materials, and additional resources can be found at

www.hud.gov/rad

Email questions to rad@hud.gov