Rental Assistance Demonstration Resource Desk
Frequently Asked Questions

Category:	Application
Posted:	09/24/2012
Question:	As a result of planned repairs, we anticipate a reduction in operating expenses as compared with the most recent three years. What operating expenses should a PHA use in applying for RAD?
Answer:	PHAs should carefully evaluate their current operating expenses to determine whether there may be operating savings post-rehab. They may also want to determine the operating expenses for comparable projects in the project's market area and use that as a benchmark. The proposed expenses should also be reviewed with the lender. The lower the ratio of expenses to rents, the more debt that can be leveraged through a RAD conversion. However, for purposes of completing the application, any major line item operating expense that is less than 85% of three-year historical costs must be explained in Section 8 of the application. [See RAD Final Notice Reference: Attachment 1A.1, Paragraph H.4.]

Posted:	09/24/2012
Question:	Do I need to submit a "Financing Letter of Interest" for each source of financing that I plan to use in conjunction with my proposed RAD conversion?
Answer:	Yes, for each financing source you plan to utilize, your application submission must include a signed Financing Letter of Interest. The Excel-based application includes a worksheet that is auto-populated with inputs from the Application. For each financing source, the user should enter information at the top of this worksheet for the applicable financing source, print out this worksheet, obtain a signature from a representative of the financing source, and include the signed worksheet as a PDF attachemnt with their Application submission. Repeat this process for each financing source. An application submission will be considered incomplete if each identified financing source does not have this Letter. Please note that this letter is not required when a PHA is proposing to use its own public housing funds (e.g. Operating reserves) as a financing source.

Posted:	09/24/2012
Question:	If we are a PHA with a voucher program, do we have to partner with another PHA in order to receive the Choice-Mobility ranking factor points?
Answer:	Yes. The Choice-Mobility points are only provided to agencies that (a) do not operate a voucher program but are converting to PBRA and are able secure a commitment of vouchers from a voucher agency, or (b) operate a voucher agency and commit to provide vouchers to a public housing-only agency that is converting to PBRA. [See RAD Final Notice Reference: Paragraph 1.7, C5.]

Posted:	09/24/2012
Question:	In terms of scoring, does the ranking factor for High Capital Needs include only hard costs?

Answer: No. The figures include both hard and soft costs – specifically, all rehabilitation or construction costs, site improvements, general requirements, contractor overhead, contractor profit, performance and payment bond or letter of credit, contingency, permits and impact fees and other costs. [See RAD Application, Line 87 Guidance "?" Box.]

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Question: Is there flexibility to allow changes in a public housing project (AMP) configurations, e.g., to convert only the scattered-site units at an AMP that also has elderly high-rise units?

Answer: Yes, PHAs can apply for any portion of an AMP that makes sense from a financing and management perspective. The PHA should note such plans in line 69 of the RAD Application ("Partial Conversion"). If a PHA receives a CHAP for the proposed conversion, it will remove those units from inventory in PIC at closing. [See RAD Final Notice Reference: Paragraph 1.9, A.]

Posted: 09/24/2012

Question: The application will not allow me to enter certain values. For example, I have been quoted an interest rate by a lender that I cannot enter into the application.

Answer: The Application includes a number of minimum and maximum thresholds that an applicant cannot exceed. For example, users cannot enter a vacancy rate cannot be less than 3%. Similiarly, users cannot enter a combined interest rate + mortgage insurance premium cannot be less than 3.5%.

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Question: Will HUD provide technical assistance on the application?

Answer: During the initial application period for RAD, HUD will hold a series of live Q&A sessions to address questions that are sent in to rad@hud.gov during this time. In addition, HUD presenters will address commonly asked technical questions. Each Q&A session will be recorded and posted to the RAD website.

Posted: 09/24/2012

Question: During the Initial Application period, is there any benefit to submitting my application early?

Answer: No, applications submitted during the Initial Application Period (September 24th to October 24th) will be scored and ranked solely on the four ranking factors described in the Notice. An application that is submitted on September 25th is no more competitive than an application that is submitted on October 22nd.

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Question: I have received a fatal error message that I believe is incorrect. Who can I contact at HUD for help?

Answer: Email rad@hud.gov for technical questions related to the application.

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Question: If we are proposing to demolish or dispose of some units as part of our RAD conversion, do we need HUD approval under the Section 18 requirements prior to the submission of our application?

Answer: No, approval prior to application is not required for Section 18 Demolition or Disposition. However, approval of the Demo/Dispo must be obtained before submitting the Financing Plan. The PHA should note such plans in line 69 of the RAD Application ("Partial Conversion"). Please also note that demolition coupled with a new construction project does not require separate Section 18 approval. [See RAD Final Notice Reference: Paragraph 1.5, B.]

Posted: 09/24/2012

Question: Is there a benefit to apply during the Initial Application Period, rather than wait for the Ongoing Application Period?

Answer: Yes, applications submitted during the Initial Application Period will be ranked and scored according to the four ranking factors described in the Notice. If during this period HUD receives more applications than it can award under the statutory 60,000 unit cap, then HUD will establish a waiting list and those applications submitted during the Initial Application Period will be at the top of the waiting list. Applications that are then submitted during the Ongoing Application Period would be placed on the waiting list below those waiting list applications from the Initial Application Period.

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Question: My estimate of physical needs for the project does not align with the my actual schedule of capital repairs because I'm demolishing the building and doing new construction, pursing tax credits and trying to maximize the eligible basis, or otherwise plan to perform greater initial repairs than appear in my PNA. How should I represent this in the application?

Answer: If you plan to make repairs earlier than your physical needs assessment suggests, in section 4 of the Application under Capital Needs (Row 87-89), enter the actual schedule in which you expect capital needs to be addressed. If your proposal includes new construction, do not include the physical needs estimates for the current building; instead, enter the total construction costs under immediate needs and an estimate of the short-term and long-term needs of the project once newly constructed. If your proposal involved rehab, but you intend to perform all of the repairs that your PNA suggests are needed in years 2-5, then increase your entry of Immediate Needs (Row 87) and decrease your entry for Short-Term Needs (Row 88).

Category: Benefits of RAD

Posted: 09/24/2012

Question: If there is no new Federal funding available with RAD, what are the financial benefits of participating in the program?

Answer: There are a number of financial benefits, including: • Ability to leverage private debt and equity to meet rehabilitation needs. RAD creates an opportunity to convert existing rent subsidy and capital funds to a Section 8 Housing Assistance Payments (HAP) contract. PHAs can borrow against the HAP income stream and/or leverage 4% or 9% LIHTC equity investments against it. • Historically low rates on permanent financing. In the case of FHA financing, for example, current rates are at about 3%, with .45% added for mortgage insurance premium (MIP). These extremely low rates increase project borrowing potential dramatically. • More secure funding stream. While also subject to annual appropriations, project-based Section 8 contracts have not been subject to the same "proration" issues of the public housing Operating Fund Program or the large swings in the Capital Fund Program. • Fee potential. Similar to other affordable housing developers and managers, under RAD, PHAs can earn development, property management, asset management and/or guarantee fees depending upon the financial structure of a transaction. • Additional income potential. Depending upon the financial structure, PHAs may also be able to generate additional income or receipts from RAD transactions via project cash flow, debt-service on PHA-supplied financing and seller take-back notes, ground-lease payments, etc. • Long-term preservation. Unlike traditional public housing, the contract rents will support an annual contribution for replacement reserves so that the project has funds to address the timely replacement of systems of components. • Operational stability. Contract rents will be adjusted annually by an operating cost adjustment factor, which should facilitate long-term project planning. Further, all of the following potential sources of PHA income in a RAD transaction constitute unrestricted, non-Federal funds: • Developer fees (10% in debt-only deals; up to 15% in LIHTC) • Land-lease payments • Sellertake-back financing on appraised value of existing units in a rehabilitation transaction (this is not available in the case of demolition and new construction) • Cash flow

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Question: What are the non-financial benefits to PHAs of participating in RAD?

Answer: In addition to the financial benefit noted, above, there are a number of non-financial benefits, including regulatory relief. Both the Section 8 PBRA and PBV programs are viewed by many, from a regulatory perspective, as less burdensome the public housing program. These programs are also considered more stable due to the infrequency of regulatory changes.

Category: Capital Fund Financing Program (CFFP) / Energy Performance Contracting (EPCs)

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Question: If my PHA has a CFFP* and/or EPC loan, what do I need to do before submitting my application and what are the implications for applying for RAD if I have a CFFP loan? *Under the Capital Fund Financing Program (CFFP), a PHA may borrow private capital to make improvements and pledge, subject to the availability of appropriations, a portion of its future yaer annual Capital Funds to make debt service payments for either a bond or conventional bank loan transaction. An EPC loan is generally undertaken under 24 CFR 990.185, wherein energy conservation measures are financed by a third-party based on projected energy savings.

Answer: At the time of application, you will need to indicate how you plan to address the current obligation, e.g., by repaying the loan. Once you receive an award, you will then have six months to provide a Financing Plan that explains precisely how these obligations will be handled. As a result, you should have early conversations with your CFFP or EPC lender. Generally, debt service payments under the CFFP program cannot exceed 33% of a PHA's annual Capital Fund award. For this reason, the CFFP program restricts PHAs from reducing their public housing inventory by more than 5% (any reduction in inventory affects a PHA's Capital Fund formula grant). Under RAD, a PHA will be removing units from inventory and, therefore, eliminating the Capital Funds generated by that project's formula characteristics. There are a number of possible solutions: • If the PHA has added public housing units to its stock since the CFFP loan closing, the PHA may be able to remove the RAD conversion units without exceeding the 5% rule. • It may be possible for the PHA to pay off the CFFP loan with proceeds from the RAD financing. • For larger PHAs, a change of 5% in the number of ACC units (and related capital funds) may be sufficient to cover the RAD project being considered for conversion. For example, if a PHA has 3,000 ACC units, it could convert a 150-unit project without tripping the 5% restriction. • Finally, PHAs may request an exemption from HUD to exceed either the 5% restriction or the limitation that not more than 33% of Capital Funds be used for debt service. PHAs will need to work directly with their lenders and investors to seek approval and make any needed changes in their respective documents. [See Final RAD Notice Reference: Paragraph 1.4, B-3]

Category: Funding Sources

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Question: Under what circumstances can I use other public housing funds, such as operating reserves, unobligated Capital Funds, Replacement Housing Factor (RHF) funds, etc., to facilitate conversion under RAD?

Answer: PHAs can use available public housing funding, including Operating Reserves, Capital Funds, and RHF funds, as an additional source of capital to support conversion. Eligible conversion-related uses for these funds include pre-development, development or rehabilitation costs and establishment of a capital replacement reserve or operating reserve. As stated in the Notice, these funds must be identified in the Financing Plan submitted to HUD for review. A PHA may not, however, use public housing program funds on a project following conversion. [See RAD Final Notice Reference: Paragraph 1.5, A.]

Category: New Construction

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Question: As part of a RAD conversion, can my PHA demolish the existing structure and undertake new construction?

Answer:	The RAD program was designed to help address the large backlog of capital needs in public housing. A PHA may use RAD to rehabilitate an existing project or, where circumstances warrant, demolish a project and build new replacement housing, including atoff-site locations. However, this type of redevelopment will very likely require more than debt financing to be feasible. Additional funding possibilities include LIHTC equity, soft financing sources such as green funding products, CDBG, HOME, the Affordable Housing Program of the Federal Home Loan Banks, local housing trust funds or foundation funding and PHA sources such as Operating Funds, Capital Fund and, Replacement Housing Factor Funds. Other public housing development funds targeted to distressed housing may be available under the HUD's Choice Neighborhoods Initiative. A separate Section 18 Demo/Dspo approval is not required under RAD. However, PHAs should keep in mind that they must follow the Uniform Relocation Act with respect to resident relocation and that current residents of the project being converted under RAD have the right to return to the site without re-screening. [See Final RAD Notice References: Paragraphs 1.5, B and 1A.1,C.]

Category:	Procurement
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Question:	What procurement rules apply to RAD during the application phase?
Answer:	HUD has authorized $100,000 in public housing funds that PHAs can spend on pre-development expenses without HUD approval. Because these are public housing funds and the project has not yet converted assistance under RAD, PHAs must comply with public housing procurement rules. Generally, this means small purchase procedures, which are outlined in Chapter 5 of the Procurement Handbook for Public and Indian Housing Authorities, 7460.8 Rev-2. (Note that HUD is not capping the total amount that can be spent on pre-development expenses; rather, the $100,000 is the amount that can be spent prior to approval of the Financing Plan. It is likely that some projects will incur more than $100,000 on pre-development costs.) [See RAD Final Notice Reference: Paragraph 1.5, A.]