LIHTC Pilot Program
Assisted Housing
Under the LIHTC Pilot Program
Pilot Training 11-19-12
• Goals and Underwriting Guidance
• Loan Prepayments and Waivers
• Section 8 HAP Contract renewals and rent adjustments
• Facilitate Preservation of Assisted Housing
  • Draw new equity to projects with maturing loans and expiring Section 8 contracts
  • Make needed project repairs

• Streamline Reviews
  • Integration of Asset Management and Development
  • Risk Based Underwriting
Inherently Low Risk

- Pilot eligibility: 90% or more units assisted with Project Based Section 8 HAP Contract
- Subsidy tied to project, typically at market comparable rates
- Tend to be lower vacancy and/or operate with waiting lists
- Lender’s analyses typically required as distinct exhibits
- Summary information typically required on Form 2013
- LIHTC award information and development team
LIHTC Pilot Addresses Underwriting challenges for Assisted Housing.

- Rents: Section 8 contract rents are set through HUD Section 8 protocols, either by budget or market comparables (Rent Comparability Study) and adjusted by budget or OCAF.

- Often FHA insured loan applications utilize income estimates derived from MAP appraisal methodology which does not account for these Section 8 actual contract rents.

- “Chicken and egg” problem – are rents set through underwriting or Section 8 program? Coordination between Development and Asset Management.
• Pilot Applications must reflect continuity between rents in underwriting and rents in Section 8 request.

- Copy of Section 8 HAP Contract Renewal Request submitted by borrower prior to LIHTC application submission.
- Section 8 Rent Comparability Study prepared prior to LIHTC application submission.
  - As a general rule, rents in LIHTC Pilot application must match rents in HAP contract.
  - If rent adjustment is requested, Pilot application should list the new rents requested by borrower.
If borrower is requesting rent adjustment/contract renewal:

1) Borrower submits Section 8 Contract Renewal Request to HUD/PBCA as required under Section 8 Renewal Guide. This may include a Rent Comparability Study.
2) If Borrower is submitting a budget-based rent increase request, this Renewal Request should include estimated new debt service.
3) AFTER submission of the Renewal Request, lender incorporates the requested rents into the FHA underwriting.
4) Lender includes HAP Contract Renewal Request and RCS (if required) with LIHTC Pilot application.
5) Lender may use lower rents in underwriting but may not use rents higher than in the Section 8 Renewal Request.
6) If the Owner requests a Budget Based Rent Increase, the Borrower provides the PBCA with the final debt service figure once the debt service is finalized (after Firm Commitment)
BENEFITS TO APPROACH

- Eliminates back and forth with lender/borrower – this occurs prior to Pilot Application submission.
  - If rents in Pilot application do not match Section 8 rent request, application is rejected.

- Engages Asset Management early
  - DU to confer with AM on borrower performance, project needs, and expenses and income

- Streamlining steps – DU valuation desk review (appraiser site visit not necessary).
  - Rent roll and occupancy history not required in application – this information is available in iREMS. Reduces review timeframe.
  - DUs are encouraged to coordinate with AM.
MULTIFAMILY LOW INCOME HOUSING TAX CREDIT PILOT PROGRAM

Asset Management’s role

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November 19, 2012
LIHTC PILOT PROGRAM – TOPICS OF DISCUSSION

1. 2530 Approvals  Eric Ramsey, Director

2. Prepayment Processing  Diana Reid, Housing Program Manager

3. Special Approvals  Gloria Burton, Housing Program Manager

   A. Decoupling a Section 236 Mortgage
   B. Flexible Subsidy Loan Deferrals
      1. Operating Assistance Loans
      2. Capital Improvement Loan Program
   C. Modifications to Existing Use Agreements
   D. Section 236 Excess Rental Income

4. Tax Credit Pilot and Section 8  Stan Houle, Housing Program Manager
2530 APPLICATION APPROVAL PROCESS

- Has the Owner’s 2530 Application Been Approved?
  
  - a. Is the application complete, i.e., certified/signed and dated.
  
  - b. Has all outstanding flags been resolved?
  
  - c. Flags with defaults, foreclosures, suspensions, and debarment must be transmitted to Headquarters for review.
Prepayment Processing – Submission Requirements

- For an FHA insured mortgage, the lender must submit the Form HUD 9807 electronically to Ronald P. McDowell, Chief, Multifamily Insurance Operations Branch, ATTN: Sharmaine St. Rose, at the following e:mail address: Sharmaine.St.Rose@HUD.gov or Facsimile (202) 401-3246. Questions related to preparation or submission of the Form HUD 9807, should be directed to Ms. St. Rose at (202) 402-2029.

- The written request to prepay a HUD-held mortgage is sent to Deborah Courtright, Chief, Multifamily Notes Servicing Branch, ATTN: Pat L. Tarber, at the following e:mail address: MultifamilyNotesServicingBranch@HUD.gov, or by Facsimile at (202) 619-8408. Questions related to preparation or submission of a written request to prepay a HUD-held mortgage may be directed to Pat Tarber at (202) 402-2772, or Deborah Courtright at (202) 402-2753.

- Requests to prepay Section 202/8 Direct Loans are submitted directly to the local Multifamily Hub/Program Center with jurisdiction over the property for review and recommendation for approval to Headquarters Office of Asset Management.
Mortgage Notes that contain prepayment lockout restrictions may be approved for prepayment no earlier than 30 days prior to expiration of the prepayment lockout end date.

Lack of Owner compliance with outstanding HUD policies, procedures, regulatory and statutory requirements can cause delays in issuing approval of the request to prepay the mortgage loan.

If it is determined that the request for prepayment is incomplete, the local HUD Office is notified of the deficiencies. If the deficiencies are not resolved in a timely manner, the request to prepay the mortgage loan may be delayed.

The Lender and the local HUD Office will be notified of the terms and conditions of the prepayment approval.
HUB ASSIGNMENTS FOR PREPAYMENT PROCESSING
LOW-INCOME HOUSING TAX CREDIT PILOT ONLY

• Gloria Burton, Primary Contact
• Kimberly Britt, Secondary Contact

• Atlanta
• Los Angeles
• San Francisco
• Denver
• Detroit
HUB ASSIGNMENTS FOR PREPAYMENT PROCESSING
LOW-INCOME HOUSING TAX CREDIT PILOT ONLY

• Diana Reid, Primary Contact
  • Isabella Cabbagestalk, Secondary Contact

• Boston
• Chicago
• Ft. Worth
• Seattle
SPECIAL APPROVALS

• **Section 236 Projects Only**
  - 236 Decoupling Notice & Interest Reduction Payments (IRP) Program

• **Use Agreements**

• **Flexible Subsidy Program**
  - Waiver to defer repayment of Operating Assistance Loans requires approval by the FHA Commissioner;
  - Refer to Housing Notice H-2011-05 (Extended by Notice H-2012-4); and
  - Capital Improvement Flexible Subsidy Loans may not be deferred beyond the project’s original mortgage maturity date.
REFERENCES

- **Form HUD 2530 Application**
  - 24 CFR Subpart H – Participation and Compliance Requirements, § 200.210 to 200.245
REFERENCES

- Flexible Subsidy Notice H-2011-05

- Collection of Excess Rental Income H-2012-2

- Section 202 Prepayments H-2012-8

- Decoupling Notice H-2000-8 (If copy is required, please request)
THANK YOU AND QUESTIONS

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2530 Previous Participation Application Approval Process

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Management Analyst
Policy Participation and Standards
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TAX CREDIT PILOT & SECTION 8 CONTRACT RENEWALS

Presented By:
Stan Houle, Program Manager
Office of Housing Assistance and Grant Administration
Housing Grant & Assistance Field Support Division
SECTION 8 CONTRACT RENEWALS

• Section 8 Renewal Policy Guide

• Six renewal options

• Focus on
  
  o Option One (Mark-Up-To-Market)
  
  o Option two (Mark-Up-To-Budget)
  
  o Capital Repairs and Transfer (Chapter 15)
POLICY CHANGES

• DAS Galante Memo dated February 22, 2010

• Waivers to allow for profit owners/Capital Repairs

• No use restriction on rents

• No REAC score restriction
Chapter 15

Major Benefit “after rehab” market rents

Rent Comp Study “as is” and “after rehab” market rents
PAGE CHANGES DATED MAY 18, 2012

- No longer allow contract extensions
- Early termination and renewal
- Preservation Exhibit
- Rents no longer “use restricted” in MUTM
CAPITAL REPAIRS AND TRANSFER

- Non-profit purchaser or owner can renew under Option 2
- For profit owner can renew under Option 2
- Budget based rents not to exceed market
CAPITAL REPAIRS AND TRANSFER

• For profit purchaser only renew under MUTM

• If tax credits only One B

• One B criteria
Waiver Requirements

- Outlined February 22, 2010 Memo
- Description of transaction
- Sources and Uses
- Description of financing
- Specific provisions to be waived
- Go through Hub to Headquarters
LEGAL REVIEW UNDER THE FHA LIHTC PILOT

• Process
• Requirements
• Documentation
• Questions?

Kathie Soroka, Special Assistant to the General Counsel
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LEGAL REVIEW PROCESS

• Involve HUD attorneys as soon as possible.
  • Submit long lead items early (title, survey, etc.).
  • Hairy issue? Vet it early.
  • The sooner, the better.
  • Counsel are on board!

• Local HUD attorneys will perform legal review.
  • Regional counsel will coordinate assignments, if necessary.
LEGAL CLOSING REQUIREMENTS

- Pretty much the same.
- Construction items added to checklist.
- Some additional LIHTC/pilot related notes.
CHANGES IN LEGAL DOCUMENTATION

• Passive Investor Certification
• LIHTC Rider to Security Instrument
• Pre-approval of SLP process instructions (the “Denver solution”)
QUESTIONS?

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