



HUD Office of Affordable Housing Preservation
Senior Preservation Rental Assistance Contract (SPRAC) Program
Frequently Asked Questions (FAQ) Guide

UPDATED, August 21, 2013

The Section 202 Supportive Housing for the Elderly Act of 2010, signed into law in January 2011, authorizes HUD to award Senior Preservation Rental Assistance Contracts (SPRACs) to eligible Section 202 Supportive Housing for the Elderly properties. The purpose of the SPRAC Program is to prevent the displacement of income-eligible elderly residents of eligible Section 202 Direct Loan properties that may result from the owner's refinancing or recapitalization of the property.

In FY 2012, \$16 million was made available for SPRAC funding under a competitive process to be directed by HUD. The Final Notice announcing the commencement of the SPRAC application period was published on July 3, 2013. The Final Notice takes into consideration the public comments received in response to the advance SPRAC Notice published on January 8, 2013. Both the advance and final Notices and other pertinent SPRAC documents can be accessed on the [SPRAC Program Documents](#) web page.

In response to the publication of the SPRAC Final Notice, HUD has received and continues to receive a variety of questions pertaining to the program's requirements and eligibility criteria. The Department is publishing this Frequently Asked Questions (FAQ) document to ensure that all potential Owner-Applicants have access to the same general program guidance. HUD will continue to update this document as additional questions are received. In order to submit a SPRAC-related question to HUD for guidance and information, please send it to the following e-mail address: SPRAC@hud.gov.

NOTE: The terms "Owner-Applicant" and "Owner-Applicants" shall also be read to include "purchaser," as this term is used in the [SPRAC Final Notice](#).

Question – Unit Eligibility: A project is in the process of undergoing some renovation. For that reason, the owner purposefully has kept the units undergoing the renovations vacant until the work is completed. The SPRAC Notice indicates that the initial submission is the time when the maximum number of SPRAC-eligible units is calculated. In this circumstance, are those units which were purposefully not leased in order to accommodate the rehabilitation work going to be disqualified from receiving SPRAC subsidy? If the owner can demonstrate that the units have qualified renters on a wait list, could these units be considered under the maximum SPRAC unit calculation?

HUD Response: Both the SPRAC authorizing statute and the [SPRAC Final Notice](#) specify that SPRAC-eligibility is premised, in part, on the demonstrated need for SPRAC assistance to prevent the displacement of low- and very low-income tenants currently residing at a 202 property. In general, any instance of unit vacancy at the time of application presents no risk of tenant displacement from those specific units. Therefore, HUD will generally discount any such units from its calculation of the total SPRAC award that it may make to an otherwise eligible property.

HUD is willing to take certain extenuating circumstances into consideration when evaluating whether currently-vacant units may still be eligible for SPRAC assistance. This includes instances where the units are held vacant on a temporary basis by the Owner-Applicant for purposes of ongoing rehabilitation work. In order for these vacant units to be found eligible for SPRAC under the anti-displacement criterion, the Owner-Applicant must provide HUD with sufficient documented evidence that the Owner-Applicant has provided all affected tenants with alternative temporary housing for the duration of the rehabilitation work, and that the affected tenants have the secured right to return to their respective units once the rehabilitation work is completed. This includes, but is not limited to, a Certificate of Occupancy for the project, copies of all correspondence between the Owner-Applicant and each affected tenant, both previous to and during the rehabilitation work, such as notices, written agreements, and work schedules, as well as the Owner-Applicant's Development Plan and Relocation Plan, as applicable. Properties that qualify under this criterion must still meet all other eligibility specified under the Final Notice to be considered for a SPRAC award.

Question – Mortgage Maturity Date: Our organization owns a Section 202 project that is encumbered by two separate Section 202 Direct Loan mortgages. One of the mortgages matures within a month of the SPRAC application deadline; the other mortgage will not mature for another two years subsequent to the September 3, 2013, application deadline. It's our understanding, however, that financing is supposed to close prior to loan maturity in order to qualify for SPRAC assistance. With regard to the mortgage that matures this year, that is a very tight timeframe for closing the financing. How can our organization successfully close on the financing loan timely in order to qualify for SPRAC assistance?

HUD Response: In cases such as this, where a property is encumbered by two Section 202 Direct Loan mortgages with two separate maturity dates, HUD's Office of Housing will provide the Owner-Applicant with the option to use either maturity date for purposes of the prepayment application. Please note that regardless of which date is chosen by the owner, the subsequent twenty-year use agreement period will run from the later of the two maturity dates.

Additionally, the Department will use the earlier of the two maturity dates for purposes of establishing the property's ranking of eligible applications. Beginning with Tier One, projects will be awarded SPRAC in chronological order by mortgage maturity date until funding is exhausted.

Question – Excessive Vacancies and Unit Conversions: The SPRAC Final Notice specifically notes HUD's expectation that the owner will complete a Unit Conversion as a means to mitigating unit vacancy issues that have been identified at the property. Does HUD require Section 202 owners applying for SPRAC to specifically commit to mitigating unit vacancies through unit conversions under any and all circumstances in order to qualify for a SPRAC award? Many Section 202 properties may have unit vacancies resulting from circumstances completely unrelated to the question of whether or not the units themselves are marketable.

HUD Response: HUD requires SPRAC Owner-Applicants to specify how they propose to mitigate high rates of unit vacancy any time a subject property's "current vacancy rate, or its average vacancy rate for the 24-month period preceding the SPRAC application submission is greater than 10 percent" (see pp. 47-8 of the [SPRAC Final Notice](#)). Per the Final Notice, HUD generally anticipates that unit vacancies will be related to unmarketable units, and that unit conversions may be the appropriate mitigating action in these cases. This does not preclude Owner-Applicants from providing HUD with alternative explanatory information to account for unit vacancies. Likewise, owners may also provide HUD with a detailed vacancy mitigation action plan that does not include unit conversions and still qualify for SPRAC.

Question – Property Eligibility: A SPRAC award would be an ideal means to financing the redevelopment of an aging Section 202 property. However, it is my understanding that program eligibility is reserved for HUD Section 202 projects that were built prior to 1974, and with a mortgage interest rate below 6 percent. Can HUD confirm if properties constructed on or after January 1, 1974, are also eligible for SPRAC assistance?

HUD Response: SPRAC eligibility criteria for Section 202 properties are statutory, as described under the Introduction on p. 2 of the [SPRAC Final Notice](#): "General authority for the prepayment of a Section 202 Direct Loan is provided by Section 811 of the American Homeownership and Economic Opportunity (AHEO) Act of 2000, as amended by the 2010 Act (12 U.S.C. 1701q note). Pursuant to this authority, SPRACs may be awarded by HUD to Section 202 properties with original interest rates of 6 percent or less (financed prior to 1974), as part of a recapitalization to address the physical needs of the property." Additional property eligibility criteria can be found on pp. 43-48.

However, while the property may not qualify for SPRAC assistance, there are likely other options through which the owner can finance the renovations and preserve the property's affordability. In this case, and under similar circumstances pertaining to additional properties, HUD's recommendation is for the owner to request a meeting with the applicable HUD Multifamily field office so that field staff can gain a clear sense of what the owner seeks to accomplish. Given that SPRAC is not a preservation option for properties with mortgages that pre-date 1974 and interest rates greater than six percent, the HUD Multifamily field office is in

the best immediate position to work with the owner and facilitate the most advantageous preservation transaction.

Question – Property Eligibility: Do all Section 202 Direct Loan projects with mortgage that pre-date 1974 qualify for SPRAC assistance?

HUD Response:

General eligibility criteria are described under the Introduction on p. 2 of the [SPRAC Final Notice](#). Additional property eligibility criteria can be found on pp. 43-48.

Per the [SPRAC Program Web page](#) on HUD.gov, “The program will be administered by the Office of Affordable Housing Preservation (OAHP). OAHP has provided a list of properties that are potentially eligible for SPRACs in [Excel](#) and [PDF](#) formats. *Note: A project being listed does not indicate definitive eligibility for SPRAC. As the final Notice states, “neither properties with mortgage maturity dates that predate the SPRAC application deadline, nor properties with mortgage maturity dates that are within 60 days following July 3, 2013, will be eligible for SPRAC awards.”*

Question – SPRAC Appropriations: Will additional SPRAC funds be made available for future awards?

HUD Response: Additional SPRAC funds may become available under future appropriations, however, HUD currently has no information about SPRAC funds aside from those made available under this [Final Notice](#).

Question – Section 202 Prepayment: If a Section 202 property owner has previously prepaid the Section 202 mortgage, is it possible for the property to be selected to receive a SPRAC award?

HUD Response: SPRAC funds will only be awarded to current Section 202 properties where the owner intends to prepay the existing mortgage. With regard to properties where owners have previously prepaid the original Section 202 Direct Loan, see p. 15 of the [Final Notice](#): “HUD has interpreted section 201 of the Section 202 Act of 2010 to mean that any project for which the Owner has previously prepaid the Section 202 Direct Loan, or with a Section 202 Direct Loan that has previously matured is not eligible for a SPRAC. The prepayment authority of the Section 202 Act of 2010 states that SPRAC may be awarded ‘in conjunction with a Section 202 Direct Loan prepayment plan, or as otherwise approved by the Secretary,’ however, for a project to receive a SPRAC award, it must currently qualify as a Section 202 Direct Loan project. Any project where the Section 202 Direct Loan has been previously prepaid, or has otherwise matured, no longer legally qualifies as a Section 202 project. As a result, the SPRAC authorization of section 204 of the 2010 Act has no applicability to these projects. (See Public Law 111-372 at 124 Stat. 4079.) If a property is not awarded SPRAC funds, for whatever reason,

the unassisted tenants residing at the property may be eligible for tenant protection vouchers (TPVs). Please refer to PIH Notice 2013-08 and Housing Notice 2012-03 for further guidance.”

Please note TPVs may only be approved prior to/in conjunction with the prepayment of an existing Section 202 Direct Loan. TPVs cannot be approved or awarded to unassisted tenants retroactively, i.e., after a Section 202 Direct Loan has already either matured or been prepaid.

Question – Rent Comparability Study (RCS): The Notice says that an Owner-Applicant has the option to submit an existing RCS as long as it was completed within the past five years previous to the application. Does HUD allow the exercise of this option when the RCS is completed for all of the property’s units (both Section 8 and unassisted)? Or, will HUD allow an Owner-Applicant to submit an RCS that was completed on the units covered by the HAP contract, but that does not cover the other units which are rented “below-market”?

HUD Response: The [Final Notice](#) does not require an additional RCS to be completed for the unassisted units in cases where an RCS has been completed for the property’s Section 8 Housing Assistance Payment (HAP) in the past five years. Per page 58, “If the property has a Section 8 HAP contract and the Owner-Applicant has commissioned an RCS within the last five years, this most recent RCS may be used per the guidelines of Chapter 9 of the Section 8 Renewal Policy Guidebook. HUD will use the Owner-Applicant’s RCS to establish an initial approximation of contract rents based on comparable market rents.”

Submission of this RCS won’t be used by HUD for purposes of calculating the amount of SPRAC funds needed to subsidize the post-rehabilitation units. Per pp. 67-8 of the Final Notice, “After receiving the Notification, and while the prepayment application is under consideration, the Owner-Applicant will be required to submit an updated copy of the Rent Comparability Study (RCS) that was originally submitted with their Letter of Intent (‘Application’). The updated RCS is required to provide the Owner-Applicant’s justification for the post-rehabilitation market rents for the units, and must otherwise meet the requirements of the Section 8 Renewal Policy Guidebook.” This subsequent, updated RCS will cover the units proposed for SPRAC assistance. HUD will complete its own post-rehab RCS for comparison purposes.

Question – Proximity to Services and Amenities: Can HUD provide any guidance on the definition of “proximate,” re: “property is proximate to social, recreational, educational, commercial, and health facilities and services, and other municipal facilities and services”?

HUD Response: The Merriam-Webster dictionary defines “proximate” as:

1. very near; close

This definition can be used in place of the fact that the [Final Notice](#) does not specifically describe what constitutes “proximate” for purposes of this criterion. With this definition serving as the standard for determining eligibility under this criterion, HUD sees that it can be met in a couple of ways:

- Demonstrating that some or all of the off-site services and amenities are within general walking distance of the property. Given the age and physical frailty of the subject population, “walking distance” can generally mean a quarter of a mile or less.
- Demonstrating that motorized transportation options are available to residents who do not wish to or cannot walk to off-site services and amenities. This can include shuttle service (to and from), as well as the location of a public bus stop within a block or two of the property.

For purposes of meeting this eligibility criterion, it is also acceptable for an Owner-Applicant to describe and document the various services that are made available to tenants through on-site service provision. Owner-Applicants can provide information about any means by which services and amenities are available to tenants, both through proximate location and/or on-site provision.

Question – Tenant Income Verification: Page 49 of the Notice discusses the process for verifying the incomes of existing tenants. Is HUD requiring completed certifications to be submitted as a part of the SPRAC application process, or when the tenants are being approved for the subsidy?

HUD Response: The guidance on pp. 49-50 of the [Final Notice](#) speaks to both (1) the verification of current tenants’ income eligibility under SPRAC, and (2) the verification of an applicant’s income eligibility under SPRAC upon unit turnover.

1. For the former, HUD requires Owner-Applicants to document that current tenants qualify as either low-income or very low-income at the time of the SPRAC application for purposes of calculating the total number of SPRAC-eligible units in the property.
2. For the latter, HUD requires that Owner-Applicants who want their applications to be assigned to Tier One for evaluation purposes must commit to solely serving very low-income tenants at unit turnover. Such Owner-Applicants must also indicate that they will undertake substantial rehabilitation work at the subject property.

Question – SPRAC (“Unassisted”) Units: Which units in an otherwise eligible Section 202 property can qualify for SPRAC assistance? Can all of the units qualify, or only those units currently unassisted under Section 8?

HUD Response: Funds awarded under SPRAC can only be used to subsidize the affordable rents for units not currently assisted under Section 8. “Unassisted” units include any that are not covered by Project Based Rental Assistance (PBRA), as well as any units that are not occupied by a tenant or tenants who are participants under the Housing Choice Voucher (HCV) program at the time the Owner applies to HUD for a SPRAC award.

Any unit that is covered under an existing Section 8 PBRA contract is ineligible to be included in the calculation of the total possible SPRAC award for an eligible Section 202 property. With regard to any unit or units that are occupied by an HCV-assisted tenant or tenants at the time the

Owner applies for SPRAC assistance, the final determination of eligibility or ineligibility for SPRAC is dependent upon the outcome one of the following three possible scenarios:

1. In consultation with the property owner, the HCV tenant consents to move out: **Eligible**
2. In consultation with the property owner, the HCV tenant consents to relinquish his/her/their HCV, and to continue residing in his/her/their current unit where the rent will subsequently be subsidized by SPRAC: **Eligible**
3. In consultation with the property owner, the HCV tenant does not consent to either vacate the unit, nor relinquish his/her/their HCV: **Ineligible**

Under NO circumstances may a Section 202 property owner force or otherwise coerce an HCV tenant to either vacate his/her/their unit or relinquish his/her/their HCV for purposes of ensuring the unit's eligibility for SPRAC assistance.

Question – Eligibility of Subordinated Section 202 Mortgage: The subject property was financed with a Section 202 direct loan in 1969. None of the units are assisted with project based Section 8. The project was recently transferred to a tax credit limited partnership as part of a recapitalization / preservation effort that facilitated the completion of some improvements to the project. As part of this transaction, the Section 202 direct loan was modified and subordinated to the new loan covering all units at the project. Can HUD confirm whether the project's Section 202 loan meet's the SPRAC eligibility criteria now that it is no longer in first lien position?

HUD Response: Of the various criteria that a Section 202 property must meet in order to qualify under HUD's SPRAC eligibility threshold, first among these is the requirement that the property is currently encumbered under an existing/active Section 202 Direct Loan mortgage.

The [SPRAC Final Notice](#) does not require that a property's Section 202 mortgage be in first lien position. Whether or not a given Section 202 mortgage is in first lien position has no bearing on whether or not a property is eligible to apply for a SPRAC award. However, please note that if selected by HUD for a SPRAC award, the Owner-Applicant will be required to prepay the Section 202 mortgage before HUD will authorize and execute the final award of SPRAC funds. Guidance pertaining to this part of the SPRAC award process is provided on pp. 61-69 (Stages 4, 5, and 6) of the Final Notice.

In addition, if selected for a SPRAC award, HUD will also require the property's new SPRAC Use Agreement to take first priority when it is recorded at prepayment, as it must trump whatever lien/liens is in/are in superior position/s.

Question – Determination of Total Unassisted Units: A property consists of 100 units, only 20 of which are subsidized under a HAP Contract. However, of the 80 unassisted units, 10 are occupied by tenants who are not income-eligible for SPRAC assistance. Will our application for SPRAC assistance be ranked lower due to the fact that our organization cannot provide SPRAC assistance to 100 percent (80) of the unassisted units?

HUD Response: The [SPRAC Final Notice](#) anticipates scenarios such as this one. Specifically, it is possible that HUD may select a property application for an award, and for HUD to calculate the maximum amount of the SPRAC award based upon the initial determination of SPRAC-eligible units located at the property. However, per the guidance on p. 62 of the Final Notice, HUD reserves the right to reduce the amount of a selected property's SPRAC award if the final determination of the property's total SPRAC-eligible units is less than the initial calculation:

“At the time the Owner applies to HUD for SPRAC assistance, HUD shall examine the Owner-Applicant's lists of dwelling units leased and not leased, respectively. Based upon this evaluation, HUD shall determine the maximum number of leased units at the Owner-Applicant's property that are eligible for and that may receive SPRAC assistance. At the time of the SPRAC execution, HUD shall state in writing its final determination with respect to the total number of SPRAC-eligible leased units and for which of those units it will make SPRAC payments pursuant to the Contract.

“The maximum possible number of leased units that are eligible for and which may receive SPRAC assistance shall be established by HUD at time of the Owner's initial application. If, at the time of execution of the SPRAC, the total number of SPRAC-eligible leased units is less than the total number initially established by HUD at time of the Owner's initial SPRAC application, HUD, at its sole discretion, may reduce the Owner's total SPRAC award.”

The fact that HUD's final determination of a property's total SPRAC-eligible units may occasionally be less than the number of units initially identified in the application is not a consideration HUD is using to evaluate and rank SPRAC applications. HUD will select applications for potential SPRAC awards according to the criteria described under pp. 49-51 of the Final Notice

Question – “Green” Property Capital Needs Assessment (PCNA): Can HUD clarify how an Owner-Applicant can receive “prior written approval” to use a “substantially equivalent standard” for a PCNA with a green component? This issue is discussed on page 24 of the [SPRAC Final Notice](#).

HUD Response: The use of the phrase “or a substantially-equivalent standard with the prior written approval of HUD” speaks primarily to instances where an Owner-Applicant has previously requested and received approval from HUD to use a PCNA template that is substantially-equivalent to the specific options identified under the Final Notice. Owner-Applicants who wish to use a PCNA template that is substantially-equivalent to the Green PCNA options that HUD has specified must submit this request to HUD in writing, and provide a copy of the alternative PCNA template to HUD for evaluation purposes. Each such request must be sent to: SPRAC@hud.gov.

Please note that HUD requires a Green PCNA to be included as a part of each selected Owner-Applicant's 202 Direct Loan prepayment approval request. Therefore, any such substantially-equivalent PCNA templates that have not already been evaluated and approved by HUD must be submitted as soon as possible. It is possible that HUD may be unable to evaluate and approve (or

deny) the use of all such substantially-equivalent PCNA templates in time for these to be included as a part of an Owner-Applicant's Section 202 Direct Loan prepayment approval request. In each such case where HUD is unable to evaluate an Owner-Applicant's substantially-equivalent PCNA template according to the prepayment request timeline, the Owner-Applicant is required to prepare a Green PCNA as specified under the Final Notice.

Question – High Needs County Documentation:

On page of the [SPRAC Final Notice](#), the instructions state that each SPRAC application submission must include “documentation demonstrating that the subject project is located within a High Need County, as identified under Attachment 2.” What documentation does HUD find acceptable to address this criterion?

HUD Response: The Notice does not define what form of documentation is required for this purpose. Regardless of how an Owner-Applicant chooses to document a property's eligibility under this SPRAC criterion, HUD will independently confirm whether or not the subject property identified under any given SPRAC application is located within a High Needs County as a part of the overall application evaluation process.

For purposes of documenting that the subject property meets this eligibility criterion, HUD will accept either of the following forms of documentation from Owner-Applicants:

- A copy of the property's land records demonstrating its location in a county HUD has identified as High Needs under Attachment 2 of the Notice.
 - A certification that has been signed and dated by the Owner-Applicant and notarized by a notary public, subject to penalty under 18 U.S.C. § 1001, attesting to the property's location in a High Needs County, as identified under Attachment 2 of the Notice.
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Question – Acceptable Certification Documents:

The SPRAC application process calls for a number of "certifications" to be included with each application submission. Does HUD have a specific certification form or forms that Owner-Applicants must use? Or, will a notarized letter from the Owner-Applicant be sufficient for the application process?

HUD Response:

The [SPRAC Final Notice](#) does not require the use of any specific certification form or forms for the purpose of applying for a SPRAC award. However, it does specify the basic contents that each such certification must include. Certifications must:

- Be signed and dated by the Owner-Applicant;
- Be notarized by a notary public; and
- Include language indicating that false or misleading statements submitted as part of the certification document are subject to penalty under 18 U.S.C. § 1001.

The Final Notice requires Owner-Applicants to certify to the following:

- DEC Open Referrals;
- Commitment to serve existing low- and very low-income tenants; and commitment to serve either low-income and very low-income tenants, or exclusively serve very low-income tenants at unit turnover; and
- Non-discrimination threshold requirements.

The Notice specifies three options through which Owner-Applicants can document that the subject property complies with the requirement that it is located in proximity to amenities and services. **Option B** provides Owner-Applicants with the option of submitting a completed [HUD-2995, Certification of Consistency with Sustainable Communities Planning and Implementation](#). See page 57 of the Final Notice.

Per the previous question, Owner-Applicants can also certify to the property's location within a High Needs County, as specified under Attachment 2 of the Final Notice.

In order to simplify the process of complying with the application certification requirements, Owner-Applicants have the option of preparing one certification document addressing DEC open referrals, income-targeting, and non-discrimination, as well as proximity of services and amenities, and location within a High Needs County. Owner-Applicants can also make multiple copies of this self-certification letter and submit as part of any attachment where this is needed.

Regardless of whether an Owner-Applicant elects to submit one self-certification letter addressing all applicable requirements, or elects to submit individual certifications for each separate requirement, the contents of any such certification document must meet the basic content requirements as previously described.

Question – Housing Choice Voucher (HCV) Tenants: How are HCV tenant units considered with regard to the determination of the total number of SPRAC-eligible (non-PBRA) units? Are they considered assisted or unassisted?

HUD Response: With regard to any unit or units that are occupied by an HCV-assisted tenant or tenants at the time the Owner applies for SPRAC assistance, the final determination of eligibility or ineligibility for SPRAC is dependent upon the outcome one of the following three possible scenarios:

1. In consultation with the property owner, the HCV tenant consents to move out: **Eligible for SPRAC**

2. In consultation with the property owner, the HCV tenant consents to relinquish his/her/their HCV, and to continue residing in his/her/their current unit where the rent may/will subsequently be subsidized by SPRAC: **Eligible for SPRAC**
3. In consultation with the property owner, the HCV tenant does not consent to either vacate the unit, nor relinquish his/her/their HCV: **Ineligible for SPRAC**

NOTE: Under NO circumstances may a Section 202 property owner force or otherwise coerce an HCV tenant to either vacate his/her/their unit or relinquish his/her/their HCV for purposes of ensuring the unit's eligibility for SPRAC assistance

Question – Management and Occupancy Review (MOR) Substitution: The subject property is not subsidized under an existing multifamily HAP contract. As such, it is not subject to MOR inspections. However, the local Public Housing Authority did recently provide a project based monitoring report. Will this document serve as an acceptable MOR substitute for purposes of the SPRAC application?

HUD Response: For purposes of documenting that the property management is acceptable to HUD in the absence of a MOR, HUD finds that the proposed submission of the PHA PBRA monitoring report is an acceptable MOR substitute for purposes of the SPRAC application submission. Please note that HUD reserves the right to request any additional follow-up information on this and all other SPRAC eligibility criteria.

Question – Documentation of Proposed Rehabilitation Work: How can or should an Owner-Applicant document the proposed level of project rehabilitation for purposes of the initial application for SPRAC funds. The [SPRAC Final Notice](#) indicates that under Stage 5, a "green" RAD PCNA will be required as part of the Owner-Applicant's Section 202 prepayment application. What similar documentation is required for Stage 1?

HUD Response: The criteria under Stage 1 in the Notice only call for a description of the proposed rehabilitation work. HUD will accept a narrative description and supporting cost estimate documentation for this purpose.

Question – Prepayment Approval: Our organization has applied for and received approval to prepay our HUD 202 mortgage prior to the July 3, 2013, publication of the [SPRAC Final Notice](#). However, we now intend to submit an application for a SPRAC award. Should our application proceed to Stage 4 (Notification to Proceed Letter), would we be required to reapply to HUD for permission to prepay the Section 202 mortgage? Or would HUD require us to update our earlier application with any information/documentation identified under the SPRAC Notice and that were not submitted as part of our previous 202 prepayment request?

HUD Response: So long as an Owner-Applicant's request to prepay a Section 202 mortgage has been approved by HUD, and the prepayment has **NOT** yet occurred, the project is still a Section 202 Direct Loan property with an outstanding Section 202 mortgage. Projects that have no 202

direct loan balance (regardless of whether this is the result of prepayment or maturation) are categorically ineligible for SPRAC. So long as there is a current 202 direct loan balance, the property is generally eligible to apply for SPRAC. Therefore, under the scenario described above, the property is still eligible to apply for SPRAC under this criterion.

In order to clarify your organization's intentions and to facilitate the processing of the property's SPRAC application, it is recommended that your organization contact the HUD office that the Section 202 prepayment request was sent to and describe your intention to apply for a SPRAC award. Your organization should request that HUD withdraw the prepayment approval for the time being while the SPRAC application process is underway. In the meantime, your organization should also complete a SPRAC application according to the instructions provided under the SPRAC Final Notice ([Stage 1: Owner submits an Expression of Interest Letter](#), pp. 52-9). Owner-Applicants that receive a Notification to Proceed Letter from HUD ([Stage 4: Notification to Proceed Letter](#), pp. 61-7) are required to apply for approval to prepay the subject Section 202 mortgage, and in the case of this property, re-apply.

Question – Assisted Living Units vs. Unassisted Units:

The subject property is a Section 202 project. Subsequent to the initial project completion and lease-up, the owner has since converted a few floors of the building into a licensed assisted living facility. This work was financed in part with a Flexible Subsidy Capital Loan and state rehabilitation funds. The project now offers assisted living tenants with meals and other services that are typically provided by standard assisted living projects. Does the conversion of these apartment units into assisted living units have any impact on whether they are eligible for SPRAC assistance?

HUD Response: Section II of the [SPRAC Final Notice](#) (pp. 3-35) contains a summary of all the public comments HUD received in response to the publication of the SPRAC advance notice, along with HUD's response to each such question. A response found on page 6 includes a description of "unassisted" units, as this term is used by HUD when evaluating whether a unit is or is not eligible for SPRAC assistance:

"A commenter stated that the January 8, 2013, advance Notice indicated that there would likely be more than one subsidy contract on a property: one for the Section 8 subsidized units and one for the SPRAC units (the non-Section 8/unassisted units)."

With regard to the question of the eligibility or ineligibility of assisted living units for SPRAC, if the "assisted living" aspect of the converted units does not include the provision of subsidized/affordable rents, these assisted living units are "unassisted" for the purposes of SPRAC. Therefore, they are eligible for SPRAC assistance under this particular criterion.

Question – Development Team Qualifications:

Are Owner-Applicants required to include information about the qualifications of a proposed Development Team in the Expression of Interest Letter? Or is this information required later in

the process (re: Stage 5, Notification to Proceed Letter)? Stage 5 of the Application Selection Chart (page 73 of the [SPRAC Final Notice](#)) does not include the Development Team qualifications component, but the narrative on pp. 41-42 indicates that the Development Team qualifications must be included as a part of the Prepayment Approval Request.

HUD Response: The development team material is submitted with the prepayment application, separate from the SPRAC application.

Question – Letter of Intent: The [SPRAC Final Notice](#) directs Owner-Applicants to email the application to SPRAC@HUD.gov. However, it does not specify to whom the letter of intent should be addressed.

HUD Response: The reference to an Owner-Applicant’s Letter of Intent (likewise, an Expression of Interest) found in the Final Notice is not used to specifically describe a letter to HUD. Rather, the Owner-Applicant’s entire SPRAC application submission is intended to serve as the Owner-Applicant’s expression of interest in the program. The Notice provides detailed instructions to Owner-Applicants describing the various documents that HUD requires be included with each application submission. See pp. 51-60. HUD requires that all SPRAC applications must be submitted electronically to the [SPRAC e-mail address](#). It is not necessary for application e-mail submissions to be addressed to any individual HUD staff person.

Question – Real Estate Assessment Center (REAC), MOR, and Rent Comparability Study (RCS) Options: One question in three parts-

1. Page 53 of the [SPRAC Final Notice](#) describes HUD’s requirement that Owner-Applicants must submit a copy of the subject property’s most current REAC score. In the case of this property, the REAC score does not meet the SPRAC eligibility criteria (score of 60 or greater). Can this property still qualify for SPRAC assistance?
2. The most recent MOR issued for the subject property is approximately ten years old. Is this too old for SPRAC eligibility purposes?
3. Our organization is completing a Rent Comparability Study (RCS) as a part of its mortgage refinance application. Is the organization required to complete a separate study for purposes of the SPRAC application?

HUD Response:

1. Guidance on page 44 of the Final Notice describes HUD’s REAC eligibility criterion for properties applying for SPRAC. This includes a summary description of how an Owner-Applicant’s property can still meet this eligibility threshold in cases where the property’s most recent REAC score is less than 60 points.

2. A Section 202 property's eligibility for SPRAC is determined, in part, on the Owner-Applicant's ability to successfully document that the property's "most recent" MOR score is "satisfactory or higher." The Final Notice (page 45) does not speak to any specified time limit regulating what HUD will or will not consider to be "recent" for purposes of meeting this criterion. As such, submission of the subject property's most recent MOR will meet the documentation standard, regardless of the fact that the report is ten years old.

 3. An RCS that is conducted for purposes of recapitalizing the property for rehabilitation and maintenance is acceptable as well for purposes of the initial SPRAC application. Please note that Owner-Applicants who receive a Notification to Proceed letter from HUD are required to commission an updated RCS, per pages 67-8 of the Final Notice: "After receiving the Notification, and while the prepayment application is under consideration, the Owner-Applicant will be required to submit an updated copy of the Rent Comparability Study (RCS) that was originally submitted with their Letter of Intent ('Application'). The updated RCS is required to provide the Owner-Applicant's justification for the post-rehabilitation market rents for the units, and must otherwise meet the requirements of the Section 8 Renewal Policy Guidebook."
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