



U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT

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





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.**





UNDERWRITING INCOME IN ASSISTED PILOT PROJECTS: PROCESSING STEPS

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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Office of Asset Management

November 19, 2012





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.





PREPAYMENT PROCESSING – SUBMISSION REQUIREMENTS

- ❖ **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
 - Housing Notice 2012-2, Collection Procedures for Excess Income Receivables and Form HUD-93104, Monthly Report of Excess Income
- **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**

- HUD Handbook 4065.1 Rev-1 – Previous Participation (HUD-2530) Handbook

<http://www.hud.gov/offices/adm/hudclips/handbooks/hsg/4065.1/index.cfm>

- 24 CFR Subpart H – Participation and Compliance Requirements, § 200.210 to 200.245





REFEREN CES

- **Flexible Subsidy Notice H-2011-05**
- <http://portal.hud.gov/hudportal/documents/huddoc?id=11-05hsgn.pdf>
- **Collection of Excess Rental Income H-2012-2**
- <http://portal.hud.gov/hudportal/documents/huddoc?id=12-02hsgn.pdf>
- **Section 202 Prepayments H-2012-8**
- http://portal.hud.gov/hudportal/HUD?src=/program_offices/administrati on/hudclips/notices/hsg
- **Decoupling Notice H-2000-8 (If copy is required, please request)**





THANK YOU AND QUESTIONS

❖ For Questions Contact:

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2530 Previous Participation Application Approval Process

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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**
 - **Option One (Mark-Up-To-Market)**
 - **Option two (Mark-Up-To-Budget)**
 - **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**





CAPITAL REPAIRS AND TRANSFERS

- **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?**

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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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