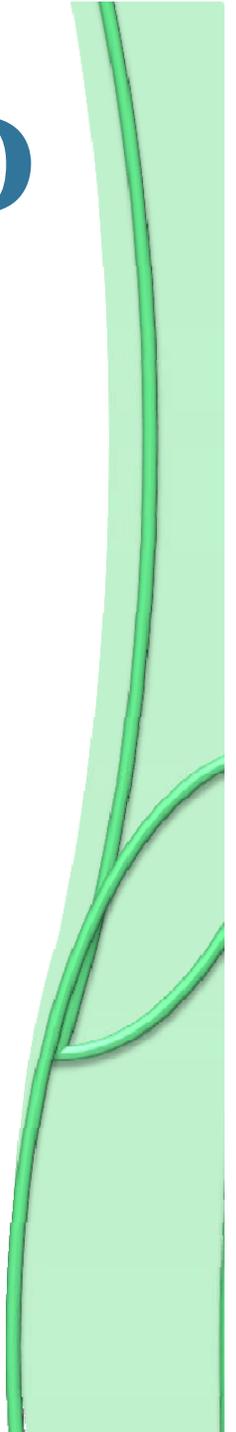


Making a Successful RAD Application:



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Assessing Your Portfolio

- Location, Location, Location
- Rents: PBRA vs PBV
- PNA to PCA: Quantifying rehabilitation needs
- Baseline Construction Considerations:
 - › Green Building and Energy Efficiency
 - › Section 504 compliance: Accessibility
 - › Davis Bacon
 - › Section 3
- Beware existing debt!



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Assessing Your Portfolio

LOCATION, LOCATION, LOCATION

- a. The property should be in an acceptable market and fit the housing needs of the neighborhood, that is, strong demand with high occupancy.
- b. Street Attractiveness is important to maintaining high occupancy and therefore the long term sustainability of the project. The market is an important consideration for the planning process.

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Assessing Your Portfolio

- c. Proximity to local amenities i.e. public transportation, job centers, hospitals, food stores, and a pharmacy is now a key component of most funding applications.
- d. Funders are looking for a high “Walk Score” and indication of a site’s marketability. The “Walk Score” is a number between 0 and 100 that measures the walkability of any address. A number above 50 is necessary, over 80 is good. www.walkscore.com
- e. Consider how RAD might help leverage projects in a Choice or Promise Neighborhood application and/or other local redevelopment efforts.

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RENTS: PBRA vs PBV

PBRA

- Provided to owners by HUD's Office of Housing via a HAP (Part of HUD Multifamily)
- Projects monitored by PBCA's
- No administrative fee to PHAs
- 20 years
- Subject to annual appropriations, but strong history of full appropriations

PBV

- Component of PHA's Housing Choice Voucher Program in which the PHA attaches a voucher to specific units via a HAP (Part of HUD Public Housing)
- Voucher funding administered by PHA
- PHA can earn administrative fee
- 15 years (up to 20 with approval of voucher agency)
- Subject to annual appropriations but with a history of appropriation reductions

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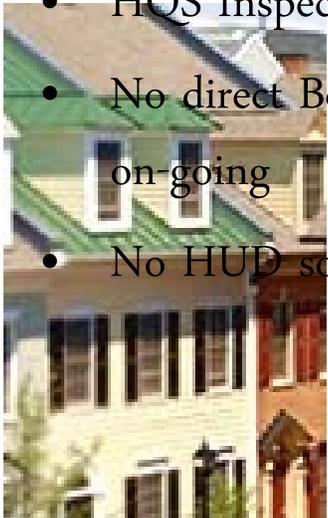


PBRA

- 20 year RAD Use Agreement
- Choice mobility option can be limited to 15% of the RAD project units and/or 30% of the PHA's annual HCV turn-over
- Contract rent setting: Lower of current funding and 120% FMR minus utilities (higher with RCS)
- HQS Inspection standard
- No direct Board approval requirement on-going
- No HUD social services requirement

PBV

- 20 year RAD Use Agreement
- Choice mobility option unlimited: if annual HCV turn-over is insufficient to meet CM, departing RAD residents go to top of HCV's waiting list.
- Contract rent setting: Lower of current funding; reasonable rent; 110% FMR minus utilities
- REAC inspection standard
- Annual Board budget approval
- If PBV > 50% social services mandatory in family projects
- Waiver of provisions regarding deconcentration of poverty



Quantifying Rehabilitation Needs

- For the RAD application, PHAs should use best available information on rehab needs, beginning with the 5 year PNA
- Within 60 days of Commitment to enter into a Housing Assistance Payments Contract (“CHAP”), PHAs will need to contract with a qualified Physical Conditions Assessment (“PCA”) contractor and file the completed PCA with HUD.
- PCA components:
 - › Report comparing traditional and green rehab requirements; (Note: structures more than 30 years old will require forensic investigations of primary building systems)
 - › Energy audit
 - › Integrated Pest Management (IPM) Inspection
 - › HUD will be releasing RPCA guidance shortly followed by webinar training

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Quantifying Rehabilitation Needs

- **FHA or debt-only funding:** Fund short term needs in the rehabilitation budget and “size” the replacement reserves so that longer term needs can be met over time.
- **LIHTC funding (whether 4% or 9%):** Maximize the amount of rehab that is done up front in the rehabilitation budget in order to increase the LIHTC basis.

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Baseline Construction Considerations

- Davis-Bacon and Section 3. Requirements apply to all initial repairs identified in Financing Plan to the extent they would qualify as construction or rehabilitation, regardless of whether the project qualifies as “existing housing” under standard PBV rules.
- Compliance with the Physical Condition Assessment which must be completed by a third party. This requirement isn’t due until after HUD commits to the property, however, HUD will require that you will be able to fund the short-term rehabilitation needs and long-term capital needs of the property.



Tax Credit Investors as well as Permanent Lenders will require the same compliance.

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Baseline Construction Considerations

- Commit to Green Building and Energy Efficiency, Energy Star, water sense, Federal Energy Management Program but these must be financially feasible. PCA must provide a detailed analysis of Energy Saving alternatives.
- 504 compliance: the building, 5% of the units, must be accessible if substantial rehab is performed in accordance with 24CFR8.23 (more than 15 units and cost is 75% or more of the replacement costs).



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Beware existing debt!

- If you have done a Capital Fund Financing Program (CFFP), you have basically “pledged” a portion of the capital funds for all your projects. You will need investor and lender approval before you can do a RAD conversion on ANY project in your portfolio
- If you have any existing debt on the property, you will need lender approval for any additional financing—which will either need to be paid off, or rolled into the new RAD financing.
- If you want to “RAD” an existing Mixed Finance deal (HOPE VI, etc.), there is a limit on the number of those, so you will need to maximize your score and work with the entire financing team.

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Key Steps

- Requirements for PHAs
- Resident Rights
- Procurement
- RAD Application timing
- RAD Scoring
- Application highlights
- Post-CHAP benchmarks to closing

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Requirements for PHAs

Board Approval. RAD Board Approval Form must be submitted to HUD with RAD application.

Resident Meetings and Comments. Prior to submitting application, PHA must: (1) notify residents of project and resident organizations of intent to apply for RAD; (2) hold at least two meetings with project residents to discuss the conversion plan and solicit comments; and (3) include comprehensive responses to comments in RAD application. Before executing HAP, PHA must have another resident meeting.

Choice Mobility. RAD impacts a PHA's voucher program because a PHA/owner must offer each resident the opportunity to relocate with a voucher after a time. Vouchers may be offered from PHA's own turnover or through partnership with another PHA. For PBV conversions, Choice Mobility must be consistent with PBV program. PBRA conversions have more flexibility in meeting Choice Mobility requirement. HUD will offer limited (10%) good cause exemptions.

PHA Plan. RAD conversion requires a "significant amendment" to PHA Annual Plan and Five Year Plan that requires public and resident consultation and consistency Consolidated Plan. Must be submitted to HUD within 60 days of CHAP issuance, along with any necessary changes to ACOP and Section 8 Administrative Plan.

Use of Public Housing Funds. PHA may use current public housing funds, including CFP and operating reserves, before RAD conversion for predevelopment, development, or rehabilitation costs and replacement or operating reserve.

Effect on Public Housing Funding and Unit Cap. For a project converted under RAD, PHA will not be eligible for Asset Repositioning Fee (ARF) or Replacement Housing Factor (RHF). Also, PHA's "Faircloth cap" will be reduced by number of units converted



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Requirements for PHAs

Project Ownership:

HUD will require ownership or control of assisted units by a public or non-profit entity. Control is defined as long term ground lease on land, seller take back financing subordinate to the first mortgage, other seller funds lent to the project, and a right of first refusal.

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Resident Rights

- **Resident Displacement/Right to Return.** No permanent involuntary displacement may result from RAD conversion, including as a result of changes in bedroom distribution, reduction of units, or reconfiguration. Any resident temporarily relocated has right to return
- **URA.** Any temporary relocation must comply with Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970
- **Waiting List.** If project-specific waiting list exists, it must be used after conversion. Otherwise, one must be established consistent with public housing rules which provide access from community-wide list. Thereafter, waiting list managed under Section 8 rules
- **No Rescreening.** Current public housing residents are not subject to rescreening, income eligibility, or income targeting provisions
- **PBV Lease Renewal.** Unlike standard PBV program, a resident's lease must be renewed unless cause exists
- **Tenant Rent Increases.** If tenant's rent would increase more than greater of 10% or \$25, then increase phased in over 3-5 years
- **Procedural Rights.** RAD statute requires that certain rights of public housing residents be retained for converted projects, including requirements for adequate written notice of lease termination and access to grievance process.

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Procurement

- **Public Housing Funds – Part 85 applies**
 - Sole Source
 - RFP
 - Small Purchase (\$100,000)
 - State/Local procurement rules also apply

- **No Public Housing Funds (or other federal grants subject to Part 85)**
 - Sec. 8 HAP, Sec. 8 administrative fees, COCC fees, reserves, and local funds
 - No federal procurement requirements
 - State/Local procurement rules still apply

- **Engagement of Development Participants**
 - Pre-Development Consultants – Part 85 applies if public housing funds
 - Developer - Part 85 applies if public housing funds
 - Lender and Investor
 - Federal procurement rules do not apply
 - Duty to use sound business judgment

- **PHA Affiliate**
 - Procured affiliate not subject to Part 85 (relevant if public housing funds)
 - Does not include “instrumentality”



RAD Application Timing

- Competitive Round opens September 24, 2012 and closes October 24, 2012
- Awards based on size of PHA (small, medium and large) and geographic distribution (4 regions)
- On-going application period begins October 25th and ends when CHAPs for 60,000 units have been issued or April, 2014.



RAD Scoring: 100 points

- 50 points: Capital need
 - › Family: sliding scale from \$0 to \$37,665
 - › Elderly: sliding scale from \$0 to \$21,834
- 20 points: Choice Mobility (PBRA only)
- 10 Points: Green Building and Energy Efficiency
- 20 points: PHA Priority project

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RAD Application Highlights

- RAD submission must be made with the Excel Package.
- Board Approval form must be submitted
- Financing letters of interest indicating that, among other conditions, the proposed pro-forma is reasonable.
- Mixed-Finance affidavit must be signed by the PHA and the owner entity.
- Choice mobility letter for PBRA only.
- PBV voucher agency must be willing to administer the vouchers.
- 9% applications must get a letter from state housing financing agency indicating:
 - ✓Whether the property and the proposed transaction appear eligible.
 - ✓Whether the PHA or owner has acceptable experience to succeed.
 - ✓Timing of the application and award.

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RAD Application Highlights

- ✓ Whether a typical reservation of credits is sufficient to address the expected need of the first or only phase of the subject project.
- If unsuccessful securing the letter the applicant must show evidence of attempt to secure the letter, a self-scored LIHTC application under the current QAP indicating that the project would have been eligible and competitive for credits.
- During the 30 days after the initial application period ends HUD will review and Rank all of the applications. Applications that pass this review will be referred to as Qualified Applications. Highest ranked projects will be selected until the commitment targets have been met in each pool.
- During the On-Going Application period applications will compete on a first come first serve basis.

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Benchmarks

- Day 1: CHAP issued
- Day 30: Information on Development team
- (“One round” allowance for LIHTC; schedule subject to oversight by Conversion Managers)
- Day 60: Firm Financing Letters
- Day 180: Submit Financing Plan
- Day 360: Closing

