



Rental Assistance Demonstration

Capital Fund Financing Program (CFFP)

Structure of CFFP:

In the past 15 years, many PHAs borrowed funds for capital projects through the Capital Fund Financing Program (CFFP). CFFP loans are collateralized not by a lien on the real estate but by a security interest in the future flow of capital funds. This security interest is not limited to the future capital funds for the specific project being renovated, but is typically collateralized by the agency-wide future capital funds. Thus, a CFFP loan must be addressed before a PHA can convert any properties to RAD.

- Structured as individual transactions and as pools
- Typically required a ratio of 3:1, (Annual PHA cap funds = three times the amount of annual CFFP loan payment)
- 20 year term and amortization
- PHAs can only remove 5% of ACC inventory without permission from HUD and lender

Prepayment:

The PHA's ability to pre-pay their CFFP is governed by their loan documents. Look for:

- Prepayment lock-out provisions (not typical) and prepayment penalties
- Requirements that CFFP loans can only be pre-paid with certain types of HUD funds. For example, Fannie Mae did more than 50% of the loans (portfolio bought by Dreadnought in 2012) and their documents require that loans be repaid with capital funds. (Other funds may be used subject to a 5% penalty). Eligible capital fund sources:
 - Capital funds not pledged to CFFP (HUD will grant extensions of commitment/expenditure deadlines to facilitate)
 - Replacement Housing Factor Funds
 - Transfer back Capital Funds transferred to Operations (typically up to 20%; 3 year look-back)

Partial pre-payment:

Subject to negotiation. Lenders concerned about CFFP coverage ratios after pre-payment, especially given drop in capital fund allocations in recent years.

Sources of funds for prepayment:

- Fannie Mae/Dreadnought transactions require use of capital funds. Capital improvements put on hold; re-funded with proceeds (developer fees, acquisition proceeds, etc.) from RAD conversion transaction
- Other CFFP loans may be able to be paid off directly with proceeds from RAD conversion transaction.

CFFP and RAD Applications:

- Describe proposed resolution in application and finalize by Financial Plan Milestone



Rental Assistance Demonstration

Conversions of Mixed Finance Transactions

Eligibility:

- Mixed Finance Transactions not using HOPE VI: Unrestricted with consent of all parties
- Mixed Finance Transactions with HOPE VI but in service for >10 years: Unrestricted with consent of all parties
- Mixed Finance Transactions with HOPE VI in service for <10 years: Evidence of financial distress—3 yrs. Audits showing operating shortfalls, draws on reserves, partner contributions

Business Terms:

Negotiated between PHA and partners:

- Address and resolve operating shortfalls
- PHAs may not take fees “off the top” of HAP contract
- PHAs can negotiate change in cash flow waterfall, land lease payments, etc.

Legal Documentation:

- Recorded documents:
 - Mixed Finance DOT replaced by RAD Restrictive Covenant
- Other documents:
 - Eliminate R&O Agreement
 - Eliminate Mixed Finance Proposal and Agreement
 - Execute RAD HAP Contract
 - Modify:
 - Partnership or LLC Agreement
 - Loan Documents (as needed)
 - Guarantees (as needed)
 - Property Management Agreement
 - HFA and/or LIHTC Covenants (if needed)
 - Legal Opinion
 - Environmental Report update
- Consents required:
 - PHA; Lenders; Investors; HFA; HUD (RAD closing)
- Form documents to be used as much as possible to control costs

HUD Processing:

- Coordinated by RAD staff and assigned Transaction Manager
- Requires RAD Application, Milestones compliance (as relevant), Financial Plan
- Closing at HAP execution and financing closing (if additional rehab contemplated)



Rental Assistance Demonstration

Section 18 Demo/Dispo

Scenario A: Asset meets Section 18 standard for functional obsolescence

Options:

1. SAC processing
 - Seek informal guidance prior to filing formal request
 - Apply for and Receive SAC approval
 - Apply for Temporary Relocation Vouchers
 - Rebuild new units using Mixed Finance process
 - Potential for conversion to RAD in future, after start of PIC funding
2. RAD Conversion
 - Functional obsolescence meets RAD transfer of assistance test
 - Apply for RAD
 - Arrange Financing
 - RAD HAP funding begins at construction closing (can be used for relocation costs)
 - Rebuild new units using RAD process

Scenario B: Asset does NOT meet Section 18 standard for functional obsolescence

Options:

1. SAC Processing: NOT an option
2. RAD Conversion:
 - Meet Transfer of Assistance Test:
 - Functionally obsolete (not met, see above)
 - Not financially feasible to continue, OR
 - In best interest of residents to demolish and rebuild, OR
 - Site subject to natural disasters, flooding, etc.
 - Meet site and neighborhoods standards test if rebuilding on new site
 - Apply for RAD
 - Arrange Financing
 - RAD HAP funding begins at construction closing (can be used for relocation costs)
 - Rebuild new units using RAD process