



**LONG-TERM RENTAL
ASSISTANCE CONTRACTS
FOR THE PRESERVATION OF
PRE-1974 SECTION 202
DIRECT LOAN PROPERTIES**

June 10, 2021

Characteristics of Pre-1974 Section 202 Properties

1959 - 1974

- Non-Profit Sponsor
- Direct Loan
3-3.75% Interest
- Originally No Rental Assistance

DID YOU KNOW?

- There are 32 Remaining Pre-1974 Section 202 properties.
- Most of these loans will mature between 2021 and 2024.
- The portfolio has an aging in place population with an increasing need for services.
- Most of these Direct Loans have never been recapitalized despite being in service for over 40 years.

Preservation Options

**Preservation Options are now available
for Pre-1974 Section 202 Direct Loan
Properties to...**



Enhance Revenue

Improve project revenue
by adding rental
assistance.



Maintain Affordability

Ensure ongoing
affordability by providing
subsidy through Project-
Based Vouchers or
SPRAC.



Promote Leverage

Allow owners to leverage
debt and equity to
recapitalize the property.

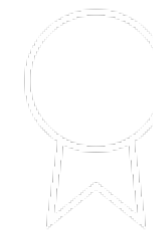
Two Preservation Tracks for Pre-1974 Section 202 Properties

Prepayment & Refinance

Most Often Recapitalize

Maintain Affordability:

- Project-Based Vouchers for any units occupied within the past 24 months
- SPRAC Assistance



Matured or Maturing

**Recapitalization Not
Required**

Maintain Affordability:

- Project-Based Vouchers for occupied units

Preservation Through Prepayment & Refinance

Prepayment Requirements

- **HUD must approve most** pre-1974 Section 202 prepayments.
- **Direct Loan must be active** and not matured to qualify for incentives including:
 - Potential deferral of Flexible Subsidy repayment.
 - Increased use of proceeds.
 - In the event of a sale of a property, a Developer Fee is allowed.
- **Must renew existing Section 8 contract for 20 years, if applicable.**
- **Include Form 9808** (Request for Prepayment of Section 202 or 202/8 Project).
- **Debt Service reduction not required** if physical needs will be met, at least to the extent determined by a Capital Needs Assessment (CNA).
 - Capital Repairs must meet the test for “substantial rehabilitation” as defined by the FHA MAP Guide (waiver may be approved, if justified by CNA).

Preservation Through Prepayment & Refinance

Prepayment Requirements (cont.)

- No rent increases for unassisted residents
- Tenant Notice and Comment (24 CFR Part 245)
- Use of Project Reserves Regarding Residual Receipts and Reserve for Replacement
- Energy Efficiency in Capital Repairs
- 20-Year Use Agreement
- Compliance Review
- Part 50 Environmental Review
- Temporary Relocation Only (URA applies for relocation longer than 1-year)

Preservation Through Prepayment & Refinance

Focus on Permitted Use of Proceeds



Generally, to benefit tenants of subject property or for housing & services in other nonprofit-owned HUD-assisted senior housing



Up to 15% of social service costs



Rehabilitation, modernization, retrofitting, additions or other facilities in, or adjacent to, property



Transaction costs



Developer fees



Maintain affordability for unassisted tenants

Preservation Through Prepayment & Refinance

Focus on Project-Based Vouchers (PBVs)

- PHA and Owner may agree to “project base” vouchers, providing rental assistance at the project level.
- PBV HAP Contract Administered by Public Housing Authority (PHA), not with HUD.
- Initial Rents: rents set at lower of “reasonable rents” or 110% of FMR.
- Contract term: up to 20 years, subject to appropriations
- PHA manages waiting list (HOTMA Site Based Waiting List may apply).
- Tenant mobility after one year. PHA fills vacancy with another qualified tenant.
- PBVs used on pre-1974 Section 202 properties:
 - Exempt from PBV competitive selection requirements
 - Do not count against PHA’s PBV program cap
 - Exempt from PBV income-mixing requirements
 - Tenant consent is not required to project-base the tenant protection voucher funding

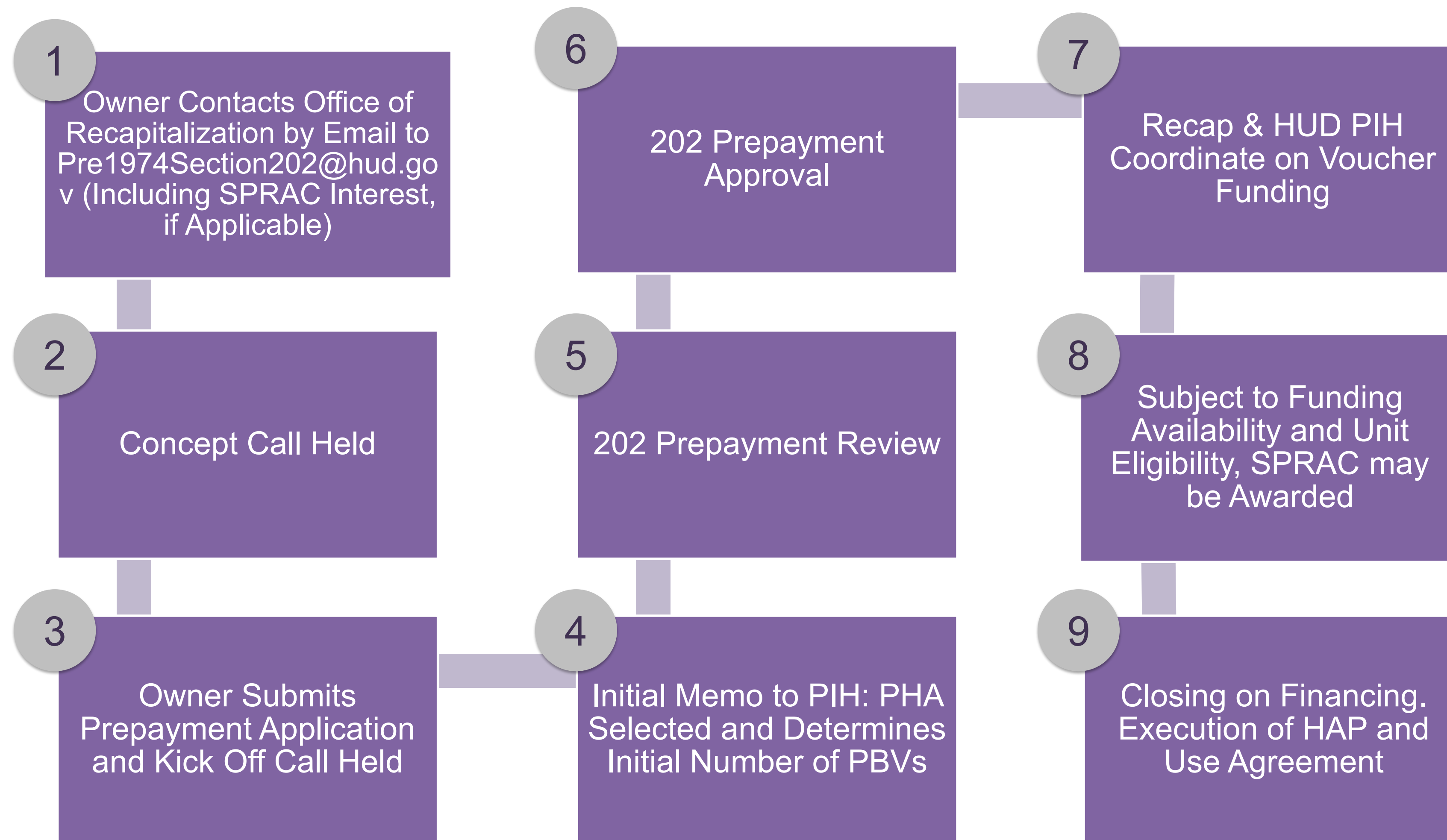
Preservation Through Prepayment & Refinance

Focus on Senior Preservation Rental Assistance Contract (SPRAC)

- Per Notice H 2018-02, SPRAC can cover units at property that are not covered by PBV contract or do not receive any other form of assistance.
- Eligibility: Pre-1974 Section 202 properties with original interest rates of 6% or less, as part of a recapitalization to address the physical needs of the property.
- Long-term 20-year contract, subject to appropriations, supports financing against income stream; same rules as project-based Section 8.
- Initial Rents: Lesser of Rent Comparability Study (RCS) or 150% of Fair Market Rents (FMR).
- SPRAC funding is first-come, first-served.
- HUD is the contract administrator.
- Guidance:
https://www.hud.gov/program_offices/housing/mfh/presrv/presmfh/sprac_contracts

Preservation Through Prepayment & Refinance

Summary of Preservation Process Through Prepayment with PBV and SPRAC



Preservation for Matured/Maturing Mortgages

Notice PIH 2019-01 / Notice H 2019-02

- Provides eligibility criteria for rental assistance (TPVs): at-risk tenants in low-vacancy areas.
- Outlines Owner's submission requirements.
- Discusses roles and responsibilities for HUD and Public Housing Authorities.

Matured/Maturing Mortgages Requirements

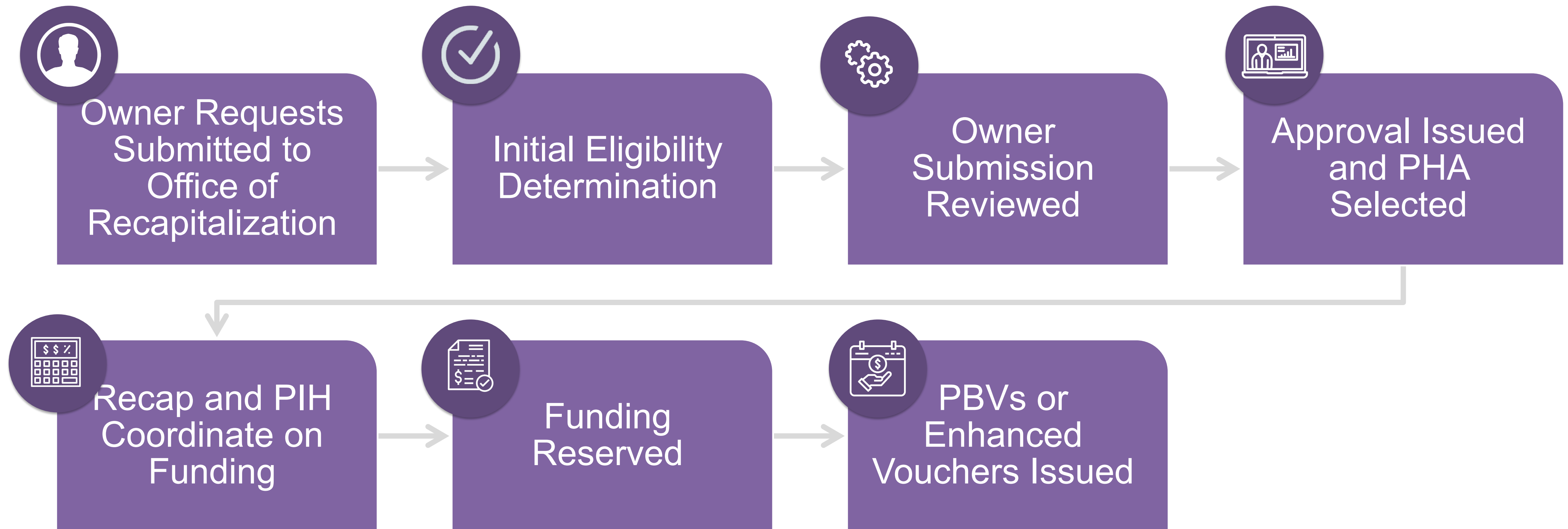
- Property must be located in a low-vacancy area.
 - For more information, please review this [list of low-vacancy areas](#).
- Mortgage must have matured within 5 years of Owner's submission or will mature within 180 days from Owner's submission.
- Owner submits basic property information and documentation
- Owner may request project-based vouchers or enhanced vouchers (i.e., tenant-based). PHA must be willing to administer voucher contract.
- Certifications required for compliance with civil rights laws and tenants not receiving other subsidy.

Matured/Maturing Mortgages Requirements (cont.)

Owner must identify:

- At-Risk Tenants with Rent Calculations
- Not-At-Risk Tenants with Rent Calculations
- List of Ineligible Tenants (Failed to Provide Income Information)

Summary of Preservation Process for Matured/Maturing Mortgages



Resources



Overview of Guidance

Key Concepts For
Preservation Of Pre-
1974 Section 202 Direct
Loan Properties

https://www.hud.gov/sites/dfiles/Housing/documents/KeyConcepts_Pre1974_Section202.pdf



Notice H 2013-17

Updated Requirements
for Prepayment and
Refinance of Section
202 Direct Loans

<https://www.hud.gov/sites/documents/13-17hsgn.pdf>



Notice H 2018-02

Refinancing of Pre-1974
Section 202 Direct
Loans and Subsequent
Issuance of

TPVs or SPRACs

<https://www.hud.gov/sites/dfiles/PIH/documents/pih2018-02.pdf>



Notice PIH 2019-01/H 2012-02

Funding Availability for
Set-Aside Tenant-
Protection Vouchers –
Fiscal Year 2018
Funding

<https://www.hud.gov/sites/dfiles/PIH/documents/PIH-2019-01.pdf>

HUD's website on Pre-1974 Section 202 Direct Loan Preservation:
https://www.hud.gov/program_offices/housing/mfh/presrv/presmfh/mf_sprac

To contact Recap with any questions and/or to request a concept call, please send a message to Pre1974Section202@hud.gov



Long-Term Rental Assistance Contracts for the Preservation of Pre-1974 Section 202 Direct Loan Properties

June 10, 2021

H 2018-02 vs. H 2019-02



	H 2018-02	H 2019-02
Eligible Applicants	Pre-1974 Section 202 Direct Loans (Era one- “SH” projects) only.	Projects with expiring HUD held or insured mortgages or HUD imposed stand alone affordability restrictions.
Do Owners Need to Collect Tenant Income Info?	Not required- but we recommend a preliminary screen.	Required- and PHAs can rely on it. Must be coupled with tenant notification.
Form of Assistance	PBVs (PHA)/SPRAC (HUD)	PBVs (PHA)/EVs
Refinance Required?	Yes	No (but certainly can refi)

Simplifying the Process



- Establish early communication with Recap Office.
- Kickoff call with all parties (PHA and Multifamily get to hear about the program directly from HUD Recap).
- Create preliminary workstream and/or timeline and share with all parties.
- Perform preliminary identification of unassisted households.



Sticking Points



- Some tenants hesitant to provide their income information.
- Some tenants will not qualify for a voucher.
- Some tenants qualify for a voucher, but 30% of their income represents a rent increase based on what they are currently paying for rent.
- Rent escrow needs to be created.
- Must comply with HUD Notice H 2018-02, but also HUD Notice H 2013-17 (pre-payment), the MAP Guide, and the Section 8 Renewal Guide for any existing Section 8 units.
- Each Housing Authority has their own administrative plan.



Overview Example of Closed/Current Projects



Example 1. Mid-Atlantic (Notice 2018-02)

- 223(f)
- Existing HAP (38% of units)
- Additional PBV & SPRAC
- Old Gross Rental Potential: \$3.1MM
- New Gross Rental Potential: \$4.1MM

Example 2. Southeast (Notice 2018-02)

- 221(d)(4)
- Existing HAP (39% of units)
- Additional PBV
- Old Gross Rental Potential: \$2.6MM
- New Gross Rental Potential: \$4.0MM

Example 3. Northeast (Notice 2019-02)

- 221(d)(4)
- Existing HAP (20% of units)
- Additional PBV
- Old Gross Rental Potential: \$1.7MM
- New Gross Rental Potential: \$2.7MM

Example 4. Southeast (Notice 2019-02)

- 221(d)(4)
- Existing HAP (62% of units)
- Additional PBV
- Old Gross Rental Potential: \$2.6MM
- New Gross Rental Potential: \$3.1MM

Note: All existing HAPs marked to market concurrently.



Workstream for Provision of PBVs/SPRAC under HUD Notice H 2018-02 / H 2019-02 and FHA Insured 223(f) Refinance																				
Workstream	Target Completion Date	Actual Completion Date	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Month 13	Month 14	Month 15	Month 16	Month 17	Months 18 - 30
Notify HUD Office of Recap of interest/ HUD Recap assembles team consisting of HUD Recap/MF/PIH and selects PHA																				
Team kickoff meeting																				
PCNA site visit																				
Submission of preliminary pre-payment application to HUD Recap																				
Owner holds tenant meeting to discuss PHA coming on-site to income qualify tenants for PBVs																				
HUD Recap issues memo to HUD PIH Field Office of initial eligibility/ HUD PIH issues initial letter to PHA to proceed																				
Owner/PHA hold tenant meeting to start the process of income certifying tenants																				
Rent Comparability Study Completed																				
Option 1b HAP Renewal for existing contract																				
PHA issues soft commitment letter containing number of currently eligible residents and associated rent levels.																				
Scope of work determined																				
Prepare concept meeting package																				
Concept meeting																				
HUD issues Invitation to Proceed Letter																				
Third party reports engaged																				
Due Diligence Documents																				
Signature Documents																				
Third party reports finalized																				
PCNA finalized and submitted to HUD Recap to complete pre-payment application review																				
HUD Recap issues formal pre-payment approval and final approval to PIH																				
Submission of Firm Commitment Application																				
HUD Issues Firm Commitment																				
PHA recertifies tenants and provides updated soft commitment (if necessary)																				
Closing occurs, the HUD Section 202 Direct Loan is paid off, and the PBV contract is executed.																				

Legend:
HUD Notice H 2018-02: PBV Process with Housing Authority
FHA 223(f) Refinance
Pre-Payment of Existing 202 Loan
Termination/Renewal of Existing 20-Year Contract under Option 1b
Other Project Milestones

Contact Information



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