



Preservation of Section 236 Properties: Key Concepts

**HUD Office of Multifamily Housing Programs
Preservation Clinics**

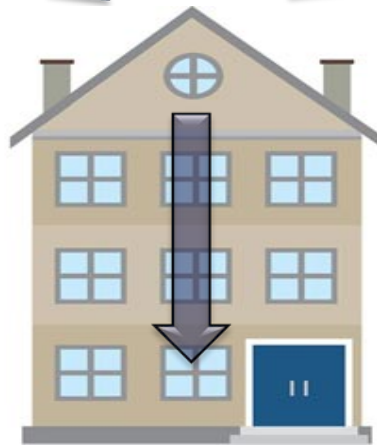
How the Section 236 Program Works



Market-Rate Loan
either FHA-Insured or
HFA-Financed



Interest Reduction
Payments



Lower Mortgage Payments
& Reduced Rents

CHOOSE YOUR PRESERVATION OPTIONS

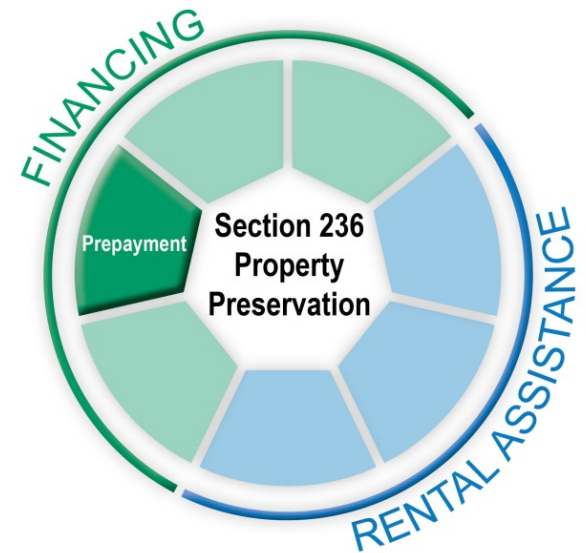
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Choose Your Preservation Options



PREPAYMENT



Q: Why prepay your Section 236 loan?

A: To enable refinancing of a property.
To trigger issuance of Tenant Protection Vouchers.

Prepayment



Some properties will need HUD **PERMISSION** to prepay:

- HUD permission usually required for nonprofits, properties with Flex Sub Loans, certain FHA loans with Rent Supplement Contracts
- Check your mortgage note and other property documents

Governed by Section 250(a) of the National Housing Act.

Prepayment when HUD Permission is Required

Tenant Notification Requirements

- Notify tenants of the prepayment at least 150 days before it may occur. Tenant comments are submitted with the request.
- Send tenant notification letter to the HUD field office with a signed certification that it has been delivered to the tenants.

Rehab Requirements

- Property must be rehabbed. Minimum requirements apply.

Prepayment when HUD Permission is Required

Affordability Requirements:

- Property must be maintained with equal benefits for low-income residents through the original mortgage note term.
- Owner must execute a new Use Agreement.



Riverdale Park Residences
Bronx, NY

Section 236 Preservation Resources and Tools

Topic	Reference or Tool
Prepayment Permission	<ul style="list-style-type: none"><li data-bbox="672 582 1696 803">• Notice H 2006-11 prepayments Subject to Section 250(a) of the National Housing Act<li data-bbox="672 853 1696 1160">• Policy Clarification for Prepayments Subject to Section 250(a) of the National Housing Act

Prepayment when Permission is NOT Required

Tenant Notification Requirements (Wellstone Notice):

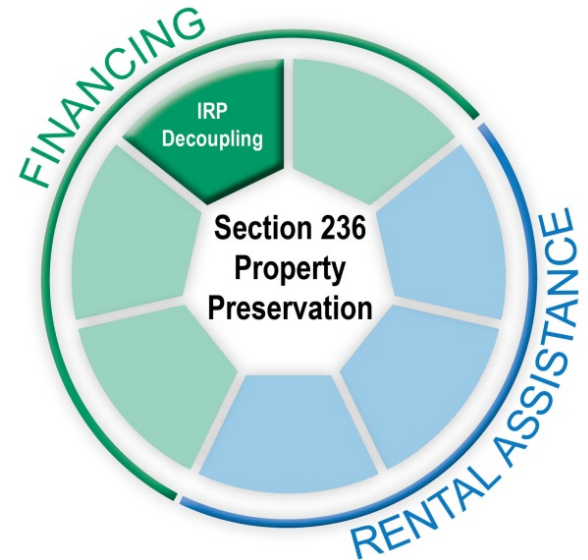
- Notify tenants 150 days or no more than 270 days before prepayment may occur
- May be waived, but only to facilitate preservation

No rent increases for 60 days after the prepayment

No *HUD* rehabilitation requirements

*Governed by Section 219 of the FY 1999 HUD
Appropriations Act (Wellstone Amendment)*

DECOUPLING THE IRP SUBSIDY



Q: Why decouple the IRP from your Section 236 loan?

A: Owners may “decouple” the remaining IRP subsidy at prepayment and apply it to a new loan. These funds could help leverage new capital.

IRP Decoupling Use Agreement

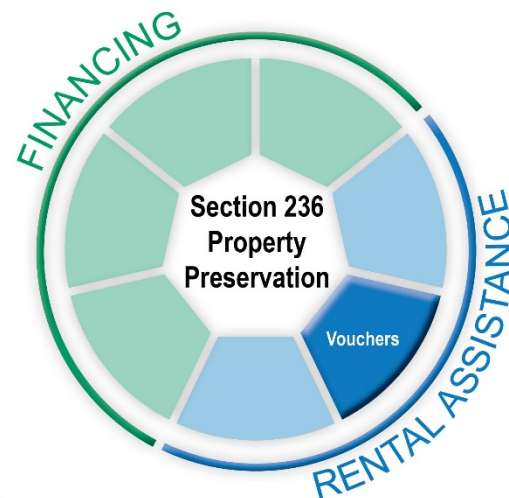
Maintain Section 236 occupancy and income restrictions:

- New tenant income less than 80% of median
- Section 236 Basic or Market Rents maintained for **5 years** beyond current maturity
- No involuntary displacement
- Section 8 contracts must be terminated and immediately renewed for 20 years with a Preservation Exhibit

IRP Decoupling Rent Setting

Section 8 Units	Non-Section 8 Units
<ul style="list-style-type: none">• Rent set per Section 8 Renewal Guide Options• Coordinate FHA, Section 8, and Section 236 rent underwriting	<ul style="list-style-type: none">• Section 236 rent-setting rules continue for 5 years:<ul style="list-style-type: none">• Budget-based rents• Rents capped

VOUCHERS



Q: How do Tenant Protection Vouchers assist your residents?

A: TPVs provide Section 8 assistance after loss of rental assistance or at Section 236 mortgage prepayment.

TPVs protect residents from being displaced due to rent increases.

Enhanced Vouchers (EVs)

How are EVs different than TPVs?

- Additional protections for residents. Requirements for rent setting are more flexible.

Triggered when:

- **Section 236 loan is prepaid and subject to Section 219 OR**
- **Prepayment in a property that has received a Flexible Subsidy Loan OR**
- Section 8 contract is not renewed at expiration.

Discretionary TPVs for Section 236 Properties

What if my property does NOT meet these TPV or EV requirements?

HUD currently has limited competitive funds for Enhanced Vouchers or Project-Based Vouchers.

- Eligibility – Certain tenants in low-vacancy areas, at risk due to loss of affordability and not otherwise eligible for TPVs.
- Funding for FY15 see [Notice PIH 2015-07](#).

APPLY FOR HUD APPROVALS

4

Know Your
Property

Set Your
Preservation Goals

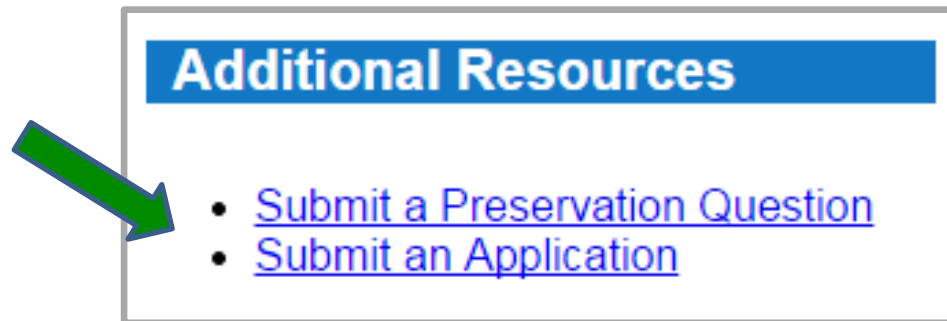
Choose Your
Preservation Options

Apply for Financing
& HUD Approvals

Secure Long-Term
Stability

Preservation Application Process

- Centralized processing through the HUD Office of Recapitalization (Recap).
- [June 28, 2013 Memorandum](#) “Transfer of 236 Preservation Activities” (*revisions pending*)
- To start the HUD approval process for a Section 236 preservation transaction, click “Submit an Application” on the Multifamily Preservation Resource Desk at <http://www.hudmfpreservation.net/>



Additional Resources

- [Submit a Preservation Question](#)
- [Submit an Application](#)

Secure HUD Approval

- ✓ Prepayment approval or permission request
- ✓ Waivers with HFA-financed transactions
- ✓ IRP decoupling
- ✓ Flexible Subsidy Loan deferral requests
- ✓ Request for increase in post-transaction rents
- ✓ Issuance of TPVs
- ✓ Nonprofit fees and sales proceeds
- ✓ LIHPRHA-ELIHPA amendments
- ✓ Unit conversion requests (combining efficiencies into 1-BR units)

Section 236 Preservation Information

On the HUD Exchange [Training and Events](#) Page for the 236 webinar:

- Webinar slides (transcript and recording)
- Section 236 Preservation Checklist
- Section 236 Preservation Resources and Tools
- Guide: Preservation Options for Section 236 Properties (coming soon)

Contact the HUD account executive/project manager for the project or email the Office of Recap at 236Preservation@hud.gov:

- With questions
- To get started
- To discuss how to pay for predevelopment costs

**HUD CAN GUIDE YOU
THROUGH THE PROCESS!**

**Start
Now!**