

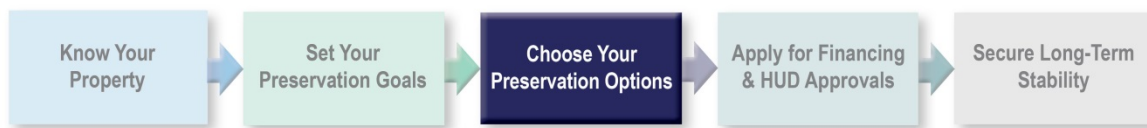


# Understanding How to Maximize Your Section 8 Contract

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

# CHOOSE YOUR PRESERVATION OPTIONS

# 3



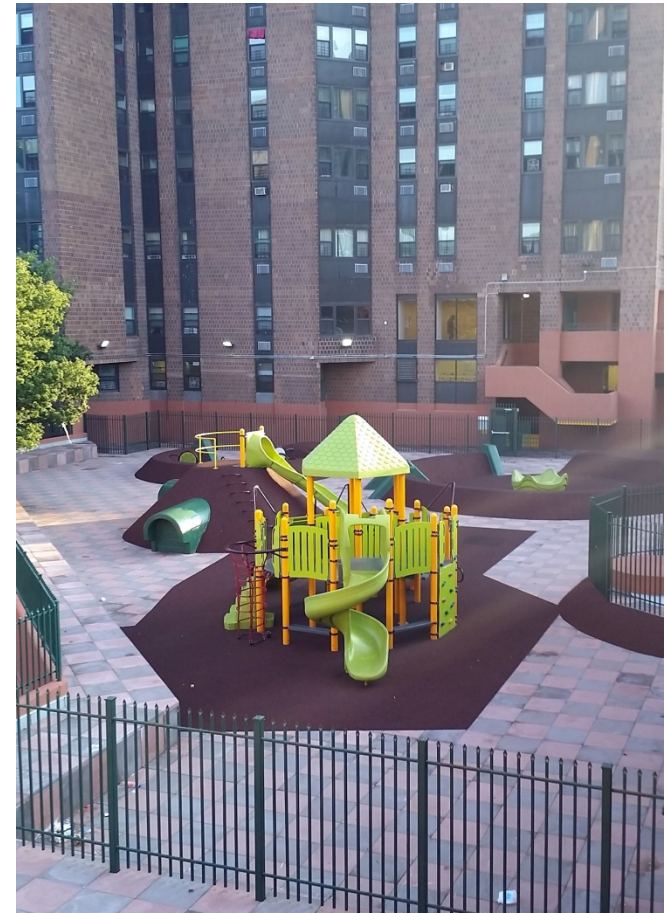
# What are my Preservation Options?

The preservation options we will discuss are:

- **Long term renewals**
- **Mark-up-to-Market**
- **Mark-up-to-Budget**

Section 8 Renewal Policy:

[http://portal.hud.gov/hudportal/documents/huddoc?id=Section8\\_Renewal\\_Guide.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=Section8_Renewal_Guide.pdf)



Section 236 Property in NY, NY

# SECTION 8 CONTRACT LONG TERM RENEWALS

**Q:** Why consider a long-term renewal of your Section 8 Contract?

**A:** To attract lenders and investors, to lock in the subsidy for the longest period possible, and to reduce future paperwork.

# Early Terminations

- Who is eligible?
- What is needed?
  - Preservation Agreement
  - Approvals



# How to Apply

Submit to Contract Administrator for approval:

- Renewal forms ([form HUD-9624](#))
- Rent adjustment request
  - Budget-based
  - Rent Comparability Study (RCS )

**NOTE:** If rent adjustment is greater than 5%, HUD Account Executive (AE) will have to approve as well.

# Determining Market Rents

## 140% Test

- Compare median RCS rent to HUD figure (see [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/mfh/mfhsec8](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh/mfhsec8))
- RCS rents greater than 140% - HUD will do a 3<sup>rd</sup> party RCS.
  - Rents will be set at lower of:
    - Owner's RCS
    - 105% of HUD's 3rd party RCS
- RCS rents less than 140%, rents will be set at owner's RCS rents

# SECTION 8 CONTRACT CHAPTER 15 “PRESERVATION” TRANSACTIONS

**Q:** Why “mark-up” your Section 8 rents?

**A:** Marking up the rents allows the owner to increase the NOI, which can leverage more capital for repairs and for preservation.



# Chapter 15 Overview

## Program Types

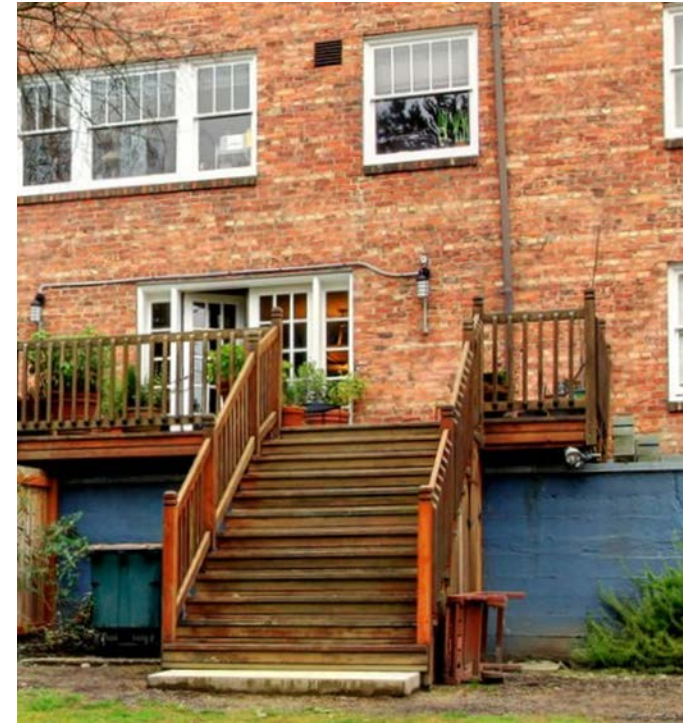
- Capital Repairs
- Transfer Program
- Blended Transaction

## Rent Increase Types

- Mark Up to Market (MU2M)
- Mark Up to Budget (MUTB)

# Chapter 15 Requirements

- 20 year HAP contract
- Preservation Agreement (if applicable)
- 20 year Use Agreement
- Must combine contracts (see [portal.hud.gov/hudportal/documents/huddoc?id=Sec8\\_Housing\\_Assis\\_Pay\\_Cnt.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=Sec8_Housing_Assis_Pay_Cnt.pdf))



# Ch. 15 Requirements (cont'd)

- RCS with “as is” and after rehabilitation market rents
- Project capital needs assessment
- Sources and uses statement
- A detailed description of the proposed transaction

# CAPITAL REPAIRS PROGRAM

**Q:** Why consider the Capital Repairs Program?

**A:** The Capital Repairs Program is meant to cover the costs of:

1. Modest repairs and recapitalization of the reserve.
2. Substantial rehab.

# Capital Repairs Program Requirements

- Environmental review
- Physical accessibility review
- Relocation plan
- Not “Troubled”
- Current on debt service and replacement reserve

# TRANSFER PROGRAM

**Q:** Why apply for the Transfer Program?

**A:** The Transfer Program can facilitate a transfer of ownership without rehab.

# Transfer Program Requirements

- Purchaser requirements:
  - Have experience
  - Be in compliance with non-discrimination and equal opportunity requirements
  - Be in good standing with HUD
- REAC greater than 60

# CHOOSING A CONTRACT RENEWAL OPTION

*As with the program type, different renewal options have different submission and eligibility requirements.*



# Owner Eligibility

Owner Type	Eligible for MU2M?	Eligible for MUTB?
Nonprofit Owner	Maybe	Yes
For-Profit / Limited Dividend Owner	Yes	Yes
For-Profit / Limited Dividend Purchaser	No	Yes
For-Profit Purchaser	Yes	No

## Option 1

# MARK-UP-TO-MARKET

**Q:** Why choose the Mark-Up-To-Market renewal option?

**A:** Owners can benefit from access to increased distributions.  
**It is an effective tool** to recapitalize and preserve properties as affordable housing.  
**Owners are not required** to submit budgets to justify rents.

# General MU2M Eligibility

- Aggregate rents less than RCS rents
- Satisfactory rating on last MOR
- REAC score 60 or greater
- FASS findings closed or plan in place

# General MU2M Eligibility (Cont'd)

## Ownership type

- Profit-motivated
- Housing Authority - Public body corporate and politic
- LP with non-profit partners
- LLC with non-profit manager

# MU2M Eligibility

## OPTION 1A – Entitlement

Must meet all requirements

- ✓ RCS rents at or above 100% of FMR
- ✓ No use restrictions
- ✓ No mod rehab assistance contract
- ✓ No history of receiving voucher assistance after contract has been terminated.

## OPTION 1B – Discretionary

Must meet ONE requirement

- ✓ Vulnerable Population
- ✓ Vacancy Rates of 3% or less
- ✓ Community Support
- ✓ Requires HUD approval

Note: Option 1A rents are capped at 150% of FMR.

# MU2M Submission Requirements

- Contract Renewal Request Forms, (form HUD-9624)
- If renewing under Option 1B, documentation of qualifications for discretionary eligibility.
- RCS



## Option 2

# MARK-UP-TO-BUDGET

***This option does not have additional eligibility requirements except that current rents have to be below the as-is RCS rents.***

# MUTB Submission Requirements

## Contract Renewal Request Forms

Prepare budget-based rent increase request

- Documentation of new debt service and reserve
- Debt service coverage is allowed but limited to 1.2
- Vacancy loss and certain tax credit fees are allowed

**NOTE:** Rents must be justified by the budget.



# Tips for Successful Contract Renewals

- ✓ Complete and accurate submission
- ✓ Timely submission
- ✓ Communication with HUD and Contract Administrator

# QUESTIONS?

