Welcome to Preservation Webinar: Strategies to Preserve and Refinance Affordable Housing Properties
Webinar Transcript
December 2, 2014

Leslie Leitch: – training and events page where you registered. You'll find a copy of today's slides, and in just a few days we'll actually post the webinar recording. By the end of December we'll post the introductory support material.

Because of the large size of today's audience all attendees will remain on mute for the duration of the webinar. There may also be a slight delay as we advance the slides, again due to the large size of the audience.

You may submit questions at any time through the question box on the right side of your screen. Click the plus sign next to the question and it will expand the box and you'll type in your question.

There will be a formal question and answer session at the end of this webinar. Please be aware that we will not be able to answer questions about your specific project. And we may not have time to answer all of the questions during this session. You should also use the question box if you're experiencing technical difficulty, such as sound or picture quality. We will do our best to assist you quickly.

Following the presentation you will receive an email asking that you complete a feedback survey. This is our first webinar, so we really want your feedback and your ideas for future training and topics. You also need to be ready for a little audience participation. We have a couple of poll questions for you to respond to during the presentation.

Today's presenter is Gates Dunaway, principal of the Gates Dunaway Group. Gates has spent her career developing affordable housing preservation strategies for low-income housing tax credit, HUD 202s, and Section 236 insured loans; flexible subsidy loans, rent supplements, wraps, and Section 8 contracts.

We have several representatives with us from the Office of Recapitalization and the Office of Asset Management and Portfolio Oversight. Their attendance today demonstrates the department's commitment to affordable housing preservation. They will be here to answer questions at the end of the webinar.

We will start the webinar with a brief welcome from HUD and then we're going to move right into making the case for preservation and helping you understand your options. We'll use a case study to show you how to go about preserving affordable housing. We'll go over resources available to you. And we'll get you ready for your next step. Then we will open it up for questions.

To get us started, Minnie Monroe-Baldwin from the Office of Recapitalization will provide the HUD welcome. Minnie?

Minnie Monroe-Baldwin: Thank you, Leslie, and thanks to you who have joined our "Welcome to Preservation" webinar, sponsored by Multifamily Housing. Your participation today shows your concern about preserving affordable housing.

We want to thank you for your stewardship in keeping your Section 236 and Section 202 properties as affordable housing resources in your communities. Maintaining the affordability of these properties will take some work on all of our parts. We still need you and your commitment.

To give you an idea of the number of units and projects that are affected, let's take a look at statistics on both loan programs starting with Section 236. Since the mid-'70s HUD produced about 5,000 Section 236 mortgages, creating a pool of over 500,000 units. While 400,000 of these remain affordable, 150,000 are no longer affordable – essentially removed from the pool of affordable units. Today the remaining 547 projects, with mortgages maturing between now, fiscal 2015, and 2020, are at risk of losing their affordability.

For the 202 program, approximately 265,000 units for the elderly or handicapped were created under the Section 202 direct loan program. While loss of units in this program is less dramatic than Section 236, losing the remaining 24,000 units would greatly impact the availability of affordable housing for these vulnerable members of our community.

So why should you preserve these units? You're probably familiar with the reasons. Preservation of remaining affordable units is necessary, number one, because the demand for safe, decent affordable housing is increasing; and number two, simply the supply of affordable housing units is decreasing at an alarming rate due to expiring contracts, due to affordability restrictions expiring, deterioration of the physical plant, and gentrification.

So today we ask you to join the preservation movement. We are your partner of opportunity and we want you to know there are options available to help the mission of long-term preservation of existing affordable housing stock. Getting the right options, however, for sustaining the affordability of your property takes time. What better time than now to start?

We enlist your continued partnership. We can preserve these housing assets for years to come. This webinar will guide you through the process. Thank you, and "Welcome to Preservation."

Leslie Leitch: Thank you, Minnie. And we are counting on you for HUD's continued guidance in this process. So Gates, why don't you get us started?

Gates Dunaway: Thank you, Leslie. Hi. I'm Gates Dunaway and we're going to talk for about 30 minutes on what we're saying is making the case for preservation. Remember, this is a high-level discussion. We're not going to get too far into the weeds on how you execute a preservation strategy. We're just going to get you started to thinking about how you might want to proceed with a preservation transaction.

First let's get on the same page about what preservation means. This is taken directly from HUD. Preservation means to HUD successful recapitalizing – which is refinancing – through capital upgrades to affordable rental housing so that we can do a couple things. One, let's safeguard the long-term rental assistance for the current tenants and for the future tenants. Number two, let's improve and modernize the property through needed capital repairs and upgrades. And three, let's stabilize the properties by placing them on solid financial footing by improving their cash flow.

Next we're going to talk just briefly about what are some of the programs we're referring to. As Minnie mentioned we're talking about the 202 direct loans. Those were the loans that were made to nonprofit affordable housing owners for the purpose of serving low-income seniors and low-income disabled folks. And we're also talking about the Section 236 insured loans. Those also were made for affordable housing development; low-interest loans were made to for-profit, limited dividend, and nonprofit owners.

What we'll also find with these programs are some of the programs listed before. So with the 202 direct loan or an insured loan through the 236 program, you might hear that they have a wrap contract or an elderly-assisted payment contract or a rent supplement contract, which we call "rent supp." Most of these folks have some form of Section 8. That's Section 8 project-based rental assistance. That's by far the largest rental assistance program. And then some folks have these flexible subsidy loans that we're taking out to assist them with either operating deficits or capital upgrades.

I think we're going to take a pause right here and do a poll. We have a quick poll for you all, and now that we told you what we're going to talk about today, we wanted to see how many of you all are involved in these programs. So if you could take a few seconds here and just click on the programs that you're involved with, either you own or you operate or you manage or you advise folks about. We'll give you about 15, 30 seconds, if you could go ahead and click there and submit.

So about half of you submitted. You can finish up, we'll close the poll and see what we've got here in front of us.

Okay. Let's see what we have. So that's interesting. We have a little bit of everything, it looks like. And as usual we have a lot of folks with Section 8 target-based rental assistance and a good number of flexible subsidy loan holders out there. So we'll go back to the slide.

We wanted to show you just a couple of photos. These are typical properties that I've worked with. These are properties built in the '70s or '80s. All of them were built with either the 202 or the 236 loan program. They have Section 8 rent supp, and they all were very solidly built and do not necessarily need massive overhauls and they're definitely worth preserving.

However, sometimes what you'll find is that the insides – the fixtures and the appliances – are what lag in having upgrades. So this wouldn't be atypical for a property that was 40 years old, that had been doing a great job keeping its roof and – (inaudible) – together but is having trouble with getting the upgrades to the apartments – the modernization is what we like to call it.

So let's talk about what's at risk. As Minnie talked about, the programs are maturing over the coming years, and so as 202s and 236s mature, what is at risk is the loss of the regulatory agreement that is over at the end of the loan term. The regulatory agreement is that document that controls the rent and the incomes of the tenant.

Also, for some programs tenant protection vouchers will not be available at the maturity of the underlying mortgage. And so what we're trying to do is look at preservation solutions to both preserve the affordability and the ability to get things like TPV.

Also at risk is expiration of rental assistance contracts. At the end of a rental assistance contract if it's not renewed and have a loss of subsidy for the low-income resident, it could be detrimental to the residents themselves. And of course, the properties have a loss in their income, which means you could have, of course, trouble paying the bills or leveraging income for new capital repairs.

What you see in front of you are just some of the many reasons you may want to start thinking about preservation. Remember, this webinar is geared towards folks who are just starting along this process and it often helps by thinking of the end goal – what it is you're trying to do through a preservation strategy.

One of the things you might want to do is to achieve or continue your mission by ensuring that the property – if you set out to build – is well-maintained and operates well for the future residents. You also might be worried about being a good community steward, taking care of an asset that services your greater community.

And then for your local community, those residents you serve, we want to talk about improving the capital structure – (inaudible) – so folks have a better place to live. We also might be talking about refinancing debt, perhaps higher-interest – one of those new 202 loans with lower-interest debt to increase cash flow and even derive cash for things like developer fees.

We want to talk about lowering operating costs by improving systems through upgrading systems and lowering maintenance costs. And through that you also may get energy efficiency for putting in new systems. And then for certain properties you might want to preserve specifically to protect and improve the rental subsidy income.

Now what we have on the next two slides are some questions that are often posed at the beginning of a process of thinking about preservation. So we're going to pose the questions here – we're not going to answer them – and then a few slides later we're going to go through each question and offer a solution to those questions.

So the first would be a question about if you have a 202 property and you have above-market rents – which isn't uncommon for a 202 owner with Section 8 that has an Option Four contract – how do you protect those above-market rents?

Another question is, if you pay off your current loan and then you have a Section 8 contract and you go in for an annual renewal or renewal of your contract, what is HUD going to think when they don't see any debt service cost in your budget? What's going to happen to your HUD Section 8 rent?

Another concern might be the mounting maintenance needs that you're having trouble keeping up with.

Another might be outdated systems that are leaky and costly and costing you a lot of your cash flow in your reserves.

And still another might be that you have Section 8 rents that are very far below the market and you're wondering how do you get your rents up, which you could perhaps leverage new debt.

You may have one of these wrap or rent supplement contracts that's going to be expiring and you're not sure what to do.

You may have a flexible subsidy loan that you took out, and there are certain types of sub loans that are due in full upon maturity of the underlying mortgage. You may be wondering what to do with those loans.

You may be trying to – (inaudible) – on your property because you've been an owner in it for 40 years but you want to make sure that the next person that owns it does as good of a job as you did and continues affordability.

And then finally, you may be confused about your options and you're not sure where to go for useful information. So for that last bullet we're going to go to a long list of resources that you can access today through the webinar, but you'll be able to go back in and see the recorded webinar and download the PowerPoint for the resources that we're going to give you at the end.

So HUD's created a number of tools that we're going to talk about today to make it easier for owners to refinance and stabilize their properties. Some of these tools include incentives that we hope urge you along the path of preserving what we find to be very valuable affordable housing assets.

Anything you do now to improve and to move along a preservation path is going to work to improve your property and your residents' lives. Know how to move forward with the best options for you, for your property. And we're always looking for the simplest path to the goals. It doesn't have to be overly complicated.

So now we're going to talk about each of the issues and then pose a solution. But before we do that let's do another quick poll. Again, if you'll give us a few seconds and just answer the question. The question is, what is your role in multifamily affordable housing? Give us a few seconds of that and then we'll close the poll and see who we have out there. Industry experts, by the way, are attorneys, consultants, CPAs, trade association folks.

Okay. Looks like we got most everyone voted. If you haven't voted, a few more seconds. I'll close the poll and see who we have here. So pretty even, but lots of others. And we're glad to have everyone on this call, even if you're a novice or you're experienced folks. We want you to take this webinar and the material we're going to give you today and bring that to your peers and the folks in your network. Again, this is going to be recorded so that you can look at those PowerPoint slides, this webinar, and you can look at the (continuing ?) pieces that are being developed now.

So let's move on to understanding options. So again, we're going to pose an issue and then we're going to pose a supposed solution.

The issue, after the original loan matures, you're worried about the potential markdown of the Section 8 rent since there is no more debt service. The solution to that is let's leverage that income you have and refinance the property with new debt. And what underlies this question is specifically some folks who want to just let the loans be paid off and operate debt-free, and what that often doesn't address is the inflection of what would happen to your Section 8 rent at renewal.

Along the same lines, if you have so many capital upgrades that you need and you can't handle them through cash flows, how are you going to handle them? Again, let's leverage that income you have and refinance the property with new debt, and then with the proceeds from the new loan you can address those capital upgrades and you don't have to rely on annual cash flow to do that.

Another issue, you have Section 8 rents that are well below market and right now the income you have doesn't really leverage enough debt to address repair needs. This can be a problem particularly with smaller owners where the amount of debt they would produce is not big enough for a typical lender.

One solution to that is the Section 8 renewal guide has two processes by which you can increase rents, the mark-up-to-budget or the mark-up-to-market. You take your Section 8 contract through one of these two processes and bring your rents up closer to market. From that you're going to get more income and then we can leverage new debt and address your capital needs.

What if you have a 202 property with a Section 8 contract – it would be an Option Four contract – and your rents are over market, which is allowed? How do you protect them? And the question really is, if you have a 202 property and your mortgage matures, it would be the end of your regulatory agreement and you won't be a 202 property anymore, and at the next renewal of your Section 8 contract your rents will be marked-down-to-market.

You'll want to go to Notice 2013-17 to prepay your 202 notice. And when you do that you'll be asked – it'll be required – to extend your 202 regulatory agreement for another 20 years. That will let you continue as a 202 and you can keep your Option Four status.

If you have a rent supplement contract or a RAP contract and they're going to be expiring, HUD does not have the authority to renew or extend them at this time. Thankfully, we have the Rental

Assistance Demonstration program, Component II of RAD, set up specifically to convert these RAP and rent supplement contracts to 15-year project-based voucher contracts, which are much more stable and attractive to the lender, to you as an owner, and to HUD.

That program actually sunsets at the end of 2014; however we're hoping for an extension into either the end of '15 or '16. If you haven't started along the conversion process of your rent supp or RAP by now, pay attention to whether or now that gets extended. And if it does, be sure to move along the conversion process.

If you have a flexible subsidy loan – one of the ones that was fully deferred to operating assistance flexible subsidy loans – that loan is going to be due in full at the maturity of your underlying mortgage. What do you do about that? You can defer and re-amortize that loan. You refer to 2011-05. That's the HUD notice that's going to allow you to do this. You would have to show that you can pay off the flexible subsidy loan within 20 years or the term of the new mortgage.

Another issue we hear is that some nonprofit owners in particular have what we call "board fatigue." And it's for the nonprofit board, they're tired of owning the property for 40 years. This would be true maybe for a very small nonprofit. They'd like to get out of this business but they want to make sure that the next owner protects the affordability of that 202 property.

In that notice 2013-17 for 202 owners, you now have the ability to sell your 202 property and keep the proceeds, which is a change in HUD policy. This might be a way to let you go ahead and do something else in your mission and let maybe a larger, more experienced owner take it.

If you want to stay in the property – you don't want to necessarily sell it – then consider joint venturing with a more experienced owner who might be able to assist you with taking care of those large capital upgrades that are needed.

For 236 owners you may have residents that do not currently receive rental assistance, and the question is how can I, or is there a way to help those folks? And there is. For certain Section 236 owners it may be possible to receive enhanced vouchers for the unassisted residents. To do that, though, you need to know that you have to prepay the 236 loan. You cannot let it mature.

Initially – (inaudible) – because again, a lot of this information is coming out and folks are seeing their mortgages mature in the coming months or their Section 8 contract might be expiring and they want to know what they can do now, because some of these things take some time. The first thing to do is if your mortgage is maturing soon, call HUD for guidance. Call your HUD office manager, talk to them.

If your Section 8 contract is expiring soon you definitely want to work quickly to continue and renew that subsidy, and talk to HUD about that. That is the key to leveraging new financing in the future. Once you've gotten that all cleared up – (inaudible) – go along that path of preservation by leveraging that income to refinance and preserve the property.

So here we have a case study that is really an amalgam of a couple things. Senior Towers is what we're calling it here. This property's financed with a HUD 202 loan in 1976. I think its original interest rate was 9.5 percent. One hundred percent of the units have Section 8. These are elderly and disabled folks that live here. The owner took out a flex sub loan in the 1990s. They have the principal and the interest deferred until maturity of that underlying 202 loan. The nonprofit owner decided to refinance the property in order to pay off that flexibly subsidy loan but also to see if they could do some capital upgrades.

So the solution for them, after much study, was the 223(f) loan through FHA. We're not going into a lot of detail about loan products and different types of ways to actually refinance. In their case it was a good fit for them based on the capital upgrades that they wanted and needed. With the new loan they could pay off the flexible subsidy loan; therefore they did not have to defer it. And they also could do about $10,000 a unit in upgrades.

At the time of the refinancing Section 8 rents were at market; they did not have to do a mark-up-to-budget. They did execute a new 20-year HAP contract when they closed on the new loan, which is something both HUD and the lender wanted and expected.

They actually have increased surplus cash as compared to before the refinancing, and they worked with HUD and the lender to program it for additional capital improvements over time. And what they were able to do was really – going back to those early pictures – they were able to address a modernization aspect of some of these older properties. Their systems were in great shape; it's just that they have the old kitchens and bathrooms.

So before they had the old 1970s cabinets and laminate countertops and typical small stoves and the original sink, even; and then through the refinancing with the proceeds they put in nice hardwood cabinets, granite countertops, – (inaudible) – stainless steel sink. All the tenants got the little sprayer by the sink they wanted.

They checked with the tenants with the choice of increasing the size of their appliances and losing cabinet space. The cabinets were more important, so they kept their small appliances, which turned the kitchen around. Really, the most impressive thing is they opened up this kitchen with – for very little money they were able to change the way that kitchen felt by bringing in some natural light and giving it some new overhead lighting.

They also took care of their bathrooms. They took out their 1970s tile and put in new modern tile, new fixtures, and new comfort-height toilets.

Preservation timing is really important. That's why we come to you now and quickly and we hope you're listening and we hope you start soon. There are many components to successfully preserving your property. We've got six listed here and we'll group them in two groups of three.

The first three are kind of one bunch. The first is talk to your board or your owner team and get them educated about the options that you need to work on to get really going on preservation. So if you have a 202 property, understand the HUD notices with your ownership group.

And then pull in the details of your property. So understand exactly what your rent subsidy looks like; when does it expire? Are your rents over market, under market? Do you have any issues here? And when you understand the details of your loan and you understand what it is you want to do with the property, then you can move forward to develop the best strategy for your property.

When you develop the best strategy you're going to want to assemble a team because all these things take time. So assembling a team required perhaps RFQs, RFPs. Make sure you've allotted enough time. When you've got your team together then you move along, and that's three bullets.

One strategy or one path is all the HUD approvals you might need. You might need a flex subsidy loan deferral. You might need a mark-up-to-budget. All those things take time. They might go to different folks – (inaudible) – enough time to receive the applications and approve them. At the same time you're going to be working with a new funding team, whether it's – (inaudible). And they need to understand both the HUD side of what you're doing and the timing. So get these things coordinated and get a team of experience with them.

We have resources to give you here. We're going to throw up a couple slides really fast. Again, you can revisit these slides if you missed anything here. The first is we want you to know where the HUD Office of Recapitalization home page is. That's a long web address; you can just Google "HUD Office of Recapitalization" and get there. That's where we're going to find out all the things that that office is doing to try to help you along the path of preservation.

If you're a 202 owner, we need you to look at HUD notice 2013-17. That notice is going to guide you along prepayment and rules for selling your property. If you're a 236 owner there's not just really one notice that applies to you but there is one portal. Go to HUDMFPreservation.net and you'll find all the resources you need as a 236 owner to move along the path of preservation.

The next thing we want you to do if you haven't already is sign up for the multifamily housing preservation mailing list. You go to HUDexchange.info, and at the upper right corner you're see "email updates." Click on that and you'll click on "subscribe." And when you click on subscribe you'll be able to fill out a form and they'll be many things you can subscribe to. We want to make sure you're subscribed to the multifamily housing preservation mailing list.

We also have HUDexchange.info as a general large resource place we need to go for all the housing preservation webpages that will all be launched on the HUD Exchange website. And then the webpages are going to be consolidated and link to existing web-based materials to make it easy for you to access and search documents out.

And then we'll include all the fact sheets and the guidance and the webinar materials that are being created through to now.

At HUDexchange.info there's a training and events path that you can see there on the slide. Go there to see the most recent webinar dates and times and for the recordings and slides associated with these. The next webinar is the Section 236 basics webinar that should be launched in

January of 2015. If you're signed up on the multifamily preservation list you should also get email notifications of these.

So now that you're convinced that preservation is the way to go, what are the next steps? Well, let's agree to start now. Let's not wait around any longer. Why? Because there's been favorable changes in HUD regulations that make it easier and smoother for 202 and 236 owners to move along this path. We also have favorable financing now. Some of the best interest rates are still out there; tax credit pricing is still great, while you can along this path.

You may have expiring subsidies that are going to force you into action, especially rent supp and RAP contract owners; and then you have Section 8 renewals that need to happen. And then if you have a maturing balloon note, those flexible subsidy loans, that might force you into starting now.

So here are some next steps that we have for you. First – and we can't say this enough – stay informed and get educated. Things change, as you all know. Stay connected through all of the different ways, the HUD Exchange website, and stay informed. And then keep your peer group, your board, your ownership team as informed as you can.

Understand the details and hurdles for your property. I always tell folks that are thinking about this, start a file now; put the regulatory agreements, your rental subsidy contracts in there, your mortgage notes. You're just getting the details for your property because it's the first thing everybody's going to ask.

Understand and agree on what your desired outcome for preservation transaction will be. Work with your board, whether it be half-day, weekend, focus group, whatever it takes, to come up with an agreed-upon outcome. And then from that you will find the best path to desired outcomes for preservation transactions.

And then last, assemble your team and proceed – that's not actually last. Contact HUD as soon as you can if you're thinking about this and you haven't already. We've got two email addresses for you there. 202 owners email section202@hud.gov, and 236 owners email 236preservation@hud.gov. Email them with your property name, address, mortgage maturity, and who to contact.

And I'd also add that you should copy your field office contact, asset manager somewhere on that email to headquarters so that everyone's connected.

Now that you've done that, we say form your team. Do not try to do this along if you've never done it before. There's a group of professionals out there who are experienced and familiar with the process of preserving these HUD properties. It starts with your field office or HUD program staff, and from there there's lenders, investors, attorneys, consultants, architects, contractors – all of whom are experienced and familiar with this process. Find people that know this work and don't try to do this alone.

Here's a quick summary of what we hope you do next. Sign up for the mailing list on HUD Exchange. Create that file for your project. Know your project. Find out about its financing, subsidies, capital needs. If you're missing a document, go get it from HUD.

Talk to your board or your ownership team. Talk to your HUD representative, someone in your field office, whoever you normally talk to. Find out what they think to move along the path.

Stay informed. And don't hesitate to ask for assistance and information.

And with that I think I'm passing it back over to Leslie to moderate some questions and answers.

Leslie Leitch: Absolutely. Gates, that was an awful lot of information. Thank you very much.

But I'm going to stay on the Senior Towers. While you were presenting we did have some questions come in and one of them was specific to the Senior Towers. And it may be too much detail but you can guide us through the answer. "Was the Senior Towers case study prepaid under Notice 2013-17? If so, based on the age of the project, shouldn't it have been required to qualify as a substantial rehab?"

Gates Dunaway: That's a very good question. It did qualify – it did prepay under the 2013 – it was actually the earlier version of that notice. But it was a 1976 loan, so it just had to show debt service saving. It did not have to show substantial rehab to qualify for prepayment.

Leslie Leitch: Great. Clearly somebody knows what they're talking about to be asking questions on that specifically.

Please feel free to type in any questions you have. Again, we won't be able to answer specific to a particular project. We are going to invite you to continue to contact your HUD rep. We'll give you a little more information.

Let's go to the first question that we had. Minnie, I'm going to turn to you. "What are tenant protection vouchers and how do they work?"

Minnie Monroe-Baldwin: Thank you, Leslie. Tenant protection vouchers are subsidies available to income-eligible residents. This form of tenant protection is available when they're triggering events such as prepayment of a mortgage, expiration and/or termination of rental subsidy contracts such as rent supplement or RAP. And unlike Section 8 contracts or PBVs – project-based vouchers – these vouchers stay with the resident and not the property.

Additional guidance is available through several housing notices – Housing Notice 8-2012-13; also PIH Notice 01-41. These vouchers, again, work in conjunction with the resident and not the property, but they are a form of subsidy that HUD makes available to protect tenants when termination of contract occurs and/or mortgage prepayment.

Leslie Leitch: Great. Thank you, Minnie.

John, I'm going to throw a question at you. We have John Hall from the Office of Asset Management and Portfolio Oversight. "Will HUD forgive a flexible subsidy loan?"

John Hall: Thank you, Leslie. Generally the government does not forgive debt. However, we are amenable to deferring the debt. So once your mortgage matures and it triggers the flexible subsidy loan and it would be payable in full, you can submit a waiver pursuant to Housing Notice 2011-5 and we will process that accordingly so that you can do your refinance.

Leslie Leitch: Great. Thank you. I'm going to open it up about Brad, if anybody can answer a specific question about RAD. "What are the current prospects for an extension of the second component of RAD?" That may be something that –

Minnie Monroe-Baldwin: I'll take this one.

Leslie Leitch: Great. Thank you. Thanks, Minnie.

Minnie Monroe-Baldwin: So as you all know, we are currently under a CR, a continuing resolution. However, in the fiscal '15 budget we have requested extensions of the program through 2016. We also are requesting not only the option of project-based vouchers, but PBRAs.

And we are hoping that by December the 11th – which is the termination of the CR – that we will have a green light and the sunset will be lifted.

Leslie Leitch: Great. Thank you. All right. So let's see. We've got more questions.

John, I think I'm going to throw it back to you. "How can I pay for consultants and for pre-development costs related to recapitalizing my project?"

John Hall: Okay. Great question. There are going to be several alternatives or options that you have as an owner, so I'll try to break these down into two categories.

First, with the project's replacement for reserve accounts there is a notice whereby third-party reports can be paid from by using this account to pursue refinances or pre-development expenses.

And then secondly, your local unit of government is also a very good source, as they receive a lot of the entitlement funds that come from HUD. So certain programs such as community development block grant and HOME investment partnership may be another source that will help complement some of your endeavors to pursue in pre-development expenses.

Leslie Leitch: John, I'm going to add one question on. "So where would I find experienced consultants?"

John Hall: That's a great question. I would encourage owners to become active in a lot of the trade associations that go to the conferences on affordable housing. There you're going to meet people in the industry. Go to workshops and seminars and interface with them directly.

As far as a HUD piece to this we have mortgage accelerated processing program – or MAPP – approved lenders. If you go to our website, HUD.gov, and talk to any of these lenders they will be able to give you guidance on consultants that they have, and that these consultants would be able to get paid from a portion of the lender's mortgage origination fees.

Leslie Leitch: Okay. Good to know.

I'm going to ask a SPRAC question. "Will another round of SPRAC" – which is the Senior Preservation Rental Assistance Contract – "be issued in 2015?"

Minnie Monroe-Baldwin: Thank you, Leslie.

We have no idea at this point whether or not SPRAC will be extended. However, we are very encouraged by the success of the first program. We were able to award 11 projects, over approximately $17 million. And we are very well-aware, as you are, our audience, that this program is very valuable and we do hope that it can be extended.

Leslie Leitch: Okay. Here's a 236 question, kind of tied with RAD. Okay, Minnie. "I'm currently prepaying a Section 236 mortgage and have been approved for RAD. The rents being offered by the PHA are not enough to leverage enough financing for improvements to the property. How can the rents be adjusted? The PHA says they cannot consider capital improvements by completing the rent reasonable process." (Pause.)

Minnie Monroe-Baldwin: Thank you, Leslie. That is an extremely challenging question.

However, on the 236 prepayment it does – with a project that has a rent supplement contract, a RAD contract, or a mod/rehab contract, we know that the project is eligible for RAD II, which is conversion of those contracts to a project-based voucher.

Because it is combined with the 236 program there is a restriction on the rents being increased for a 60-day period. And also under the CVV rules, which are governed by public housing, the rents cannot be adjusted until after construction of the project. So in that scenario, I believe – if I'm understanding it correctly – the rents will be adjusted after construction of the project.

Leslie Leitch: Okay. That leads to another question; perfect timing for both Minnie and John. "Please clarify who we go to to ask specific project questions under the 236 or 202."

John Hall: I'll give Minnie a short break. (Laughter.)

I'm John Hall with the Office of Asset Management and Portfolio Oversight. So if you have Section 202 questions you should first contact your local field office or multifamily hub or regional center, depending upon which part of the country you're in. Then they will work with you directly and then they will also reach out to us at headquarters for additional guidance. Again, that's on Section 202 direct loans.

Minnie Monroe-Baldwin: And this is Minnie Monroe-Baldwin. For Section 236 you would contact our 236 website (sic), which is 236preservation@HUD.gov. Your questions will be queried and reviewed and answered. By phone you can reach the office at (202) 402-2636. Thank you.

Leslie Leitch: All right. Got another one coming in regarding PRAC 202. "Will HUD allow prepayment of a PRAC 202 in conjunction with prepaying a HAP 202 to refinance these projects together?"

John Hall: That's a good question, Leslie. However, the PRAC is usually geared or viewed as a grant, and so we normally would not allow that particular combination. But if you need additional clarification we would be more than happy to talk to you after the live event.

Leslie Leitch: Great. Thank you. All right. Who wants to pick up a 223(f) loan? "Is there a minimum number of restricted units for the 223(f) loan, and what's the minimum affordability period?"

John Hall: Okay. That is another great question but that is a production question, as they work with the MAPP lenders that I alluded to earlier. So I would recommend that you contact your local multifamily hub, whichever jurisdiction you are in, and they will able to answer those particular questions.

Leslie Leitch: All right. John, I'm going to keep throwing these out at you. "Can third-party reports be paid out of cash flow?"

John Hall: The short answer, I will say, is no. But it depends what you're calling "cash flow."

So we said earlier that we have a notice that allows for some third-party reports to be paid out of the reserve for replacement account, so I would feel comfortable in my response in saying as long as the money that we're talking about in a HUDHelp account, that we have reviewed and authorized the release to pay for that third party, versus you taking it out of surplus cash.

Leslie Leitch: Okay. I'm not seeing any other questions coming in.

I want to one more time invite Minnie and John to tell people where to – who to contact and – (inaudible).

John Hall: Okay. So we want to bring to your attention that on one of the slides it had for Section 202 direct loans it had an email address. That email address is inactive now. So if you have questions, in addition to contacting your local multifamily hub office I will give you my contact information so you'll have it.

My name is simply john.hall@HUD.gov, is the email address. And my phone number is (202) 402-5907. That's the best way we can redirect you to the field if you do not have the local contact information for Section 202 direct loans. Minnie?

Minnie Monroe-Baldwin: And again, this is Minnie Monroe-Baldwin. For Section 236 questions please contact us at 236preservation.net.

Leslie Leitch: Okay. Couple of quick ones. Let's see if we can close out with a couple of quick ones. Minnie, these are probably yours. "If you have a 236 loan maturing and you've already renewed the Section 8 contract for 20 years, what restrictions are there now and what will happen to rents at maturity?"

Minnie Monroe-Baldwin: Okay. So if you have a maturing 236 mortgage and you have a 20-year Section 8 contract, and I will assume that the Section 8 contract is for 100 percent of the units, when you pay off the 236 mortgage your Section 8 rents will be what will prevail. Additional comments from Stan?

Stan Houle: Yeah. This is Stan Houle. It is a good question and the answer is that the rents stay in place until the contract ends.

At the end of the 20-year period then the contract would renew under any option that it's eligible. So if it currently has the ability to keep its exception rents and nothing changed between now and then, their rents could stay above market. If they have a different option – an Option Two or one of the other options – then there's always a chance that the rents could be lowered to market based on what would happen 20 years from now.

Leslie Leitch: We're going to have a combination of lots of RAD rentals with the protection vouchers. "At what point must a RAD be pursued retroactively and not prospectively? I ask in the case of a property whose rent subsidy contract expires on 1/1/2015. Is it after the tenants actually own the tenant protection vouchers?"

Minnie Monroe-Baldwin: Could you repeat that question, please?

Leslie Leitch: "At what point must a RAD be pursued retroactively and not prospectively? I ask in the case of a property whose rent subsidy contract expires on 1/1/2015. Is it after the tenants actually own the tenant protection vouchers?"

Minnie Monroe-Baldwin: So that's a very challenging question as well. So the retroactive processing for RAD II conversion happens when the rental subsidy contract has already expired, and/or the applicant is making a request for the conversion within 60 days of the sunset.

So at this point we're actually not accepting additional applications for processing because the sunset is less than 30 days. However, before that time the retroactive were primarily when a contract had already expired.

And I hope I'm answering that question. Does anybody here have additional comments on that? I think I answered the question, but if there are specifics of an instance that needs to be discussed at length, please contact me at (202) 402-2636.

Leslie Leitch: Thank you, Minnie. Now we have a Section 8 question. "The draft revised Section 8 renewal policy guide including Chapter 16, regarding old regs, state housing projects – what is the status of this draft policy?"

John Hall: The guide was put out, as most of you probably know, earlier in the year. It was reviewed. We received many pages of comments. We are looking, considering those comments.

Chapter 16, which addresses the issue that you mentioned in the question about prepayment of old contracts that were signed housing finance agencies, we expect that that chapter will be in the final guide. We look for it to come out, we are hoping, by very early in January.

Leslie Leitch: And we have one last question, the 223(f) loan. "Can proceeds from a 223(f) loan be used to fund delinquent property taxes?"

John Hall: That may be another question for production as they originate and underwrite the 223(f). So if you can send me your question at john.hall@HUD.gov, I will run down the answer for you on that one. I have no idea what the answer is; I don't want to lead you astray.

Leslie Leitch: Well, good. I hope we challenged you all here at HUD. And thank you, everybody, for your time and participating today. Clearly you have some very complex questions, and as you can see, HUD really is going to guide you through this process. We hope that we've inspired you to know what a difference you really can make by keeping these properties affordable.

This is just the beginning. You can help design the next webinar and additional tools and resources by completing the feedback survey. You'll receive an email directing you to that survey. Please take a few minutes to answer the 10 questions.

Thank you for your time today and we will see you again soon.

(END)