Public Housing Repositioning: Wednesday Webinar Series
Faircloth-to-RAD Development, 9-20-23

Antonella Salmeron: Hello. Good afternoon. Thank you for joining today's installment of the Wednesday webinar Series. Today's topic is "Faircloth-to-RAD Development." My name is Antonella Salmeron, and I am the host for today. Before I pass it to our presenters, I have a few housekeeping items.

Our speakers will share their knowledge with us for the first part of the presentation and we'll reserve the remaining time for any questions that you might have. Today we're requesting that you add your questions to the Q&A function on Zoom. I will read your questions allowed in the order received at the very end of the presentation.

And if we are unable to address all of the questions, we'll send an email reply after the webinar. Also, feel free to use the chat if you have any technical issues with the platform today. Today's webinar is being recorded and will be available on HUD Exchange shortly following the webinar.

The slides will also be available on HUD Exchange after the webinar. Immediately following the webinar, you will receive an invitation to complete a survey on today's webinar and we ask that you please complete this with any feedback that you might have for us. With that I'll pass it over to Will.

Will Lavy: Good afternoon, everyone. Hope everyone is well. Thank you for joining us for this webinar on Faircloth-to-RAD development, which we're particularly excited to update, given some recent changes made through the RAD supplemental notice published a few weeks ago. Let's get started.

So just a reminder there's a -- quite a number of really helpful webinars that HUDs published through this series. They're all available online on HUD Exchange. You'll see a quick listing of them up top. And of course, HUD will continue to develop new webinars based on needs. So please let us know if there are topic areas that you think will be useful for us to cover.

Today I will be kicking off the presentation. My name's Will Lavy. I work in the Office of Recapitalization that administers the analysis and demonstration as well as other programs. I'll also be joined by my colleague Stacy Harrison, who's one of our leaders in the Faircloth-to-RAD world as well as our colleague Nick Burk in the Office of Public Housing Investments, who is among our great partners in the Faircloth-to-RAD effort.

So, the goal of this webinar is to introduce the concept of Faircloth-to-RAD. We'll start at the beginning and how housing authorities can use it to build and preserve deeply affordable housing in their communities. This is a really great opportunity to actually expand the deeply affordable housing footprint in this country. We're going to provide an overview of the Faircloth-to-RAD development process and highlight even a few examples of how PHAs are using Faircloth.

So, HUD rolled out the Faircloth-to-RAD about two years ago by essentially merging two processes, the RAD development process and the mixed finance -- or the RAD conversion process and mix finance development.

And it was primarily done just by working together within HUD to figure out how to layer these two things on top of one another. So, a really neat innovation that we hope to continue to build on and we're really excited about the response from housing authorities eager to expand their affordable housing footprint.

Starting with some background, what is Faircloth? So, we always use Faircloth as shorthand, but it was -- its origin story is when Congress was enacting QHWRA in 1998, the Quality Housing and Work Responsibility Act. So, Belinda and Nick Shop are doing the underwriting

There's amendments made by the recently departed Senator Lauch Faircloth of North Carolina, which capped the number of public housing units HUD could support. So, the number of units a PHA had at a certain date in 1999 -- October 1st, 1999. So, we've colloquially come to just refer to these as Faircloth units but that's the origin.

Any units a PHA demolishes or removes through Section 18, including those Section 18 units that are in a RAD Section 18 blend, remain in a PHAs Faircloth authority. So, they actually have the statutory authority to rebuild them as public housing or to rebuild those public housing units and replace them.

Any units converted to RAD are no longer counted as part of a PHAs Faircloth authority. It's permanently reduced. And we get this question a lot. PHAs Faircloth authority is retained even if a PHA no longer has any public housing units.

So, there's about two or three hundred housing authorities across the country who, through various efforts, whether through Section 18 or other reasons, no longer have any public housing units but they might still actually have a Faircloth authority. So as long as they haven't closed out of their public housing program, actually terminated the public housing ECC, they still retain their Faircloth authority.

Anybody can look up how many Faircloth units a PHA has. HUD updates this about once a year. It's on the Office of Capital Improvements website. We'll share these slides afterwards so you can click the live links. And you can look up how many available Faircloth units a housing authority has.

A few other notes. If a PHA has used one of the tools that requires it to close out, so in the last few years HUDs rolled out programs like Streamline Voluntary Conversion, a Section 18 option for PHAs 50 and under, small PHA, RAD and Section 18 blends, all of these say, if you use these tools, you are committing to closing out your public housing program.

HUDs recently determined that even if the PHAs used one of those tools, the PHA may still develop their remaining Faircloth units through Faircloth-to-RAD prior to closing out their public housing program. That is part of the close out of the public housing program.

However, again as I noted, if you've already closed out your public housing program, which quite a few agencies have done, but if that's happened, and you've terminated the public housing annual contributions contract, a PHA no longer has the ability to replace those Faircloth units.

And there on the screen is the number of Faircloth units, at least as of a few months ago. The number is probably a little bit higher now, actually, because there have been more Section 18 action since that have not been offset by new Faircloth development.

But if that's the -- here on the screen, over 249,878 units that if housing authorities build under the public housing process, HUD will fund. So, this is a -- HUD will fund, will turn on operating fund and capital fund subsidy for them.

So, this is a tremendous opportunity to actually create new affordable housing. Of course, a big challenge is actually developing the financing to put that together. And that's why Faircloth-to-RAD was developed, to -- by merging the mixed finance development process and the RAD conversion.

Confirmation that once built, the property can be converted to a Section 8 contract that at least helps to arrange some of the financing needed to get the property built in the first place. So that is the basic premise of Faircloth-to-RAD. And with that I'll turn to my colleague Stacy Harrison to provide an overview of the Faircloth-to-RAD process.

Stacy Harrison: Thank you, Will. Excuse me. So, let's start just with a general overview of the Faircloth-to-RAD process from start to end. Next slide.

So, we like to think of this process as having three major parts. First, is the pre-development phase. This is when the PHA is putting their project plans together. A PHA begins with a NARR request through the RAD resource desk and then when plans have fully taken shape, the PHA submits a mixed finance development proposal to the Office of Public Housing Investments, or OPHI.

After their review, OPHI will issue the mixed finance approval letter and shortly thereafter the Office of Recap issues a RAD conversion conditional approval, or RCCA. Next the project enters the construction phase.

This is the longest phase of the whole process where the project is being built or rehabbed over several months. HUD is generally hands off during this time, but the Office of Recap will check in periodically on the progress of the construction work.

Then at about 60 days prior to completion, we will invite the PHA to a construction completion meeting over TEAMS to encourage the PHA to prepare documents that will be needed for the actual DOFA date, and the RAD closing and will answer any questions the PHA has about the RAD closing process. Finalizing the actual DOFA date in the PIC system is handled by the PIH field office and that's our cue to know that the project is ready for conversion.

So, when the field office has entered the actual DOFA date and PIC the Office of Recap will quickly issue the RAD CHAP and the RAD conversion commitment almost simultaneously so the PHA can proceed to an efficient closing. Upon closing, the RAD PBV or PBRA HAP contract and the RAD use agreement are in effect. Next slide.

Let's now get into the details of that process and all those steps. We'll start with requesting the Notice of Anticipated RAD Rents, or the NARR. So, the NARR will reserve the proposed Faircloth-to-RAD units under the RAD cap. It provides RAD contract rents the PHA can then use to secure sources of financing that lenders can rely on for underwriting purposes.

PHAs can request the NARR through the RAD resource desk. When you log in, you'll go to action items and then select Faircloth conversion reservation. And requesting a NARR does not commit you to pursuing the project. You can request a NARR just to test the feasibility of a project and it doesn't expire.

RAD rents for Faircloth units are initially based on the operating fund and capital fund levels for new units. And these rents are locked in so they're not subject to continued uncertainty or funding fluctuations in public housing cap and OpFund appropriations.

So, a few things the resource desk will prompt you to provide when requesting the NARR. The Property Expense Level estimator, or the PEL estimator, is a short one-page form that assists HUD with the operating fund portion of the rent calculation.

Within that form, and as well as a few form fields right on the resource desk, we need some property specifics, which can be assumptions based on your project plans at that time and may change.

So we're looking for project specific data that includes items such as unit configuration, unit count, the property zip code, PIC number for a comparable project, whether it's in the PHAs portfolio or if the PHA doesn't have a public housing portfolio or the projects in the portfolio really are not comparable to the project their proposing under the Faircloth-to-RAD conversion, we will accept a PIC number if you have a neighboring PHA with a property that would be more suitable.

We also like to know the date of the expected next finance development submission that just generally gives us a sense for your timing. And next slide.

So, this slide pertains to projects where the PHA is contemplating Faircloth-to-RAD for existing projects that are currently occupied. The RAD supplemental notice prescribes resident notice and meeting requirements for occupied projects but for now I just want to focus and highlight the resident meeting and notice requirements for requesting the NARR.

In these scenarios, the RIN will always be required for existing occupied projects. The RIN stands for Resident Information Notice. This is a standard RAD resident notice that informs residents of their rights under the RAD program, the nature of project plans, whether any relocation is anticipated, any description of resident meetings to be held.

The GIN, General Information Notice, is sometimes required and in scenarios where the project will involve acquisition or substantial rehab or demolition, this notice would provide a description of the project and activities planned and any relocation assistance that may be available.

So, they sound similar but there's distinct requirements for each one and our RAD notice revision 4 provides more detail on the content of those notices if that applies to your particular project. And so, for PHAs with prior RAD conversion experience, you'll find that the sequencing and timing of RAD engagement activities is a familiar process as the project goes through HUD review and approval.

So come back to this slide as reference but for now, I just wanted to call your attention to the resident notice and two meeting requirements that have to occur prior to a NARR request for projects that are existing, occupied buildings. Next slide please.

Okay. Faircloth-to-RAD rent flexibility. So, Faircloth-to-RAD rents tend to be about 10 to 20 percent lower than regular RAD rents. And this is due to the low capital fund portion of rent, given the anticipated DOFA date for the new project.

So regular RAD projects have a higher capital fund subsidy amount because of the property age and condition. Since the implementation of Faircloth-to-RAD MTW agencies have had the flexibility to augment Faircloth-to-RAD rents with MTW funds.

And now, with the publication of the RAD supplemental notice, non MTW agencies can augment Faircloth-to-RAD rents for PBV conversions using existing voucher reserves under certain circumstances.

The supplemental also allows PHAs to use the opportunities on rent boost for PBRA Faircloth-to-RAD transactions where the project is located in an opportunity zone and other rent flexibilities under RAD including rent bundling, RHF and DDTF rent offset are now options. Next slide.

So as an illustration this slide shows the typically low Faircloth-to-RAD rent on the left with the estimated cap in OpFund subsidy of $350 plus the tenant rent of $318 for a total of $668, which is well below the maximum initial contract rent, or the dotted line at that top that's 110 percent of FMR. So, you can see in the column on the right the PHA can use $380 from their voucher reserves to make up the difference in order to make this project financially feasible. Next slide.

And to further illustrate the benefits of using Faircloth-to-RAD the new column that appeared on the far right shows that without the new HAP subsidy generated by the use of the Faircloth-to-RAD or that $350 in the red box, the PHA would otherwise be using $738 from existing voucher authority or reserves to bring a new project online. Next slide.

So, when augmenting rents for non MTW agencies, there are two conditions which must be met in order for a project to be eligible. First, the project may be subject to a limitation on the number of Faircloth-to-RAD units in the project receiving the rent boost.

So, this limitation mirrors income mixing requirements typically seen in regular PBV housing as shown under number one in items A and B. However, the project is exempt from this limitation if the units are exclusively available to the elderly or people who are eligible for supportive services or youth receiving family unification assistance.

Note that being eligible for supportive services is as defined by the PHA. A few examples of these services would include meal services, housekeeping aide, transportation services, health related services, childcare, education or employment services.

The notice does not require that families be receiving these services but only that they need to be eligible. To demonstrate eligibility under this criteria, the PHA will certify on the resource desk when requesting the NARR or the rent augmentation.

Second, on the right, the condition that has to be met here is respect to local rental vacancy rates or localities with high small area FMRs. And recap is working on automating the eligibility check for this condition on the resource desk, which should be available in the next couple of weeks.

But just as background, HUD has market at-a-glance reports available on HUDuser.gov that are publicly available, and anybody can review. You can pull an MSA report that will show American community service data from the census bureau that reflects local vacancy rates for the last three years of available data.

Currently the data for years that we have is for 2019 through 2021. And we're expecting that data for 2022 will be available by the end of this calendar year. So, if you go and look at that you'll see that the most recent data is going back to 2021. However, due to fluctuations, local markets, if the vacancy rate for any of those three years is less than four percent, then the property will meet this criteria.

Alternatively, if the small area FMR as compared to the metro FMR -- this comparison's a bit more straightforward and if the property meets this second condition, they'll be eligible for the rent augmentation. This is also an eligibility check that we're building into the RAD resource desk to be automatic.

However, if neither of these two conditions can be met based on the data we have available, then the PHA can submit an independent analysis showing the rental vacancy area is less than four percent. We'll also accept a market study that a PHA has already obtained for either low-income housing tax credits or other financing application that the project has.

In the meantime, while we're finalizing those resource desk update, PHAs can reach out to the recap office directly if you want to check eligibility for non MTW rent augmentation using HAP reserves. Next slide.

Budgeting for rent augmentation. So, HUD will provide new incremental voucher funding for the first full encounter year following conversion using the base NARR rents before any rent augmentation amount is applied.

So, this means that the first year after RAD conversion, when a property is complete, the PHA will receive new HCV funding only for the base NARR rent. The PHA will use HAP reserves to cover the rent augmentation for that 12-month period.

Depending on whether a PHA is an MTW or a non MTW agency will determine how you should budget for that rent augmentation. So, for the 39 original MTW agencies, the augmentation of Faircloth-to-RAD rents must be budgeted for in the annual MTW funding or reserves.

And for MTW expansion agencies or non MTW agencies, you'll need to withhold voucher funding to fund the augmentation only in the first full year after conversion. Beginning that second year -- full year after conversion, the full contract amount, including the rent augmentation, it will be picked up in the HAP renewal baseline.

So, in other words, legacy MTW agencies, the new and renewed funding around every year after a Faircloth-to-RAD project comes online, will only be increased by the amount of the new HAP subsidy from the NARR base rents.

For non MTW agencies and expansion agencies, funding is renewed based on expenditures. So, the HAP reserves in year one, after conversion, get picked up in renewal funding in addition to the base NARR rents. Next slide.

So, a few notes on the MTW program requirement that agencies must continue to assist substantially the same total number of families as would have been absent the MTW designation. When using the MTW funds to augment rents, a subsidy layering review will be conducted as part of the mix finance development proposal review.

And there are a couple of considerations to make with respect to STS. For original MTW agencies, Faircloth-to-RAD units are added to your baseline or the denominator in that calculation.

When we conducted an analysis with the MTW office, we found that this could result in a slight reduction in the STS percentage over time but did not expect to have a significant impact that would be detrimental to the PAGs compliance with STS requirements.

So, if you have concerns, we encourage you to discuss this with your MTW coordinator just to confirm that there are no issues. For expansion MTW agencies, the STS methodology includes other factors such as inflation and HCV capacity and the target calculation and assessment that are likely to have less of an impact on the STS compliance. But it's always a good idea to check with your MTW coordinator if you have any questions or concerns on that topic. Next slide.

Augmenting rents. So, while the HAP reserve rent augmentation is only available for PBV conversions, the Faircloth-to-RAD projects that are converting to PBRA can take advantage of the RAD opportunities on rent boost that is up to $100 per unit per month.

So, this is an existing rent flexibility in section 1.7 of the RAD notice. You can also visit opportunityzones@HUD.gov. Excuse me, opportunityzones.HUD.gov for more information. And as I mentioned earlier, rent flexibilities that were pre-existing, they're also now available to Faircloth-to-RAD conversions include trading in future RHF or DETF to offset rent increases and rent bundling. Next slide.

So just to recap, you can request the NARR on the RAD resource desk. We're very close to updating the application page to validate project eligibility criteria for the rent augmentation for non MTW agencies.

Once we receive a NARR request that has all the information we need, we coordinate with OPHI to generate the cap and OpFund estimates needed for the RAD rents. It's usually a couple weeks before we have those back and can communicate the NARR rents to the PHA. Then at that time, you can request HUD include any desired rent augmentation up to the 110 percent of FMR with it in the NARR that we would then route for signature.

So, at this time I'm going to hand it over to Nick Burk our colleague in OPHI. He's going to talk about the mix finance development proposal process.

Antonella Salmeron: Nick, I'm just letting you know that we cannot hear you yet. Nick, it seems like we're continuing to have some technical issues with your audio. It's not coming through.

Belinda Bly: All right. So maybe -- do you want me to go through some of the slides until Nick can come on?

Antonella Salmeron: Yes, please. Thank you, Belinda.

Belinda Bly: Okay. All right. So, we're going to talk about submitting the mixed finance development proposal. Next slide, please.

Okay, as you know, on the mixed finance website there's the HUD form 50157, which is the actual development proposal. And there's a couple things that we need. We need to make sure that it is marked that you're going to do a Faircloth-to-RAD.

And you need to tell us whether or not you're going to go RAD PBV or RAD PBRA. The ownership and control documentation needs to match and meet the requirements for the RAD program.

And the replacement reserve has to either be based on a 20-year capital means assessment or the 450 units per unit per year calculation. And I will tell you that most of the proposals we see go ahead and use that floor amount of 450 per unit per year as their minimum.

And in throughout the mix finance development proposal, in place of the operating subsidy methodology section where you would normally put in what your operating contribution would be, in this place is where you would use the NARR and we also need a legal opinion for your pilot, which is to know if payment into those taxes is going to be permitted for this project. So next slide.

Okay. And so, in our workbook, our office will also review the subsidy layering requirement and that will be looking at the debt coverage ration of cash flow. We'll be looking at how that relates over a 15-year period. And that's based on actually firm committed financing documents. Pretty standard. And we follow the requirements that are published in the federal register for subsidy layering review. Next slide.

Okay. So, let's go through the whole process. So first the housing authority needs to submit the NARR request through the RAD recourse desk. That then comes over to both -- it notifies both our office and the recap office. There's usually a preliminary call with -- that includes both the PHA and recap and the OUR grant manager.

After that call the housing authority -- hopefully after you've, kind of, explored some of your financing options, right, you'll prepare the development proposal and development calculator on specifically for Faircloth-to-RAD. Submit them to our office for review.

So, the grant manager of HUD then would review the development proposal and present it to the mix finance panel. The things that we want to really call out that you need to make sure that you also coordinate on a parallel track it that the HUD field office has to conduct a local site and neighborhood standards review.

So that review is typically submitted to the PIH director who then submits it over to whoever their local FHEO office is that services that field office. We want to call out that UFAS accessibility is specifically called out in the mixed finance RAD. So, make sure that your plans and specs have to come in for a review in our office to make sure that they're in compliance.

And, of course, your environmental reviews have to be done. HUD then will review and approve the development proposal once all the components and the evidentiary documents have been reviewed. HUD OGC also reviews those evidentiary documents. HUD field council will look at title and survey. And the field office approves management documents.

Because this is Faircloth-to-RAD, we recommend that you really just use our model documents and don't make any heroic, crazy writers that are going to elongate your review time in OGC because at the conversion all of these documents would be extinguished.

However, to meet the requirement that it is, in fact, the public housing unit that's eligible to convert, we have to still go through this exercise. So, HUD will approve the PHAs development proposal through a letter. We also provide the Office of Recap with a certification memo and a copy of the approval letter.

They then issue what's called an RCCA and the PHA partners can move forward to close and execute all their evidentiary documents. So once the PHA submits and HUD approves the final executed evidentiary documents, which is the Office of Revitalization, HUD can then release any public housing funds that the PHA may need to construct its project. Next slide.

Okay. So, this is just another list here. So, all public housing requirements remain the same and this is so that no projects receive more public funding than necessary. You have to comply, again, with site neighborhood standards, accessibility and, again, I want to call out that the mixed finance reg. does specifically include the standard of UFAS.

RAD's -- all of the RAD conversion requirements for ownership and other items are already being contemplated. The subsidy layering review and the operating perform is based on the NARR.

The -- again, here's the ownership requirements. The new construction or LIHTC -- the replacement reserve has to be at the floor level unless there's some other methodology that you want to use but that's based on a capital needs assessment. So, as I said, for most projects we see that they just go ahead and use the $450 per unit.

And the PHA has to make a simultaneous submissions both to the RAD recourse desk and to our office. And so, it's -- I know it's a little bit cumbersome. It sort of seems like that we have -- we thought we were still being very innovative in layering two programs together in order to help put more affordable units on the market. Next slide.

Okay. Is this also us? Okay. So MTW agencies and Faircloth-to-RAD. So MTW agencies can apply many of their flexibilities in a RAD conversion. When we're reviewing the development proposal, we would often ask that MTW agency to, kind of like, point to the activity that's been approved, the mirror MTW plan that would support any variation to the development process, if they want a [inaudible].

MTW agencies can also apply activities that would impact their project voucher program and that are approved withing their MTW agreement provided that they don't conflict with any of the future RAD requirements. There can be augmentation of Faircloth-to-RAD rents. They have to be accounted for each year either by drawing down reserves or through controlled placing.

And the substantially -- the same -- meeting the same requirements need to be met on the baseline still. Okay. And Will, do you have anything else you'd like to add?

Will Lavy: No, I think this just a helpful recap of some of the items Stacy walked through earlier. So, thank you so much for covering.

Belinda Bly: Yeah. Okay.

Will Lavy: And Nick, hope you come back to us soon.

Belinda Bly: Yeah.

Will Lavy: So, I'll pick back up now to say so, at the same time you're submitting the bulk of the transaction -- the development transaction through the mix finance development proposal, and you're making the simultaneous submission to on the RAD side, but on the RAD side it's a pretty light lift.

So, it's not duplicative simultaneous underwriting. Instead on the RAD side, we just need some basic information to make sure we can check off some of the RAD programmatic compliance matters.

So, the conversion overview that's submitted with every financing plan, the certification of board approval of the RAD conversion, the PHA plan amendments, this is less common but for MTW agencies that haven't yet amended their attachment A of their MTW agreement that part is handheld.

I think that's only applicable to the original MTW agencies. And then a title report. So, it's a pretty -- it's a significantly slimmed down financing plan because most of the things that you would normally give in for a RAD conversion are provided in the mix finance development proposal.

So, Belinda and Nick's shop are doing the underwriting with development. And from our point of view -- from the RAD conversion point of view, we're essentially treating it as a straight conversion. We are anticipating it being a simple conversion of a recently build property even though we're doing this review up front before it gets built. So that allows -- that's what allows this submission to be quite simple.

So, then we -- moving on to the construction, completion and closing steps. So fundamental constraint or premise we have in Faircloth-to-RAD conversions is that a property's only eligible to be converted as soon as the property is actually public housing.

It's public housing when it reaches its Date of Funding Availability, or DOFA. The DOFAs achieve when it has a certification of occupancy as a 95 percent of the units. So, once you've closed on the mix finance development on a proposal and you've gotten the RAD conversion conditional approval from us, go into construction and you actually come back to us when the property is built.

When -- as soon as the property is eligible for to get its DOFA you work with the field office to get the property into PIC and as soon as it's there we can get rolling on all of the RAD steps. So, if you are trying to convert as quickly as possible, you make sure -- you can make sure things are teed up actually before you get DOFA.

As construction is winding down, you can A, update any financing plan materials. Right. If you need to modify some of the sources and uses to update closing transaction costs or something like that, you could do so there. You could also begin to prepare and upload closing documents, if you want, such that as soon as you hit DOFA, the property hits DOFA, we can get to conversion. We can actually convert it over to a Section 8 contract.

One of the things we're often asked is how to handle leasing once the property is built. Of course, a lot of PTAs have two motivations. One is to convert as quickly as possible to get over to Section 8 contract because that was the intent and that's how lenders and investors understood the transaction.

But also, you need to lease up the property to attach tax credit requirements or other local requirements. So many PHAs try to complete the conversion before they start leasing. Sometimes that's just not possible.

But the RAD supplemental notice provided additional direction on the resident notification and engagement requirements in either scenario. So, if tenants are admitted to the property after the RAD conversion, once it's already under a Section 8 contract, there's no specific RAD notification requirements. You are simply admitting families into the Section 8 property with all the rights and protections built into a RAD Section 8 contract.

If on the other hand, you need to admit residents to the property prior to the conversion, so after -- let's say we've issued the RCC as soon as you hit DOFA but it still takes three, four months before you are able to close on the RAD conversion, then you spell out what the PHA is supposed to provide to the residents, how to engage with the residents before executing the lease.

So, PTAs are to provide a RIN, a RADD Information Notice to residents to let them know, okay, we're being admitted as public housing, but this property is slated for conversion, to provide written explanation of the leasing and occupancy changes that will occur after move in -- this whole thing from the RAD conversion.

In many cases there might be none. That can certainly be arranged. But sometimes there will be. And as part of the leasing process, you meet with each resident to discuss the conversion, explain written materials and provide residents an opportunity to ask questions.

In most cases this can just be built into the actual leasing process that those are happening at the same time. As you are meeting with the residents to sign the lease, you're also explaining the RAD conversion process and material you're using at that time.

An important note -- switching gears to a funding side. So, one of the most perplexing challenges with Faircloth-to-RAD conversions is funding in the year the property converts. So as folks are familiar with RAD know, in the year of conversion, RAD projects are funded from -- they continue to be funded from public housing operating in capital funds in that year plus the tenant rents that they collect.

So that's a normal RAD conversion. We've been doing that ever since the beginning of RAD. And the Section 8 funds start to kick in and the first full year after conversion. In Faircloth-to-RAD or any Faircloth development public housing subsidies don't kick in immediately.

So, for example, the capital fund -- under the capital fund, the new property doesn't receive capital allocation that year. The PTA doesn't receive capital funds for a new property that year. They don't receive it until the following year. And under the operating fund, depends on what time of year the property comes online.

Generally speaking, if a property comes online within the first half of the year, the PHA can submit a new project submission by the deadline that's established in the operating fund processing notice. But if it's submitted after that deadline, the PTA might go without an operating fund subsidy for that property that year.

So unfortunately, at this time we don't have a clean solution to that. It's hard for us to time exactly when construction will be completed and when a property will hit DOFA. If it happens to happen earlier in the year, property can rely on operating funds and tenant rents and maybe that's adequate.

If it happens late enough in the year, November, December, perhaps it's a very small, short period of time to go without funding. But what we encourage folks to do is to make sure they're building into the budget an initial operating deficit reserve or something of the kind to get -- make sure there's enough in the tank for the property to operate during this period.

And of course, that's just temporary. Beginning January 1 of the year after conversion, HUD provides new funding either to the PHA for PBV conversions or directly on the contract for PBRA conversions to fund the Section 8 contract [inaudible].

Okay. So, some key considerations. Of course, the most basic is how are you going to make the project pencil out. Faircloth-to-RAD is not necessarily going to work for everybody. Right. You still have to figure out how to raise the capital to get the property built. So that's obviously the most critical item.

And then figuring out what's your development capacity to deliver the property? What will you need to partner to bring on capacity if you do so? And then some implementation items on what's your -- what's the timing for completing construction and occupying units?

Are you able to structure it so the units will be leased up as Section 8 or will residents for initial need to be admitted as public housing residents? And then, as I just mentioned, covering any operating deficit in that year of conversion. Some of the key things we're seeing so far.

Before we go to questions, just want to highlight one example. We have a number of great examples of really wonderful properties that have been and are being built through Faircloth-to-RAD. We'll walk through one neat example in Gainesville, Georgia.

Notably not an MTW agency that's been able to use Faircloth-to-RAD affectively. A property called Walton Harbor. So, for background Gainesville is a small town, just over 42,000. Medium income in the area is about $54,000 for families. According to our recent data, 40 percent of renters in the city are cost burdened and more than 20 percent are severely cost burdened.

Years ago, Gainesville previously demolished an aging public housing development through Section 18 and have come back and figured out how to -- through a tax credit award to build a next income community and once Faircloth-to-RAD became an option they quickly switched gears a little bit to incorporate Faircloth-to-RAD.

The result is they're building -- or they've built already phase one of an 81-unit rental property where 13 of the units are deeply assisted through Faircloth-to-RAD and the rest are low-income housing cash credit income restricted.

They used state and federal tax credits, a loan -- a soft loan from the PHA, from capital funds, private loans. Built this really beautiful property. They're just -- they're very close to closing on phase two, which is also Faircloth-to-RAD, with a similar income mix of about 81 units and partially deeply assisted through the Faircloth-to-RAD assistance.

Right now, this is one of over -- or exactly 4,359 units currently in the pipeline for Faircloth-to-RAD. They're in various stages of this pipeline. So, billing the firm right to left, you've got five properties who have -- are closing their permanent financing and have converted or are about to convert. Two in Gainesville. One in Baltimore and two in Miami.

We've got 16 properties that are in the middle of their construction period or properties being built and are -- some of these are just broke ground. Some of them are really close to being done. We've got seven properties where the mix finance development proposals have been submitted to Belinda and Nick in the Office of Urban Revitalization and are under review.

Then we have 53 properties where PHAs have requested or have been issued the notice of anticipated rents. So, the beginning of a process. And not all those are going to pan out, right. The PHA has requested the NARR to see what the rents are -- what the RAD rents would be and to see if they could make it work.

Given the constraints with the RAD rents, some of them may not work. We're hoping some of the flexibilities that we rolled out in the RAD supplemental notice for non MTW agencies, in particular will help more of those get to the finish line and expand affordable housing.

Before we turn to questions, just say we've got some great resources available online. There's a really strong Faircloth-to-RAD guide, which is about to be updated to incorporate some of the supplemental notice changes as well as some other learnings we've gained over the last couple of years. The mix finance development process and rules are all available on HUDs website. Folks, similarly, the RAD rules are available on our website.

And one thing we're excited about -- we're working on how exactly to deploy. We're hoping to stand up some group learning sessions for PHAs to come together with us and with our technical assistance provider to work through issues together because we've got a number of PHAs who have gone through the process and are in various stages of the process or thinking really creatively about how to get these deals through.

And sometimes they've got even better answers than we do. So, look out for that soon. We're hopeful some will participate. We think we're going to be really valuable. And appears our generic email address is, you of course, know our names too. Reach out to Stacy. Reach out to Belinda and Nick in particular for questions or if you have issues coming up. They're amazing to work with as many of you have already learned.

Okay. And that's the end of our presentation. Antonella, let's go to questions.

Antonella Salmeron: Great. Thank you, Will. We do have a lot of questions. We're so excited to have such an active Q&A. Thank you everyone. I'm going to try to go through this in the order that they were received but trying to connect them together where appropriate. So why don't we start with the very first one. Can Faircloth authority be transferred between public housing authorities?

Will Lavy: Okay. Thanks. I'll take that for now. Which is we haven't figured out a clean way to do that. What we know for now is that PHAs can -- a PHA can consolidate with another PHA in total not just Faircloth. It can actually be absorbed into another PHA.

And when that happens the Faircloth units transfer as well. We have not yet worked out a way for just Faircloth authority itself to be transferred. Not sure if we can get there yet, either. Don't want to raise expectations but it continues to be one of the things on our list to see if we can come up with a way to do.

Antonella Salmeron: Great. Thank you. Matt has asked could you better define fund, additional resources for development. What about funding like vouchers? Are the vouchers or RAD funding for a period or do they subset?

Will Lavy: Sure. So, when a new property is built through Faircloth-to-RAD, HUD provides new funding for PBV conversion. HUD provides new funding to the PHAs voucher account that's a permanent new allocation. So as the PHA spends those funds they become eligible for renewal and those units are permanently added to the PHAs voucher agency. So, it's a new increment of analysis and funds that are provided.

Antonella Salmeron: All right. Thank you. I'm going to move on to some of the shorter questions and hopefully our other panelists have some time to look over at the longer questions that are presented more of like a case scenario, so we can provide more tailored answers to those.

So, for now, I'm going to move on to the question presented by Brody Heffner. Does the NARR generally serve the same purpose as the initial [inaudible] issued by HUD recap in other types of RAD projects?

Will Lavy: Sure. Stacy, you want to take that one.

Stacy Harrison: Yeah. Excuse me. Sure. So yeah, that is the intent. So, when you have the NARR you have what the rent schedule is for the unit make up at the property. So that's what PHAs can use to leverage other sources of financing for the project.

Antonella Salmeron: Great. Thank you. And then we have Jennifer Hall shares that the RAD recourse desk requires CHAP to select either reserve RAD units for Faircloth units or partner with other PHAs. Why do they want to do both on the same projects?

Stacy Harrison: All right. Oh, I think I can take this one, too. So, selecting and partnering with a PHA is a hold over from the process that existed previous to the publication of the RAD supplemental notice. So, prior to the supplemental notice PHAs had to either have a portfolio award or they had to partner with a PHA that has a portfolio award as a way to reserve units under the RAD cap.

So now we don't have to go through that requirement. So that is one of the updates that we're working on that will be rolled out. So, you might have seen this in a previous conversion, but it no longer actually applies. You don't have to partner with a PHA to reserve any units under Faircloth-to-RAD even if you don't have a portfolio award. It can be a stand-alone application.

Antonella Salmeron: Great. We have another question and some more coming in. If a non MTW agency is on SAFMRs, can they use the payment standard and the zip code as a limit for the number to bump up to or can they still only go by 110 percent of the FMR?

Will Lavy: So, for agencies that -- so, this is referencing to the maximum amount you can augment the RAD -- the rents.

Antonella Salmeron: Yeah.

Will Lavy: Up to the project-based voucher program caps. So, for PHAs that are required to use small area FMRs, my understanding is that requirement applies to their base voucher program. If they want to use small area FMRs for their project-based voucher program, they can opt into that. It can't be a project specific decision, though. So, they might use the small area FMRs for their entire project-based voucher program in which case that would be the applicable cap.

Antonella Salmeron: Oh, sorry. My audio was quitting there. One second. So related to that, at MF proposal time PBV or PBR decision is requested. Can this be changed later in the process?

Will Lavy: Stacy?

Stacy Harrison: It can. The only think to be careful about there is for PDRA conversions, I think HUD does the part 50 environmental review or Part 58. So, if it changes there may be some implications with respect to the environmental review and making sure that it was done in compliance with RAD conversion requirements.

So, it could change some steps we'd have to take between the RCCA and the CHAP issue and in RCC but that's not to say you couldn't change if you felt that it was more advantageous to switch from your initial selection.

Will Lavy: Ideally, you probably want to pin that down by the time you make the mix finance development proposal / the initial RAD financing plans submission. That would be cleanest.

Antonella Salmeron: Great. And we have a broader question here asking if you can go through the HUD process and public housing authority should use in selecting to go RAD PBV or RAD PBRA and maybe you want to provide a brief overview. We have a couple webinars on that. So, I'm also going to copy those links as an answer to that question but while I do that could you please provide a brief overview of that process?

Will Lavy: Sure. I can start and if other folks have anything to add. Franny RAD conversion even outside of Faircloth-to-RAD, this is a big decision by a housing authority to think about whether to convert to project-based vouchers or to project based rental assistance.

The primary difference being project-based vouchers are administered by the housing authority voucher program with those responsibilities of administering the contract but also -- and also the admin fees. Whereas RAD project based rental assistance contract is administered by HUD.

For the most part in virtually all cases a PHA chooses one and used that whole approach for their entire portfolio for administrative needs. They might be learning new program rules and don't want to learn multiple new program rules. So, we -- or most PHAs that have done Faircloth-to-RAD, so far, they are participating.

They're using whatever choice they've made within the RAD conversion process. Of course, with the rent flexibilities now provided in Faircloth-to-RAD, that might end up driving the decision. Right. If the only way you can build a property is by augmenting the rents with HAP reserves and that's the agency's policy priority, you might still use RAD project-based vouchers even though the agency might have used a PBRA in other RAD conversions.

Antonella Salmeron: Since you mentioned rent augmentation, we do have a question asking if subsequent years get funded at the augmented subsidy levels by the PIH.

Will Lavy: Go ahead Stacy. Go ahead.

Stacy Harrison: Depends on whether or not you're a MTW agency or -- and if you are, whether or not you're one of the original 39 or an expansion MTW agency. So, for MTW agency's they're part of the original 39, the subsequent years will get funded only at the base NARR rents.

But if -- and if you're augmenting RAD rents with the MTW funds, you need to make sure that you have adequate funds in that annual MTW fund to continue augmenting the rents for years one through 20.

For non MTW agencies and expansion agencies, the subsequent years after year one, so starting in year two, the entire contract including the augmented subsidy that the PHA used from HAP reserves in year one, that get picked up in their baseline for renewal. So, they get funded at augmented levels in years two and beyond.

Antonella Salmeron: Great. Thank you, Stacy. Actually, one of the questions that we had below was getting at if a non MTW PHA is augmenting rent, does the difference definitely have to be fundable out of their HAP reserves or could they fund that money from some other source? Could you clarify that?

Stacy Harrison: Will do you want to?

Will Lavy: Yeah. So, I'm going to just read this question really quickly.

Antonella Salmeron: Received at 2:02 p.m.

Will Lavy: Yeah. So, thank you Antonella. Yeah, so, the initial year or the first 12 months, it would come from the PHAs HAP reserves. So that doesn't mean the PHA has to have HAP reserves available today because there's no HAP contract today. There's no payment due today.

But by the time the property gets built the PHA would need to accumulate with the reserves to pay for that augmented -- those augmented levels. And then like any other HAP funds that are expended, the ones recorded in the voucher management system, VMS, would be eligible for renewal in the subsequent year. So that's what you're budgeting for, just for the initial -- essentially the first 12 months of payments under the contract.

Antonella Salmeron: Okay. I'm going to move on to some of the earlier questions. We had a question. I'm guessing it's referring to public housing authorities. If they're not charged taxes at all, do they have to ask for a pilot? Their pilot is only $1 per unit per year but would rather pay $0 if allowed by HUD. And we received that question around 1:30 p.m. for record.

Stacy Harrison: Yeah. So, we just need the opinion from an attorney that says what your pilot or what you are -- your tax responsibility is. Some housing authorities have cooperation agreements with their local municipalities or their local areas.

But that -- depending on the area, it may or may not apply to a private owner of a mixed finance project. And so, we just need a legal opinion for that specific project or that specific jurisdiction about what applies. Nick, is your volume working? Do you need -- do I need to say anything else?

Nick Burk: No, I have nothing to add. That was -- yeah, thank you.

Antonella Salmeron: Okay. Thank you both. Moving on to another question. We've gotten this in some other webinars, too, but could any of the panelists answer does the PHA need to submit a site, a neighborhood standards review or analysis for HUD review?

Stacy Harrison: Will or Nick?

Belinda Bly: Yes. The answer is yes.

Will Lavy: And I believe you said that that goes to the HUD field office.

Belinda Bly: Yeah. So, it goes to the local PIH director in the local field office, and they coordinate with the FHEO office that services that field office.

Will Lavy: And Belinda, does that happen before they submit the mix finance development proposal to you or at simultaneous.

Belinda Bly: So, it depends on how long that jurisdiction -- so, we've got housing authorities that do each. Some of them submit it simultaneously. Some of them try to get it done ahead of time.

But either way, we can't issue our approval letter until -- of the project proposal until we have the memo back from the field office approving the site. I recommend doing it as early as possible. We're trying to work right now with FHEO to kind of nail down a process and kind of some framing for submission so that this is a more standardized review and that it doesn't vary so much between field offices. So hopefully that will come out in 2024.

Will Lavy: Thanks Belinda.

Antonella Salmeron: Okay. Thank you. Since we're on the topic of field offices, actually, there is a question about one of the slides we previously showed asking this [inaudible] that OPIH occupied reviews the project for you if UFAS accessibility that the slides said that the field office would conduct that review. Can you clarify that?

Belinda Bly: Yeah, you're -- I'm sorry. I must have missed that on the slide. No, that is correct. It is done by the Office of Public Housing Investments. We do do an architectural review and we now have three architects on staff. So -- our point was that we just wanted to make sure that public housing authorities, especially a lot of them who really just on RAD recently were aware that that was a requirement. So, we wanted to call it out.

Antonella Salmeron: Great. Thank you. So, we do have a lot of questions on non MTW agencies that before I group those together, I wanted to get to the question posted at 1:36 p.m. asking if can Faircloth-to-RAD be used in the acquisition of units the don't require reconstruction or rehab and how would that change a process of approval?

Stacy Harrison: So, I think that we are in the process of kind of working out what that would look like. The quickest and quote unquote easiest way to roll this out was to frame it initially around new construction.

We've recently completed -- or the Dover Housing Authority has recently completed a project that was an acquisition with substantial rehab. The question that we have to sort of -- that we're still teasing out, I think, in headquarters and we're working with our RAD partners is that we have to make sure that we are onboard high-quality asset that can be sustainable for at least 20 years. And anybody who wants to be a guinea pig to try that out we're happy to work with you.

Will, do you want to add anything?

Will Lavy: No, that -- I think that's right. And just to say there's a technical distinction, too, between what makes something quote unquote mix finance, which is within Belinda and Nick's purview and then development outside mix finance.

And just to clarify, mix finance really means anything that's not directly owned by the housing authority. Can be the housing authority's instrumentality or affiliate or whatever but or [inaudible] partnership but all of that comes under the purview of mix finance.

And indeed, we're grappling with all right, what's the appropriate review for property that falls there but that where the PHA is saying I've got a property -- or I can acquire this property and -- but I don't intend to do any rehab on that. Well, we obviously would want to make sure that the property doesn't need rehab before onboarding it.

Antonella Salmeron: Great. Thank you. So going back to the questions related to non MTW agencies you talked about the augmentation portion of the FDR rent paid from the agency's HAP reserve for the first year. I think we covered that.

But the two questions that I think we have not covered are is the agency's portion paid from HUD reserve funds only or is it taken from the total annual funding of the location to the agency for its Section 8 program? And similarly, just asking if the non MTW agencies will be able to use for amending an existent NARR with augmented rents?

Will Lavy: So, I can take the first one, which is the -- the short of it is that a PHA, yeah, needs to have eligible HAP funds to pay for the augmented piece of the rent, the piece that we aren't providing a new increment of funds for. So, we use the word HAP reserves, but if it's the current funding that -- this year's funding of -- voucher funds that the PHA has available, those work. That works as well.

And then I'm not sure I caught the second part of the question. Did somebody else and be able to answer or do we need to repeat it?

Stacy Lavy: Yeah. Can you repeat the second part?

Antonella Salmeron: Yeah. They're asking if we could elaborate on the process that non MTW agencies will need to use for amending an existing NARR with augmented rents.

Will Lavy: Got it. Stacy, you want to talk through that?

Stacy Harrison: If you have an existing NARR and you want to amend -- you want to augment the rents you can just contact us and let us know how much you want to augment them up to the 110 percent of FMR and we can issue a revision to the NARR, so you don't have to start a new request.

Antonella Salmeron: Great. Thank you. I did see another couple of questions related to NARRs so let me just jump to those. Actually, I think you just answered this one. So let me move on to a different topic. Can the PHA work with a private developer that will be the eventual owner and the PHA will only be the voucher administrator Faircloth-to-RAD development?

Will Lavy: So, the property -- because it will be a RAD conversion, the property will need to meet RAD's ownership and control requirements, which require a public or non-profit entity have an ownership or control stake in the property. And that can be met a number of different ways, but it can't simply be that there's a housing authority's administering the contract.

So, for example, in Philadelphia there -- I know they're working with a number of non-profit developers and that will satisfy the new app requirement. So, you can take a look at the RAD ownership and control requirements in the RAD notice to see the various ownership structures that would work.

Stacy Harrison: And I'll just add to that because I see another question that is similar along those lines. So even though the RAD ownership requirements apply when you're applying through the mix finance development process, the PHA doesn't have to be the sole owner and developer. So, the mix finance rules allows for different ownership entities, which are acceptable so long as it meets the RAD ownership requirements.

Antonella Salmeron: Great. Thank you. Since we're on the -- on that topic, I guess, we had a question just coming in asking if we could expand about the ownership requirements. I like the development generally has only small percentage owned by a non-profit or a PHA, would that be an issue?

Will Lavy: No, in most cases no, as long as a non-profit or the housing authority is a general partner or the managing member or there are other ways. Again, I don't have them all off the top of my head, but they're well-articulated in the RAD notice. And you can see the various ways a PHA or non-profit may not -- may have a small ownership stake in a property but has a substantial control stake. And that accommodates lots of tax benefits in areas.

Antonella Salmeron: Great. Since you just provided an example, there's also a request for an example to know how long to expect it to take from DOFA to RAD closing. In a non-Faircloth-to-RAD closings we see many months in between subsequent required DOFA. For example, take screen shot and RCC closing. Could you talk more about that process?

Will Lavy: Stacy, you want to talk a little bit through the process of DOFA to closing?

Stacy Harrison: Yeah. So, we have -- since we've only had a few properties close, we've had a couple PHAs that least up their building and then converted, so their closing timeline was a bit longer. But as long as the PHA is ready with closing documents as soon as the property achieves DOFA and we can issue the RCC, they go right into closing.

We can conduct our closing review and close within that same month. So, it really just depends on the PHAs intent and whether they want to close right away and delay their lease up until after the RAD conversion. We hear a lot of PHAs say that that is their preference so that they can just lease up as Section 8 and not have to move residents in as public housing residents.

And so, we have projects that are coming in line towards the end of this year that we anticipate will do exactly that. But as far as an average timeline for that window, we just don't have the pipeline to really give you an average and the one that we do -- the ones that we have, have just been situations where the PHA decided they needed to lease up prior to the RAD closing.

Antonella Salmeron: Great. Yeah. Actually, one of the attendees posed a question related to this. It says, if we need to lease units prior to RAD conversion and we provide appropriate notice as detail, are residents required to income qualify twice, at initial occupancy as PH and then after RAD conversion, or can they simply just sign the PBV lease documents? They're asking so they can meet the tax credit requirements and qualify for a full year lease.

Stacy Harrison: Yeah. And that is generally what we had seen with the closing so far. So, they -- you won't have to recertify residents. At the point in time which you complete the RAD conversion, they'll have to sign the Section 8 lease.

But a lot of times what we advise PHAs is if they're going to lease up before the RAD closing, when they do their move in consultation with the residents, you can communicate to them at that point in time what the conversion plans are and what to expect as far as the changes in their lease when the property does convert to Section 8 and that can be satisfied through that initial move in process.

So, it might -- it does allow the PHA to satisfy their tax credit requirements but what we have seen is that then pushes their RAD closing date out a little bit further, maybe two months I think was the most recent one we saw was between RCC and closing.

Will Lavy: And just to add -- I think this is consistent or possibly answer some of the other questions. Legally, a property could convert as soon as -- the next day after a property reaches DOFA and -- but the only way to do that is if the PHA makes sure it's updated its financing plan, to make sure that's final as needed.

But also started to submit or submitted its closing package to us, which can happen before construction is fully completed. But there's nothing preventing that. We haven't yet seen it done, as Stacy said, but it certainly is possible if a PHA is sufficiently motivated and has its ducks in a row to put its closing package together to -- for the conversion to happen very shortly after the property hits its DOFA date.

Antonella Salmeron: Okay. I do -- and we do have some time. We have time until 2:00 p.m. to try to get to all of your questions but there's just one quick clarification that I would like the panelist to make. One of our attendees has pointed out that in the slides it was stated that the PHA had to lease to 95 percent to get the DOFA, but it seems now, in these answers that we have provided, that we're saying that PHAs do not need to get 95 percent lease up to convert. Could you clarify that?

Stacy Harrison: Yeah. It's not 95 percent lease up. It's that 95 percent of the units have received certificates of occupancy from the local building official. So not that they have executed leases but that they're ready for occupancy. That's when you achieve the actual DOFA date. Belinda, I saw you come off mute. Anything else there?

Belinda Bly: No. No, I was -- that's exactly correct. Thank you.

Stacy Harrison: Thanks.

Antonella Salmeron: Okay. Thank you. Since we were in the topic of closing, Nicole Jackson has left question here. To prepare for quick RAD conversion closing process, is there any guidance on what you need to reflect that my key transaction documents, like the owner [inaudible] partnership agreement and the management documents in order to expedite the closing process? This question was posed at 1:54 for reference if reading the question itself is easier.

Will Lavy: I don't know if we have a specific answer for you right now, Nicole. Of course, the standard RAD closing documents are in our closing checklist would need to be submitted. So, I -- we need to analyze that to say well -- of course, any submission would need to satisfy those requirements.

So, whatever the future ownership organization is, and management documents would need to satisfy, kind of, the standard RAD requirements. And if those are changing from what -- or is in the original mix finance development proposal, that's fine. And if they're staying the same then you can reuse those same items.

Antonella Salmeron: Yeah. Seems like that was for the clarification on that question. Another attendee has said that the question Nicole was asking about was with respect to contemplating -- oh, I'm sorry. I think --

Stacy Harrison: So, I think I know the source of this question. So, the question is we've had a couple law firms that have tried to blend the closing documents where they've tried to include within the mixed finance closing transaction the requirements that also, sort of like, check the box for the RAD. And our OGC has determined that we can't do that like that.

We really need to have a public housing closing that addresses the nature of us developing a public housing document on a public housing unit and all of the governances that cover that. And then the RAD is their own closing. So right now, we don't have a blended process. I think that's the driver of that question.

Antonella Salmeron: Okay. Great. Thanks. Now, switching gears a little bit. In regard to site and neighborhood standards we got a question. One second. Every time a new question comes in things move around for me a little bit.

So, in regard to site and neighborhood standards, one of our attendees says that it's her understanding that by statute PHAs can reveal public housing back on site even if the site is in a minority concentrated census drive up to 50 percent of the original count.

So, in the Faircloth part of the transaction, does that apply as well? And then when the RAD transaction takes place, it is existing housing, so the minority concentration should not be an issue. Correct? That's a long question so, just for reference for panelists, that was submitted by Jaime at 2:13 if you want to read the text of it.

Stacy Lavy: So, I think the question is on the site and neighborhood standards requirements and the exceptions that are permitted in the waiver there. So, there's more than one exception. One exception is that if you're building on an existing public housing site you can, with respect to minority concentration, build up to 50 percent of the previous total number of public housing units that were on that site.

There's also an exception for, like, overriding housing need. And I think we're working on how to define that with FHEO a little bit to get some clarity. But yes, those provisions would still apply. I think that if you wanted to -- depending on your specific situation, I mean, we have been able to work with FHEO to show where neighborhoods are undergoing transformation and other changes.

So, it's just really dependent on what the characteristics of that particular site are and its surrounding neighborhoods. And Will, I don't know how that also impacts the -- on the RAD side. I thought it just deferred to the site neighborhood standards approval that's completed through the mix finance process.

Will Lavy: That's right. So again, going back to the principle that the RAD conversion is really a conversion of an existing, just built property. So, it's a straight conversion. We're not -- it's not a new construction proposal from the RAD perspective. So, all of the developmental requirements that apply to mix finance apply, and the RAD developmental requirements don't apply.

Antonella Salmeron: Great. Thank you. Before I move on to some of the other questions, actually, someone requested that Stacy could recap one of -- yeah, if you could please repeat what you said about eligibility for Faircloth-to-RAD in instances where a PBRA project is located in opportunity zone.

Stacy Harrison: Yeah. So, this is an existing RAD rent flexibility that is in the RAD notice, I think section 1.7, that we had referenced on the slide. So, if a property is located in an opportunity zone, we can provide up to $100 per unit per month for that property.

There's a financial necessity analysis that we do if a PHAs interested in using that rent flexibility. So, if we have a property that's a PBRA, they want to use that, we can -- we'll let -- reach out to us directly.

We'll let you know what information we need as it pertains to the financial necessity barrier that we need to establish. But you could check out our RAD notice. That's revision four section 1.7a. I don't remember the full -- the complete reference to the notice but it's in the slides that we'll update and publish.

Antonella Salmeron: Great. Thank you. We have a couple questions related to funds. First one, are you allowed to use state non-federal funds designated by a legislative body to augment or top off the Faircloth-to-RAD?

Will Lavy: No. Only voucher funds because you're essentially -- the funds are being used to pay on a HAP contract. You're going to be signing a HAP contract, a project-based voucher HAP contract for higher rents.

And so, only funds that are eligible to be used to pay out a HAP contract can be used. So that has to be a PHAs -- from a PHAs voucher program. Other funds provided by a legislative body of state or local funds or other grants, those can be used as development sources or to create -- establish reserves particularly like the initial reserve that we commented in many cases will be necessary but can't be used to fund the augmented RAD -- the augmented rent levels.

Antonella Salmeron: Great. Thank you. Can Faircloth funds be mixed into rent and vacation deal. So, either -- neither new units nor public housing? Sorry, I can not really see the question fully. My Zoom reference is kind of glitchy. But this was submitted at, I believe, 1:51. If one of the panelists can navigate to that question as I troubleshoot my issue with the Q&A.

Belinda Bly: Yeah, so, Faircloth doesn't come with funds. Faircloth are actually units. So, it would be mixed into a re-syndication deal. So, I'm assuming that may be -- we think that there may be a market for housing authorities to purchase expiring tax credit projects that have reached the end of their 15-year tax credit compliance.

If that were the case, I mean, I think it would be an acquisition with maybe some rehab there and we -- I think that would be eligible. We did that, I believe, in Dover. If that's what you're talking about. Will, do you have a different spin?

Will Lavy: No. That sounds right to me Belinda.

Belinda Bly: Okay.

Antonella Salmeron: Okay. We have a question just asking how does the process differ, if any, for existing projects going through a substantial rehab? I'm not sure which process, specifically, this question is referring to.

Will Lavy: I'm assuming it's a question of comparing new construction versus an existing property in substantial rehab. And this is a scenario that Belinda described earlier with Dover. So, we've done one of these where an existing property that's going to go through substantial rehab goes through Faircloth-to-RAD. Belinda any thoughts on -- are there any substantial differences that folks should be looking out for in the process?

Belinda Bly: No. But, you know, with the substantial rehab, I mean, again, the UFAS had to be met. The site neighborhood standards had to be met. But I mean, we think it's a great opportunity for PHAs to explore as a tool to maybe bring some additional units on to their portfolio. And often a substantial rehab can be accomplished with a four percent bond versus new construction typically needs the nine percent tax credits. And so, I think it's a way to market or a way to look.

Antonella Salmeron: Great. Thank you. We have a couple questions related to the percentage of FMR. So let me start with this one posted at 2:08 p.m. If an agency has opted into small area FMRs and has been approved to have PBS that goes up to 120 percent of FMR, can the augmented rents go up to 120 percent and can it go up to the limit for the small area in which the project is located?

Will Lavy: So, I think I know the answer to this. If I understand the question correctly, some PHAs can request approval for a higher payment standard for certain zip codes. And if a PHAs been approved for a higher payment standard for a specific zip code of a voucher program, that would apply to both tenant-based and project-based vouchers. And therefore, it could apply here. Jeff, let us know if we hit the mark there. We can continue by email if you need more detail.

Antonella Salmeron: Great. Thank you. So, we had a question earlier. We had talked about close out and closing and how long that takes to process but someone asked earlier how long does the process take to complete the RAD conversion after construction completion. Are PHAs and developers able to start the conversion process prior to construction close out?

Will Lavy: Yes. And we encourage it. So again, in theory it's possible to have the conversion happen very quickly after the property becomes public housing. We haven't seen it yet, to date, but a PHA can submit its closing package before the property -- before the construction is completed. And we can -- and a full closing package could t-up a very quick RAD conversion.

Antonella Salmeron: Great. We have another attendee that ask when a public housing authority is doing a transaction that would result in a closeout of their public housing program, do they still need Faircloth units that they can develop prior to closing out the public housing program. For instance, if a PHA with 40 units left in the public housing portfolio is doing the 50 and under small PHA for Section 18, are 40 units added to their Faircloth authority?

Will Lavy: Stacy, you want to take that one?

Stacy Harrison: Yeah. So, the 40 units that went through Section 18, those would be added to their -- back to their Faircloth authority. And PIH just recently issued guidance that if they're using one of these streamline conversion processes for 50 and under and small PHAs that generally would require the PHA to close out their public housing program.

If they have plans that they can demonstrate to use those 40 units that went back into their available Faircloth authority, HUD will delay the closeout of the ACC and allow them to pursue the development and you could use those 40 units for a Faircloth-to-RAD conversion.

Antonella Salmeron: Okay. So earlier we receive kind of a longer question. Here I have at 1:14. The experience of a housing authority saying that they have tried to contemplate Faircloth-to-RAD in closing documents. For example, open RAD conversion.

These provisions change from X to Y. However, the housing authority has maintained that RAD cannot be contemplated in closing documents aside from a very basic reference to Faircloth-to-RAD. This undermines the program if documents need to be redone and renegotiated at a conversion and seems to conflict with guidance. Could you please clarify if conversion can be done in a way that avoids a need to amend later?

Belinda Bly: So, the documents have to meet the requirements to become a public housing unit. And the documents that we've seen so far, where they've tried to blend really were a blending of, kind of like, two closing requirements that they were trying to address with one. But unfortunately, I don't think that there's a work around that right now. I don't know. Will, do you have any other insight on --

Will Lavy: Yeah, no, I -- we'd love to explore this issue a little bit more. We can't promise that there's a very satisfying answer, but we're certainly committed to working on it if we can find a way. So, if you can send us -- just reach out to us separately over email and we're happy to dive a little bit deeper with you and then work with our ODC partners internally to see if there's something that can be done to make it a little bit easier.

Antonella Salmeron: Yeah. Actually, Will, can you go back one slide, so you have the email addresses on screen. Great. Thank you. I think this is a broad question presented by Marylyn

Harris at 1:49 p.m. What are the cons of doing this -- I'm guessing referring to the Faircloth-to-RAD development -- from a PHA perspective?

Putting you here on the spot. I know you're talking positively about the development. We're definitely here for that. But is there anything that you would add or say about that from a public housing authority's perspective. What could be challenging about going for this?

Will Lavy: I could start and then pass on to others. So, for one thing, you have to work with us, and we can be difficult sometimes. So, we apologize in advance for that. But seriously, we've tried to highlight some of the places folks have tripped up.

So, there's funding the property in the year of conversion. Typically, it will need to be budgeted for. There's the question of lease up and the timing there because folks have -- it's frustrating to have to sign leases for public housing for leasing residents and then go back to those residents and say never mind, or not never mind but let's go and switch over those leases. Right?

That's a lot of administrative work. And then of course, there is -- you still have to figure out how to develop a property and put that together. So those are the really -- they seem to be the biggest issues that I've seen. Stacy, Belinda, Nick, anything you want to add?

Belinda Bly: Yeah. I think it is a challenge when you layer two different programs together to try to get one outcome. I would say that one challenge would be that you're probably dealing with lower rents, which we've tried to add some provisions to bolster that.

Again, development isn't easy on its space without having to explain, kind of like, two programs to your investors and your lenders. And that's why we were hoping that they'll -- that the NARRs letter provides a level of assurance about the income for the property.

I'm sorry, but the legal expense for two closings is high but I still think it's cheaper than developing and operating a public housing and then going through a complete RAD conversion. So maybe we should ask that of -- next time we have PHAs on the call who've gone through it to sort of share their experience.

Will Lavy: And that's one of the goals of the group learning sessions that spoke to you earlier. So, there are some agencies that have gone through this and hit some of the pain points and know for their next one to avoid them. And there's -- we can all learn from them. So, one of the things to look out for in the future as we roll that out.

Antonella Salmeron: Thank you. There are several questions, I think, some of them kind of refer each other but we have been asked to confirm that the NARRs are issued for all qualifying projects. AKA, there isn't a competitive screening at that stage. And this attendee would also like to confirm that it sounds like if everything is in order, it is likely to take something like a month, post request, to get a NARR issued.

Will Lavy: Stacy?

Stacy Harrison: We are -- yeah, our target is closer to like two weeks turn around once we have the information that we need. But in some instances, it's taken a little bit longer just depending on capacity or reaching out to OPHI and they're talking the capital funds. So, there's different pieces that go into it. But generally, we work towards a two week turn around.

Will Lavy: And to confirm, it's not a competitive process.

Stacy Harrison: No. Right.

Will Lavy: Do you have Faircloth units? Yes. Okay. That's all it is.

Antonella Salmeron: Okay. Thank you. I'm just marking that as answered. Okay. So also, in the line of just asking about NARRs, one of the attendees mentioned that in one of your slides you talked about the timing of the flow of subsidy for new projects and that they are not eligible to now receive capital funds in the first year, only operating subsidies for that first year.

How does that subsidy level relate to the base NARR rents approved for the property? Will the first year NARR rents actually lower in the first year than documented in the base NARR approved rent level? Is there a potential timing delay in the property receiving subsidy in the first year depending on when funds are requested.

Will Lavy: So --

Stacy Harrison: Yeah. So, the funding in the year of conversion is tricky because there is a cutoff date in which you have to have your property online in order to receive any operating fund that's in the year of conversion.

So, if you complete construction in the middle of 2024 and you meet the deadline that's usually around June something, if you've received your DOFA by that deadline, then you will receive operating fund subsidies for the remaining portion of the year in which you're converting.

However, no properties will receive capital fund in that year that they convert -- that first year that they come online. And also, if they don't meet that deadline for operating fund, they don't get any operating fund in that first partial year that they convert.

But that doesn't affect the subsidy that kicks in with all RAD conversions. Section 8 HAP payments begin on January 1st, the first full year after conversion. So, the -- there's a greater need for reserves in the year of conversion -- operating reserves in the year of conversion when that property's coming online because there's some uncertainty as to whether you will get any operating funds and how much depending on what the timing is of your completion.

But again, that doesn't affect the subsidy that gets paid starting January 1 after -- the first year after conversion. So that first year is when subsidy payments kick in for the base NARR amount that included whatever capital and operating fund that was estimated in the NARR. Anything to add to that Will?

Antonella Salmeron: Okay. I just want to say that we only have about six minutes left. We still have about 18 questions to answer. So, folks, we might not get to your question, but the team is always in the habit of either following up via email or putting together a series of written answers to each question that is shared with all participants.

So that knowledge is public to all of you who have attended. So do not worry if we do not get to your question during the next six minutes. Before we move on from the NARR issue, is there a way to determine what the RAD rents would be prior to requesting a NARR? Could the PHAs look at operating subsidy for sites within the portfolio plus estimated tenant portion? Would that be a good proxy?

Stacy Harrison: So, a good proxy is if you know what your regular RAD rents are. They're usually 10 or 20 percent below that. Antonella what time did that question come in just so I can look at it.

Antonella Salmeron: Yeah, it's all the way up around 1:14 p.m.

Stacy Harrison: Okay. And so, it also asks whether there's no capital fundings because it's not an existing building. That's actually not true. We do get a capital fund estimate. It's just typically very low.

So, it might be like $100 per unit per month. The caveat is that no properties get capital fund in the year in which they come online. So, they don't get capital fund the first year -- that partial year but they do get a capital fund estimate that would be part of their ongoing subsidy that is new based on the NARR.

Antonella Salmeron: Great. Thank you, Stacy. And then just some very low questions to get to those. Can proceeds from a Section 18 disposition be used to fund RAD conversion in year one before the Section 8 funds kick in?

Will Lavy: Sure. So, if a PHA has Section 18 proceeds that can be used typically for any public housing or Section 8 purpose, including Section 8 development. So, in this case, it's essentially using the proceeds and putting it into the RAD sources of uses to say source is the Section 18 proceeds, use is to establish an operating reserve. And that would -- that still would appear within the RAD financing plan.

Antonella Salmeron: Okay. I see Belinda coming off mute. Belinda, did you want to add anything else?

Belinda Bly: No, I concur with what Will said. There are a few exceptions if you are a letter on those Section 18 proceeds have some use restrictions, but, by in large, the majority of them do say for Section 8 or 9 purposes.

Antonella Salmeron: Okay. Is there a reason a PHA would choose to lease up units as public housing rather than wait for RAD conversion to lease up units as Section 8?

Will Lavy: I think the biggest thing is if they -- if one of their funders requires them to, right. If he's carrying cost of an unleased property and you might have required some cash credit -- in their cash credit award or whatever to lease up by a certain time and you for whatever reason can't wait for the RAD conversion to be completed.

Most PHAs try to avoid that but in some cases if there's delays in getting the closing package to us or whatever, it might mean the conversion happens a few months after the properties are in a public housing program, in which case, those PHAs might start leasing up.

Antonella Salmeron: Okay. Thank you, Will. We had a question come in directly to you just a couple minutes ago. And this might be the last question that we'll get to. Since the FDR rents are so low, from our rent I suppose, isn't it likely that many residents who ultimately lease these units will be zero HAP at final lease. And so, should the PHA apply for waiver to admit zero HAP residents at the RAD application stage?

Will Lavy: So this is mixing various advanced RAD themes but yeah, it's possible that with the lower RAD rents there might be some families that are admitted that -- where their incomes are higher, such that 30 percent of their income is actually higher than the RAD rent, in which case, yeah, they can apply for that exception for zero HAP families.

It's not going to happen that much because we're talking about lower RAD rents but not -- they're generally $500, $600, $700, $800; not $200, $300, $400. So, most residents -- most HUD assisted residents would still require some subsidy of rents. It's still a good flag.

Antonella Salmeron: Okay. We have a related question that came in at 2:41 p.m. on eligibility determination but we are at 3:00 p.m. I do want to be respectful of people's time especially our panelist and the people who have joined the session. I will leave it up to you Will. Do you want to get to that question before leaving or would you be following up via email?

Will Lavy: I think we'll need to follow up over email.

Antonella Salmeron: Great.

Will Lavy: I'm super excited that everybody's asking so many questions. So, we're grateful for your participation and sticking with us.

Antonella Salmeron: Yes. Thank you for your time today. You will get a notification that the materials have been posted on HUD Exchange in about two weeks. You'll receive that survey link right after this session. Thank you for joining us. Enjoy the rest of your day.

(END)