

## Fair Market Value, Dispositions and Use Agreements, 4-24-24

Antonella Salmeron: Good afternoon and thank you for joining us today's installment of the Wednesday Webinar series. Today's topic is below, "Fair Market Value, Dispositions and Use Agreements." My name is Antonella Salmeron, and I am going to be the host today. Before I pass it over to our presenters, I have a few housekeeping items to cover for you.

Our speakers will share their knowledge with us for the first part of the presentation, and then we will reserve the remaining time for any questions that you might have. Please ask your questions using the Q&A function on Zoom. I will monitor those and read the questions. And if are unable to address all of them, we'll send a reply after the webinar. All webinar participants are muted upon entry.

If you would like to notify our team of any technical difficulties with the Zoom platform, please send us an email. I'm going to put the email address here in the chat box. And today's webinar is being recorded and will be available on the HUD exchange in about three to four weeks following 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, Jane, please take it away.

Jane Hornstein: Thank you, Antonella, and welcome, everybody. This -- we're -- today we're going to talk about below fair market, dispositions, use agreements, and a little bit on ground leases as well. So quickly, I want to remind everybody this will be our 27th webinar on all things repositioning. They are all listed on HUD exchange. The website is posted below.

The two that -- probably that you should watch in adjacent to this at some point is You Now Have SAC Approval. Now what? Or Commensurate Public Benefit Selling Public Housing at Below Fair Market Value. Okay, next. Our presenters today as myself, I'm the director of the Special Application Center, James Isaacs, Katie Stuckemeyer and Kathleen Szybist, and we are all on the line. And then why are we here?

The goal of this webinar is to explain use agreement requirements that the SAC may impose when it approves a below fair market value disposition based on the commensurate public benefit. So, with that, I'm going to turn it over to Katie.

Katie Stuckemeyer: Hello, everyone. We're just going to do a brief mention of commensurate public benefit. A PHA can dispose of public housing property at less than fair market value if there is a commensurate public benefit to the community, the PHA, the federal government. Commensurate is not defined specifically in the regulation or the notice, but it's corresponding in amount, magnitude or degree.

It can also be proportionate to the appraised value of the property. For some more examples of what HUD has found to be commensurate public benefit, we have a webinar from December 14th, 2022, that gives some examples and case studies of what HUD has found to be commensurate public benefit. Next slide. Some examples of commensurate public benefit.

First, and probably the one that we see the most is affordable housing. HUD will typically find that the commensurate public benefit requirement is met if a property will be redeveloped or rehabbed and maintained as housing that serves families at or below 80 percent of area median income. This can be, you know, public housing, voucher-based housing, whether it's project based, or tenant based.

It can be tax credit, housing, just housing that serves families at or below 80 percent of area median income. HUD can also find that commensurate public benefit requirement is met if the disposition results in being able to provide non dwelling services for low-income families or primarily serving low-income families. This is things like a Head Start facility or a boys and girls club or computer lab and career center, community center, any of those sorts of non-dwelling uses that will serve families at or below 80 percent of area median income.

And the use agreements do typically require CPB compliance for the length of the agreement. And now I'll hand it over to James.

James Isaacs: Good afternoon, everybody. Let's go over some of the forms and terms you might encounter when disposing of property at less than fair market value. For example, whenever you do a mixed finance with public housing units, you'll be putting your -- a declaration of restricted covenants or a DORC, as we sometimes say for short, on the property. And it would require that the mixed finance public housing units be operated as public housing for 40 years if the -- if their Cap funds are used.

Now, if this is a mixed finance transactions that is operating funds only, the DORC is only going to be for ten years. So, SAC will likely require a separate longer use agreement. So, every time a mixed finance development gets operating funds, the ten-year affordability period gets extended another ten years. So that's one.

Another one would be the RAD Section 18 blends. It requires the Section 18 units to be operated as project-based units for 40 years. New authority now allows these project-based units to be PBV or PBRA. Another form of use agreement would be whenever we're doing Faircloth to RAD. Initially, the declaration of restrictive covenants is put on, again the DORC, and DORC released at RAD closing and replaced with a RAD use agreement.

Now one of the more common ones that we have been seeing -- we see a lot is whenever a housing authority is conveying property so that affordable rental housing is done. So, there's no specific form. It depends on housing and the terms of the SAC approval, the PHA drafts or requests a sample template from the field office and field counsel.

The field office reviews and approves. And it's generally for at least 30 years. PBV HAP is not sufficient. So, the SAC will at least require that you have a 30-year use restriction because the PBV HAP is not recorded. So, we require something be recorded so that the commensurate public benefit is -- survives if the HAP is ever terminated. The LIHTC LURA is sometimes acceptable if approved by the local field council and the field office. Next slide.

Most SAC approval letters have required these or similar use agreement provisions when there is an approved commensurate public benefit. So, let's go over them. Some of these -- see these are some of the components of a typical use agreement. So, ensuring property is used for the approved commensurate public benefit like affordable housing or the head start, like Katie mentioned before, recorded in first priority positions, standalone agreement or part of a ground lease.

Use agreement must survive if a ground lease is terminated. HUD, PHA and the acquiring entity are parties to the agreement, binding upon successors and assigns, PHA responsible for monitoring use agreement, PHA retained records, and annually reports to its Board of Directors and use agreement compliance, written HUD approval required for certain types of actions. Next slide. I turn it back to Katie.

Katie Stuckemeyer: Thank you. So, one of the most common situations we see is that a PHA is going to develop or rehab and maintain housing as former public housing units, as project-based voucher units. We wanted to address that a bit. The SAC approval does not constitute project-based voucher approval. This will be stated in the approval letter, but just because you have approval to dispose of housing to be used as project-based voucher housing, that is not approval to PBV units.

You have to go through all of the steps required with the voucher office in order to project based those units. If a PHA plans to attach PBV assistance to the units, the PHA and the new owner enter into a PBV HAP for the units. The SACs use agreement is not required to reflect the PBV use, only that the property be used to -- as affordable housing for families below 80 percent of AMI, typically for a minimum of 30 years.

So, the project basing process and the use agreement process are two separate processes. Next slide. So, once you have a HUD approval for a below fair market value disposition based on commensurate public benefit and a use agreement is in place, you do have to get written HUD approval if you want to take certain actions in the future. You have to get written HUD approval if you want to voluntarily convey a sign, transfer, lease, sublease, or otherwise dispose of the property.

There is an exception for dedicating streets to a local municipality or dedicating streets and other infrastructure to the municipality for maintenance. You also have to get written HUD approval if you want to voluntarily mortgage pledge or encumber the property. You have to get written approval to demolish existing structures or construct new structures, or you have to get -- and you have to get written approval to amend or release the use agreement. Next slide and I'll turn it over to Kathy.

Kathy Szybist: Thank you, Katie. Good afternoon, everyone. My name is Kathy Szybist. I'm a program analyst at the SAC. So, on this slide, which we find to be pretty helpful and hope you do, too, this kind of outlines the roles and responsibilities of the different players within HUD and at the housing authority level when it comes to proposing and approving the use agreement. So first I'm going to highlight a few things in the PHA's responsibilities since this is fundamentally and foremost to help you out.

So, you can propose a form of use agreement as part of your Section 18 application. The 52860A instructions actually state this explicitly that a PHA may propose a performed form of use agreement, like a tax credit, extended use agreement, a provision in a ground lease, a separate use agreement. We do encourage PHAs to do this so that everyone is clear what form of use agreement that Housing Authority would like to use to ensure the commensurate public benefit it's proposing.

Then there's no issues when it comes to the field office and field counsel review and looking at the SAC approval. However, many PHAs choose not to propose a form as part of their SAC application. And this is absolutely okay. And if that's the case, SAC typically puts in kind of some of these standard components of a use agreement that are typical in most transactions for affordable housing.

And both Katie and James highlighted some of the most important ones we typically put in. So, if we -- if the PHA doesn't propose a specific form up front, either a draft form or the type, like a tax credit extended use agreement, we'll put in these provisions in our approval letter. And then the actual form can get negotiated after the SAC issues its approval when the PHA goes to get the DOT released.

If that's the case, we usually want the PHA to take responsibility to draft the use agreement and present it to the field office. They can request model or sample forms from the field office and field counsel. And most field offices are more than happy to help the housing authority, especially if it doesn't have any experience with drafting these kind of use agreements. You can also look at other similar models out there, the RAD use agreement and other use agreements that don't directly apply, but that you might want to consider the provisions.

So, moving on to the SAC. So as Katie and James nicely articulated, the SAC approves and reviews the commensurate public benefit. And then it determines if a use agreement is required, and most times it is. And the required length in most times it's 30 years. And then we'll draft the approval letter and the use agreements requirements and either reference back the proposed form of use agreement that the Housing Authority has included in their Section 18 application if we find that acceptable or put in our standard -- typical component clauses.

The HUD field office approves the form of use agreement, usually upon the legal opinion of the field counsel in the office. And it won't execute the DOT release until it does approve that use agreement and make sure it's going to be recorded immediately after the DOT release. And the field office is typically responsible for keeping either recorded copy of the use agreement and ideally uploading it or keep in a data system or keeping it in some other filing system. The HUD field counsel assist the field office in reviewing the use agreement and provides any technical assistance that the PHA may need, like model forms or samples.

The Office of Recapitalization and also the Office of Urban Revitalization here review -- for recapitalization, they review the RAD Section 18 rider and make sure it's going to be recorded on the Section 18 units as part of a RAD Section 18 blend. So, recapitalization is not involved in the SAC use agreements unless it's a RAD Section 18 blend.

Similarly, and it's not mentioned here, but I'll just mention in passing, the Office of Urban Revitalization will make sure a new DORC is recorded before releasing the DOT if the units will be developed as mixed finance public housing units. Next slide, please. This slide kind of highlights two really important considerations in thinking about use agreements both from the SAC and the PHA perspective.

So, the first is we want these units not only to be operated for a specific period of time, like 30 years, as affordable housing, but we want them to be operated as quality affordable housing units. So, it's implied and often explicit in these use agreements that the owner must ensure the quality of the units during the use agreement term.

A lot of times these are former public housing units that may be rehabbed immediately or later on with increased funding from PBV cash flow and there's plenty of money, cash flow, to keep these units up to date and do necessary repairs and modernizations. But that is a very important part of the use agreement. The second point I'll make here is affordability.

So, I would say more than 80 percent of the time the, the projects that go under a use agreement are operated with Section 8 PBV assistance or our tax credit or the families are using tenant-based assistance. But if units are not project based or don't have any other rent affordability restrictions on them, then it's the owner's responsibility to keep those rents at an affordable level.

So again, not just operated as affordable housing with exorbitant rents that low-income housing - low-income families typically can't afford, but keeping those rents affordable during the use agreement term. Next slide.

So, this one gets into ground leases a little bit. And ground leases are a very common method of disposition for PHAs. And most ground leases, 99 percent of the ground leases we see are at below fair market value. Most often for token value, like a dollar a year, sometimes with a little bit of cash, ground payment up front, but almost always below fair market value.

So, in the case of a disposition via ground lease, a use agreement will still be required and there's options for how to do that. The simplest and most straightforward and what I would recommend would be a standalone document where the ground -- where the use agreement is recorded against title after DOT release and even before the recording of the ground lease or the memo of ground lease. That said, if a housing authority and its development partners prefer to include the use agreement provisions, these typical components and actual components required by the SAC approval as part of the ground lease, that could be okay.

As long as it's very clear that the use restriction provisions control over any conflicting provisions in the ground lease. And it -- the field office has reviewed and with field counsel assistance and find this to be an acceptable form of use agreement. Also, somehow either as part of the ground lease or separately, it has to be clear that the use restrictions survive if the ground lease terminates.

So, if the housing authority, for some strange reason gets full title back after two years, then these use restrictions would apply to their ownership and future use of the property. And in some instances, HUD may actually require the declaration of trust to remain in place to ensure HUD's real property interest when it comes to a ground lease. So, remember that any lease over one year is considered a disposition under our regulation.

So, for instance, if SAC would approve a ten year lease on, let's take the non-dwelling use of a boys and girls club that both Katie and James mentioned, then the field office in HUD and SAC, as part of our approval, might determine that the use agreement should -- that the DOT should stay in place to ensure that -- as a non-encumbrance device, and then there might be a secondary use agreement to ensure the Boys and Girls Club use after the recreation of the DOT which would still be in place.

So that's a little nuanced there with um, with ground leases and with short term ground leases and other leases. Okay. Next slide, please.

Jane Hornstein: All right, so thank you, Katie, Kathy, and James. These are additional resources with additional information as you're thinking this all through, we have a -- there's the SAC website and these email addresses on here you can write to with specific questions as well. And we can answer those. So, there's a SAC website, there's the public housing mixed finance, repositioning public housing, the RAD program.

And there's also a now a new website on RAD Section 18 blends. So, feel free to contact those. I want to remind everybody this is our second to last webinar. Our last webinar will be on May 15th. And we're going to open that up as a question-and-answer period. And we're open to any and all questions then. Questions in -- pertaining to this webinar, we're going to go ahead and start to entertain those now.

I see a few in the chat and I know -- Antonella, do you want to open up for people if they want to ask their questions? Or should they just put them in the Q&A portion?

Antonella Salmeron: You mean to unmute, folks?

Jane Hornstein: Yeah.

Antonella Salmeron: Yeah, I can do that if folks raise their hands. But let's go through the ones in the Q&A section first, and then if anyone has a follow up or any lingering questions, you may raise your hand and I can unmute you or you can put it in the Q&A function, however people feel most comfortable.

Jane Hornstein: First of all, there was one question that I quickly answered, but I want to raise it again is, will it also apply to public works improvements? And I know Katie or James might have some thoughts on this, but we don't see public works improvements as below eligible for commensurate public benefits. Those are typically considered -- those are typically done by a city, state or a county and therefore would not be eligible for a below fair market transaction.

We would require those to come in as fair market. They should be paying fair market value for that. They are taxing bodies, and they should have the money to do so. Antonella, you want to read out the questions or do you want me to?

Antonella Salmeron: I can read them out. I think we can go to a question we receive around 1:20 since Kathy spoke on this a couple of minutes ago. And she pointed out that it's a nuanced situation, but we have a participant asking, is it typical or atypical for how to require the DOT or DORC remain? And under what scenarios are they required to remain? Kathy, would you like to answer that?

Kathy Szybist: Sure. I mean, if there's any more -- I think I addressed this so the primary time would be if it's a shorter term lease. Maybe less than 20 years. 20 years is kind of the magic number because if a housing authority used capital funds in the year before disposition, they'd be required to operate that property as public housing for the next 20 years.

So especially if the lease, ground lease, regular lease, any kind of lease is 20 years or less, the DOT may be required to remain in place. There could be other instances, but I think that's the primary one. Jane, do you have any other things to add on that?

Jane Hornstein: No, I think that's good.

Antonella Salmeron: All right. Thank you. We also received question earlier on, now that the Section 18 units in a blended deal can be either PBV or PBRA, is there just one HAP contract for the property?

Jane Hornstein: So, this is -- this came down as part of the 24 appropriations. HUD is still trying to work that out. I think the objective here is to get it to be one HAP contract. But we need to work out the mechanics, so we will probably be putting out further guidance on that hopefully a little bit later this year. So, I think we're going to kind of put a plug in that for the moment. But the idea is to get it to be one contract. We're not there yet.

Antonella Salmeron: Got it. Thank you. Another webinar attendee asked, is UA a requirement for fair market value dispositions?

Jane Hornstein: No. If you're getting fair market value for the property, we would not require a use restriction --

Kathy Szybist: Right. Instead, we typically restrict the proceeds. The fair market value proceeds under notice PIH 2020-23. The only thing -- so I'll add there that even though we wouldn't require a use agreement if it's a fair market value disposition, if the Housing Authority wants to at a local level, it can do that as part of a negotiated disposition. So, say it's a developer -- three developers wanted at fair market value. And as part of that deal, they can -- one developer is willing to give more than the others in terms of use restrictions. They could add on their own local use restrictions as part of a negotiated disposition.

Antonella Salmeron: Thank you, Kathy. On the issue of use agreements, will at home use agreement work for the use agreement in general?

Jane Hornstein: Possibly. I won't say no to that. It would depend on what else is in the use agreement. That would have to be, I think if there's a way to write into a home use agreement that HUD still retains an interest because this was former public housing property, we could -- I have a feeling we can probably get there. I would think they could be combined into two use -- I mean, into one use agreement.

Antonella Salmeron: Great. Thank you. And how would you say that HUD has viewed proposals involving affordable home ownership up to 120 AMI, rather than Cap at 100 percent AMI?

Jane Hornstein: So, home ownership creates a whole another issue for us. And Kathy, feel free to step in here, but I think we would prefer not to restrict the home buyers assets. You know, their equity in the deal and so what we would recommend, and this is a recommend, it's -- many housing authorities have said no, it's not where we want to go, would be to use a second mortgage instrument that would be forgivable over time.

In that way, there's a recapture if they sell early and it's feasible to get some money back to the housing authority. But if it's -- if it goes out over -- if it's a 20-year forgivable loan, let's say it's \$100,000 and they forgive \$5,000 a year. Then over time, if they sell it in year eight, \$40,000 have been forgiven and they only have to pay back \$60,000. So, I think that's a -- what we'd like to see, but we can't mandate that. Kath, do you have other suggestions?

Kathy Szybist: No, I did want to address one thing I heard in that question. Going up to 120 percent of AMI for a home ownership unit. So, I think the threshold question there and Katie nicely covered this slide is, is that a commensurate public benefit under our notice, PIH Notice 2020-107, we say we typically look for housing for families at 80 percent and below.

So, I think that's the first obstacle to the question. You know, would we even find or and allow a below fair market value transaction for an affordable home ownership units targeted to families up to 120 percent? So, I think that's a more of a question for Jane.

And then -- and so I can bump this back to her. But then the second question is, I think Jane nicely articulated, we typically don't want a long-term use agreement for affordable home ownership, whether that affordable home ownership is 80 percent and below for families or 120 percent and below. And then the third thing I'll mention is, is the question 120 percent did make me think about another situation we see quite frequently is mixed income.

And when a housing authority is proposing a mixed income situation, the most straightforward is if it's like the old hope six deals, which were a third public housing, a third tax credit or other affordable and a third market rate. And in those instances, the use agreement would be the DORC, you know HUD's new declaration of restrictive covenants and that would get recorded over the whole property but only really apply to the use of the one third public housing units.

So, we do, from time to time and Katie and James and Jane can speak more to this, approve a mixed income kind of property to be a commensurate public benefit. But we really want to maximize the affordable units under the commensurate public benefit and by extension, the use agreement.

Jane Hornstein: Yeah. I mean, as for the 120 percent, I think, Kathy, can you kind of address it. But it's -- we would need it to be part of a larger plan. Need to explain how this fits into a larger redevelopment plan. And if it's all market rate and up to 120 percent is affordable, that may not be considered. There would have to be some housing in there at 80 percent AMI or below. Even if it's rental, we'd want to see the sort of the master plan as part of that.

Antonella Salmeron: Thank you. We have another attendee asking, does the selling of a nonresidential building need to follow the same process?

Jane Hornstein: Yes. It does.



Antonella Salmeron: Okay. Thank you. I have a couple more questions here. Which of the RAD transaction or process is not required Demo Dispo application number and a completion of RAD resource desk. And Section 18, is Section 18 a RAD transaction.

Jane Hornstein: Section 18 is not a RAD transaction. But you can blend the RAD and Section 18. So, in terms of a RAD transaction requiring a Demo Dispo application number, PIC is the ultimate system that maintains the entire inventory of the public housing across the country. So literally every unit, every tenant and every -- the condition of all the units is all maintained within PIC -- IMS/PIC.

So once a RAD transaction gets close to closing, we typically do go back into the RAD resource desk, we will pull the necessary documents that support the removal. We will create a Demo Dispo application with its own unique number and we will put that into PIC. So, yes, they -- we do have a separate application in PIC and in the RAD resource desk for every RAD transaction. But the blends are usually a -- they're both -- for a blend you would still submit through the RAD resource desk.

Those we actually go in and pull what documents we need for Section 18. And we'll create the two separate DDAs for both for the RAD and the Section 18. But they will -- both of them will refer back and forth to each other. But on that note, one thing I want to say, PIC, we are switching from the IMS/PIC system to the HIP system. And that should happen later this year. For now, what we're -- what we would like you to know is that as of July 1st, the SAC will stop taking applications with the intent to try to complete them all before PIC goes down later in August or early September in the fall.

We will not take applications until the new HIP system goes back up. So just letting you know in advance. So, if you've got an application, go ahead and start getting it ready to get it in.

Antonella Salmeron: Thank you. We have another question here. If -- when does not require other provisions in the user agreement beyond those 30-year term, and 80 percent AMI eligibility and 30 percent household income as a HUD condition for the below market disposition.

Jane Hornstein: Those are the main terms that we require. Now, if there's some reason to add something else in that we agree to with the Housing Authority, that might get in there, but I can't think of another provision. Kathy? James? Katie? Any thoughts on your part?

James Isaacs: Now, those are usually special conditions that say, for example, we're doing a disposition at less than fair market value where it's a non-dwelling use. And there's going to be special community benefits that we need to incorporate. But these are the typical ones that we do.

Katie Stuckemeyer: Yeah, I agree with James. Any other -- any additional conditions are going to be relatively rare and are going to be just very specific to the terms of that deal.

Antonella Salmeron: Thank you. We have a couple more questions here. And if you have any other, please do keep adding them to the Q&A or you could raise your hand and I can unmute you once we go through the Q&A section. I did notice a question that seemed to be related to some other point earlier in the discussion. But please remember to flesh out your questions as clearly as possible, as we don't always catch them at the moment that you submit them.

And then it would be hard to refer back to the point that you were trying to inquire about. So, if you could flesh those out as best as you can, that will help us get to it and respond to it better. We have a question here from Vicky. The proceeds from a disposition at fair market value have restrictions as to how they can be used. Is the development of a tax credit property with rents at less than 60 percent of an AMI an acceptable use of those funds?

Kathy Szybist: No, not in and of itself. In the general -- generally the -- if you want to use proceeds to develop other affordable housing, that other affordable housing needs to either be public housing like mixed finance public housing including, say, Faircloth to RAD housing or it needs to be PBV housing, project-based voucher housing. So, if that tax credit project was also going to be PBV, then yes, if the tax credit project was not going to be PBV or Faircloth to RAD or mixed finance public housing, then no.

James Isaacs: It could also cover the pro rata share of those units. So, if you're 30 percent of the development, like say, 30 percent are PBV, you can pay for the pro rata share of the PBV common areas and things like that.

Kathy Szybist: Right. Great point. Yeah. So, it doesn't have to be all or nothing. So, if -- as long as the tax credits were a portion of mixed finance, public housing, Faircloth to RAD, or RAD, or PBV then then you could use some of the proceeds on a pro rata basis.

Antonella Salmeron: Great. Thank you. If the land has a duty but for the new development, we are using local funds instead of federal funds, do we need to apply [inaudible] at -- and all the requirements in the new development?

Kathy Szybist: So that situation probably won't happen that often, because if you're going to be doing that extensive of a redevelopment, the DOT will typically be released and then [inaudible] probably won't apply unless it's triggered by another source of funds, but not the disposition itself.

Antonella Salmeron: We have a question related to the transition away from PIC. Does SAC anticipate delays in reviewing applications that are submitted prior to July 1st, with the transaction coming soon.

Jane Hornstein: No. We're going to do all we can to be timely. I know that there's a couple coming in that are -- they expect to have everything by June, that they have closings in June or early July will honor those dates. But we will also -- I mean, we're going to do everything we can to get everything processed by the time PIC goes dark is what we're promising.

James Isaacs: There is -- do yourselves a favor and make sure your part 58 Environmentals are done. Those are usually the thing that delays everything. So, this sooner you get started on your part 58, the better.

Antonella Salmeron: Just flagging that in the chat. We have now added the link to the RAD Section 18 resource. Once I'm done sharing screen here, I will copy and paste all of those links as well for your reference. I have two more questions in the Q&A. If you're selling the property and revealed at another location, what is the process to follow?

Jane Hornstein: Did I miss -- Antonella, is that -- you're asking what's the process within the SAC? I'm assuming. You would -- if you're selling -- okay if you're selling the property at fair market value and you're going to rebuild it in another location, you can use those proceeds from the sale to help rebuild. You'd have to do a disposition application with the SAC to sell the original property, and you'd have to do an acquisition application through the field office for the other for the -- to buy the new land.

And then you would need -- right. So, we wouldn't put the use restrictions on the first property -- on the part property you're selling only on the property you're purchasing.

Katie Stuckemeyer: But the sale of the property would still have to meet one of the acceptable Section 18 justifications. Because effectively you're selling X and you're going to use the proceeds to build Y, but your sale of X would still have to meet an acceptable justification under Section 18.

Kathy Szybist: Right. So, and it could kind of be two separate transactions not linked. Like, first you're disposing of an obsolete project and then separately just you happen to be acquiring another property with the proceeds. And that property could be PBV or mixed finance, public housing or Faircloth to RAD. So that would be one situation. The two, the two actions, the disposition and the use of proceeds are not linked at all.

The other form would be if you're going for the more efficient, effective off-site justification of disposition. And in that instance, the two things are linked because you're saying we're disposing of this current property because we can more efficiently or effectively operate another property off site. And in that instance, we will make it a little tighter and we'll make sure you're about to develop that other project with the proceeds.

James Isaacs: It's a good idea to give us a call if you are contemplating that and walk us through your scenario so we can give you much more specific guidance.

Antonella Salmeron: Okay. We have another question seeking clarification on the period in which SAC will stop receiving new applications. They're asking, so there will be a gap in the period of HAP application acceptance between July and September or whenever the new system comes online. If Jane, you can repeat that part.

Jane Hornstein: Right. Yes. Now, there will be a gap in that in that period. The attempt here is to keep the inventory stable through the transition. And then once it's back open, we'll accept new applications, and we can continue processing at that point. But I think at least while there -- while PIC is down and HIP is not up yet, they're going to be transferring all the data over, and we would prefer not to have more data coming in at that point. But we will pick it up as soon as we're on the other side.

Antonella Salmeron: I think a follow up to that would be, could you clarify if there will or will not be a penalty for being past the 30-day window of CHAP issuance?

Jane Hornstein: This will not affect the RAD desk. The red desk is going to keep moving. So, I'm assuming those penalties will still be enforced.

Katie Stuckemeyer: Well, no, I mean, I -- Jane, I'm not sure. I think what they're getting at is I believe that there's a requirement that to, quote-unquote, "accept your CHAP," you have to submit an inventory removal application in PIC up within 30 days of CHAP issuance. I would assume that once PIC is down and the new system is not online yet, recap will come up with some other mechanism of accepting the CHAP. I don't know exactly what that is, but they will probably issue some more guidance about that.

Because you can't submit an application if there's no system to submit an application into. So, they'll probably --I would assume they'll find some other mechanism.

Jane Hornstein: There will be a notice coming out within the next week or two. So, keep an eye out for it. And that'll explain a lot of that.

Antonella Salmeron: Just before we move on to the other questions, we have just wanted to loop back to Darnell [ph], who is trying to make sure to know who to call. Should we refer him to the email address here on the screen, or will someone from the HUD team reach out individually to provide contact information?

Jane Hornstein: Actually, Darnell, you should contact your field office and let them set up a call with the SAC. Because we'd like to keep the field offices involved.

Antonella Salmeron: In a multi-phase project that is RAD Section 18 blend, and a later phase will be will involve Faircloth to RAD. When is Faircloth to mix finance application request chartered.

Jane Hornstein: I think early on. I mean, as early as you can get it in.

Kathy Szybist: Yeah. I think you sent something. You know, it's all done initially through -- you send an email or something to get the rents, to inquire about the rents. And so, recap can give you an estimated on the rents. It's in the new guide. I can look for that link and put it into the chat.

Antonella Salmeron: We have a question from an attendee. They're fairly new to the HUD world, and they're trying to understand if it's possible to go Faircloth to PBB or Faircloth to PBRA.

Jane Hornstein: When we talk about converting under RAD, you have your choice. You can do PBV or PBRA. Either one. So, yes, I mean, essentially that's what you're doing when you do. Faircloth to RAD. What it is, is you have to go through the system to bring on new public housing units, the 905 system, and then you -- and then it actually converts through RAD, is what happens.

Antonella Salmeron: Thank you. We have one more question here. Since application to leverage difficult to RAD augmentation of rent flexibility for non-empty MTW ends with application submitted by September 30th of this year, will the gap in SAC application process in between July and a new system affect the application acceptance for that?

Jane Hornstein: I don't think so. I don't know for sure.

Antonella Salmeron: Is that something that's probably going to be maybe addressed in the guidance that's going to be put out in a couple of weeks, Jane?

Jane Hornstein: I don't think so. So, I'm assuming it's going to continue as normal because this is something the MTW office processes. I'm assuming that they will continue to do that.

Antonella Salmeron: Thank you. I don't see any other questions on the Q&A function. I don't see any folks with their hands raised to come off mute and ask anything else. I'm going to give it another minute or two in case people keep -- people are grinding questions down right now or trying to find where to raise your hand, which should be either in the lower area of your screen or depending on your setup, it might also be in the upper part of the screen on the bar, the option to raise your hand.

But here in the chat. I've -- I also put a link with questions that you can submit in advance for the next and final ones, a webinar. So, this is something that everyone will receive once the registration email goes out. But I wanted to make sure that since we mentioned earlier, if there's anything that you would like to add for the whole team to consider, to cover the next webinar will be very helpful to gather those as soon as we can.

So, the link is there in case you think of anything from now till when you receive the invitation to register. And I see something else in the Q&A. I think it's a follow up to the question that we just covered. Yeah, but I see that James sent me a link directly. So, I'm just going to put it in the chat for everyone to see there. James, do you want to quickly share what that link is directing folks to?

James Isaacs: Actually, it's Kathy's link that I just did it for her. Kathy, you want to explain? You're on mute.

Kathy Szybist: Sure. Sorry. So that was just the Faircloth to RAD guide. And that should address the attendees question about when to submit or when to start the Faircloth to RAD application process.

Antonella Salmeron: Okay. I do see the follow up clarifying that. The previous question is for non MTW Faircloth to RAD augmentation flexibility expired on September 30th or PHAs may be rushing to get those applications in in that period between July and September when PIC is down.

Jane Hornstein: RAD will continue to process this. So that -- at this point, the PIC going down won't affect that as far as I know.

Antonella Salmeron: Since I do not see any other questions or hands raised. I think we can close this session. I appreciate everyone joining. Jane, anything to add before we say goodbye?

Jane Hornstein: No thank you, Antonella, and thank you, James and Katie. I think this -- hopefully this information was helpful for folks. And you can always submit further questions to [sacta@hud.gov](mailto:sacta@hud.gov). We're open to anything, and I hope we continue. Thank you.

Antonella Salmeron: All right. Thank you.

(END)