

HUD Section 202 w/ PRAC RAD Preservation



www.bedfordlending.com

Who is Bedford Lending

Company formed in 1991 – family owned

Headquartered in Bedford, N.H. with 5 offices nationwide

Approved to finance Apartment, Healthcare, and Hospital loans

Management averages 30 years commercial experience

Maintains highest designations –MAP and LEAN Approved

Direct FHA Lender

Certified to underwrite HUD loans Nationwide

Has closed over \$2 billion in loans

Bedford Lending Difference

- Bedford Lending is very experienced financing all types of affordable housing transactions including Section 202, Section 236, RAD and LIHTC properties.
- Bedford Lending will provide complementary guidance and assistance through every step of the process.
- We have helped preserve and recapitalize over 1,000 units of affordable housing in the past 10 years.
- Family owned and operated. We frequently help smaller non-profits secure funding that competitors will not. We are a direct lender, not a broker or intermediary.

About the 202 Program

- The Section 202 program was established in 1959 to provide affordable housing for low income elderly tenants.
- Originally the program provided direct *loans*, which are **already eligible** to be refinanced under our HUD 223f program.
- The 202 program changed in 1990 and began providing capital *grants* to developers to construct, acquire, and rehab properties.
- The capital grants are only required to be repaid if the owner fails to operate projects in accordance with 202 requirements. Although it doesn't bear interest, HUD is still protected by controlling the property through a note/mortgage similar to the 202 direct loans.
- Capital advance funds are no longer available.

Subsidy Type

- Originally based on budget, in the late 1970s, 202 projects started receiving long term 20 year HAP contracts.
- In 1990, when the program switched to capital advances, the rental assistance type was switched to **Project Rental Assistance Contract (PRAC)**, which operates like a Section 8 contract.
- Though Capital Advance funds are no longer available, HUD continues to support existing 202 Capital Advance properties with renewable **PRAC** contracts.

Preservation Option Challenges

1. Many Section 202 capital advance (PRAC) projects need capital improvements.
2. Current revenue from existing rent subsidy are not enough to prepay or repair property.
3. Project rental assistance contracts (PRAC) are approved initially for 3 years and renewable based on availability of funds.
4. Capital grant (PRAC) 202 properties were previously not eligible to refinance under the HUD 223f program.

Current Status

In January 2019, HUD published a draft housing notice authorizing PRAC 202 properties to convert their rental assistance contracts under the Rental Assistance Demonstration (RAD) Second Component.



RAD Overview

Rental Assistance Demonstration (RAD) is a voluntary program that allows public housing authorities (PHAs), and owners of other HUD-assisted properties (including PRAC 202s) to convert units to long-term project-based Section 8 contracts.

RAD Overview (con't)

RAD is a platform created and entirely operated by HUD, and is the most popular and widely used recapitalization tool for public housing and other HUD assisted properties available today.

- In 2018, RAD hit a milestone of 100,000 rehabilitated units, totaling \$5.7 billion in construction investment.
- 108,000 jobs were created as part of these construction efforts, many of which employed low-income residents.
- Asbestos, lead, and accessibility hazards were also mitigated as part of the repair work and new energy efficient systems and appliances were installed which will improve future cash flow.

RAD Program Structure

The RAD program has two components.

Component 1 – Convert public housing units to long-term, project-based Section 8 contracts (PBV or PBRA).

Component 2 – Legacy projects such as PRAC 202s, Rent Supp, RAP, and Mod Rehab can convert their units to long-term, project based Section 8 contracts (PBV or PBRA).

There is no cap on the number of units that can convert under Component 2.

PRAC 202 Conversion Overview

At the time of conversion, projects will be released from any outstanding obligations under the Capital Advance Agreement, the Capital Advance Mortgage Note, the Capital Advance Program Regulatory Agreement, the Capital Advance Program Use Agreement, and related or collateral documents associated with the PRAC and the foregoing documents and will enter into an Housing for the Elderly Declaration of Restrictive Covenants and Use Agreement (Elderly Housing Use Agreement), which will be recorded as a restrictive covenant in first position on the Covered Project.

The Elderly Housing Use Agreement will have a term of 20 years plus the balance of the term left on the Capital Advance Program Use Agreement at the time of conversion.

Any PRAC documents still in effect at the time of conversion will be terminated immediately prior to execution of a new PBV or PBRA HAP Contract and the Elderly Housing Use Agreement.

PBV vs PBRA

- **PBV Conversions.** If the Project Owner requests to enter into a Section 8 PBV HAP Contract, HUD will make a reasonable effort to find an eligible PHA with a Housing Choice Voucher Program and with operational jurisdiction, that is willing to enter into and **administer the PBV HAP Contract** with the Project Owner. The initial contract must be for a term of 20 years. Mandatory contract extensions of the initial term will be required.
- **PBRA Conversions.** If a Project Owner requests to enter into a Section 8 PBRA HAP Contract, the HAP Contract will **be executed by HUD's Office of Housing**. The initial contract must be for a period of 20 years and will be subject to annual appropriations. At expiration, the initial contract shall be eligible for renewal under the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRAA).

Rent Setting

The initial contract rents will be the lower of:

For PBV

- (a) the approved PRAC rents;
- (b) the reasonable rent (as defined under 24 CFR § 983.303);
- (c) an amount determined by the PHA, not to exceed 110 percent of the applicable FMR, minus any utility allowance; or
- (d) the rent requested by the Project Owner.

For PBRA

- (a) the approved PRAC rents;
- (b) 120 percent of the applicable FMR, minus any utility allowance

Rent Adjustments

Contract rents will be adjusted by an OCAF at each anniversary of the HAP Contract, subject to the availability of appropriations for each year of the initial term of the HAP Contract.

Eligibility

- Must be in good standing with HUD.
 - Must comply with fair housing and civil rights requirements
 - All properties receiving assistance through a PRAC are eligible. Projects with terminated PRAC contracts are not eligible.
 - A REAC score of 60 or above.
 - Property must be owned by non-profit entity.
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- Each project will be required to demonstrate that the needs of residents are adequately met either through a Service Coordinator (full-time or part-time) funded through the annual project budget or through another service coordination/service provision arrangement.
 - A capital needs assessment will be required, and repairs noted by report can be included in new loan as part of RAD conversion.

Tenant Protections

No tenant will be rescreened or lose housing assistance because of a RAD conversion.

Any relocation required during repairs is subject to the Uniform Relocation Act, and all tenants have the right to return to their housing when construction is complete. In our experience, even for substantial rehabilitation, tenant displacement is limited to a matter of days as units are fully renovated individually before the next is started.



HEAR WHAT THE RESIDENTS HAVE TO SAY



Ella Broadway
Baltimore, Maryland

"We hear things from residents like, 'Oh, I didn't know my child could live like this!' And that is wonderful."



Tracy Botsio-Boakye
Cleveland, Ohio

"When it was all done; when I walked into the space with everything, I just thought: this is incredible; this is amazing; and this is my home."



Raul Torres
El Paso, Texas

"It changed me—my life—dramatically, because you come into a brand-new unit."

Image courtesy of HUD.

Start the Process

The conversion of a Section 202 PRAC Project under RAD will entail:

1. An Initial Submission of Interest to HUD
2. Resident Notification and Consultation
3. Selection of PHA (PBV conversions only)
4. Conversion Plan Submission, RAD Approval, and Closing

To access the initial submission of interest, Project Owners must request access to the RAD Resource Desk at www.radresource.net

HUD will provide the Project Owner a confirmation of successful submission and assign a Transaction Manager, who will make contact to discuss the conversion process and the Project Owner's goals for the Project, and for PBV conversion, initiate the process to identify a PHA willing to administer the new PBV contract.

There is no fee associated with the initial submission, and there is no cap on the number of 202 PRAC Projects for which a Project Owner may make a submission. HUD will take no adverse action against a Project Owner who makes an initial submission but does not later submit a Conversion Plan.

Bedford Lending can assist with this process!

Resident Notification

For all conversions, a Project Owner is required to notify residents in writing of its intent to participate in RAD and is required to hold at least two meetings with residents.

Bedford Lending has sample information notices available to assist with this process

Conversion Plan

- The Project Owner must submit to HUD through the RAD Resource Desk a complete Conversion Plan that satisfies all RAD program requirements.
- Guidance in preparing the Conversion Plan is available in the PRAC Processing Guide located at http://www.radresource.net/2c_library.cfm.
- Additionally, Bedford Lending and the RAD transaction manager assigned to your conversion will assist with all documentation needed for the conversion plan.

HUD Financing

Because a RAD conversion requires a capital needs assessment, most use HUD financing to fund their improvements and repairs as it provides the highest leverage, longest term, non-recourse financing available.

HUD Financing Key Benefits

Features	Benefits
Fixed Rate for Entire Term (35 or 40 Years)	Preserve a project's long term affordability in a rising interest rate environment.
Footprint and Loan Size	Nationwide with no limitation on building type or location.
Leverage (LTV)	Fully subsidized projects qualify for a minimum of 90% LTV/C leverage, which can be increased with grants or other equity sources to exceed 100% of costs.
Bedford Compensation	We do not get paid until closing, so there is no reason to protract process if a transaction is not feasible.

Other Benefits of Combining RAD with HUD

- The HUD loan can fund a large Replacement Reserve deposit.
- **RAD conversions with HUD are eligible for a Developer's Fee up to 10% of the total development budget.**
- Consultant fees (if necessary) can be mortgaged.
- Can be combined with grant sources such as AHP or HOME funds.

Are Repairs Required?

Although RAD is typically used in combination with repair or rehab work, there is **no requirement or minimum amount of repairs required to utilize the program.**

For projects with no deferred maintenance or repairs (which is further supported with a property condition report), RAD can be used simply to convert the rental subsidy type without taking on any form of debt.

Bedford Lending RAD Experience

- Bedford Lending was one of the first HUD lenders to be involved in the RAD program, and has successfully funded small transactions with projects requiring minimal capital repairs, to large \$20,000,000+ rehabilitation transactions.
- In 2018, Bedford Lending became **the first HUD lender in the country** to combine the Section 18 Demo/Dispo program with RAD as part of a rehabilitation loan. The combination allowed 25% of the units to secure vouchers with higher rents than anticipated, which **reduced the borrower's equity contribution by over \$1.5mm.**
- We bring this type of strategy and creativity to every transaction and client we work with.

*Examples of BLC RAD /
Affordable Housing Closings*

40 Unit RAD Conversion



Bedford Lending provided a permanent 35 year fixed rate, HUD loan for an affordable housing project in the Northeast. The property was refinanced as part of a RAD conversion which allowed all of its public housing units to convert to long-term Project Based Rental Assistance.

The owners secured a **10% Developer's Fee**, funded over \$500,000 in capital improvements, and established a replacement reserve account with over \$475,000.

RAD Conversion & LIHTC Refinance



Bedford Lending provided a permanent 35 year fixed rate, HUD loan for a LIHTC property in the Southwest. The property was refinanced as part of a RAD conversion. Bedford Lending paid off the existing debt, including almost \$700,000 in outstanding Partnership debt, and lowered the interest rate significantly.

The owners also secured a 10% Developer's Fee, funded \$150,000 in capital improvements, and established a replacement reserve account with over \$200,000.

Section 202 Refinance



Bedford Lending provided a \$6.5mm permanent 35 year fixed rate, HUD loan for a Section 202 property in the South. Bedford Lending paid off the existing debt, and funded over \$2.2mm in capital improvements, including many energy efficiency measures which will result in significant annual savings.

The owners also secured a 15% Developer's Fee and funded a large replacement reserve deposit.

\$2,500,000 RAD conversion



Secured PBRA and converted Housing Choice Vouchers to PBVs to increase income, which allowed property to be refinanced and complete \$200,000 in capital improvements, and secure \$400,000 cash out for owners to deploy to other affordable housing properties in their portfolio.

Section 202 Refinances



Berlin, NH



Center
Sandwich,
NH



Manchester,
NH



Norwich,
VT



Northumberland,
NH



Philips, ME

In Conclusion

- If you are interested in learning more, we invite you to contact us for a discussion and overview about the benefits of RAD and HUD financing.
- We can complete complementary analyses to help educate and inform you about the HUD program, how RAD works, and what type of repairs can be supported as part of the new loan.

Contact Information

Kyle Jean
Managing Director,
kylej@bedfordlending.com

Bedford Lending
40 South River Road,
Bedford, N.H. 03110
Ph: [603.637.4684](tel:603.637.4684)
www.bedfordlending.com