



# RENTAL ASSISTANCE DEMONSTRATION

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U.S. Department of Housing and Urban Development

Secretary Julián Castro

*"The affordable housing crisis is growing. RAD is part of the solution."*  
Secretary Julián Castro



## Director's Corner

This month, we're shining a spotlight on housing authorities that have chosen to convert their entire public housing portfolios. This month's newsletter highlights some topics to consider when planning a whole portfolio conversion, as well as some best practices we hope will trigger further thought. We've also included a piece on the President's FY 2017 budget request for an expansion of RAD.

Please also take a quick visit to the "What's New" section of the RAD website, where you'll find links to new draft form documents and new draft resident toolkits. Both sets of documents would benefit from your review and suggestions before we finalize them for use.

—Tom Davis, Director, Office of Recapitalization

## Spotlight on PHA Full Portfolio Conversions

Beyond recapitalizing and preserving individual assets, RAD is an opportunity for Public Housing Agencies (PHAs) to substantially shift their affordable housing operating model to better meet the needs of residents and communities. Roughly 58% of all PHAs participating in RAD are converting their entire public housing program. To-date, 43 PHAs – ranging from a rural PHA in Iowa with 47 units to a regional agency in Mississippi with over 1,200 units – have completely exited the public housing program through a conversion of their full portfolio, while ensuring the long-term preservation of the affordable housing assets under the Section 8 platform. Based on our own insights and experience, and through conversations with some of these agencies, we wanted to lay out: Why have PHAs made the decision to convert their entire public housing stock? And, what are the lessons learned and best practices in doing so?

## Why have PHAs made this decision?

**Make financing work** – RAD gives PHAs the ability to access a more secure long term funding platform through the Section 8 program, offering project income stability that is attractive to investors. By converting all properties with a range of capital needs, PHAs have taken advantage of flexibilities like "rent bundling" (where contract rents can be modified across multiple CHAPs in a cost-neutral way) or by taking out financing or earning developer fees that can fill gaps at properties with greater needs.

## \$2 Billion Invested through RAD!

Three years after its launch, RAD has generated \$2 billion in private investment to make critically needed repairs and improvements to ~30,000 units of former public housing.

RAD is helping to address the capital backlog in the public housing program through private sector leveraging without increasing costs to the taxpayer. The process of converting deteriorating public housing to a project-based Section 8 model under RAD is proving to be a versatile tool for PHAs to preserve affordable housing, to serve more eligible households, and maximize the impact of scarce federal resources.

HUD has made awards to PHAs across the country for all of the 185,000 units currently authorized to participate in RAD and estimates over \$6 billion in new, largely privately funded construction investments will be made in the public housing units authorized to participate in RAD. With a waiting list of new applicants forming, HUD has asked Congress to eliminate the cap of 185,000 units so that any public housing property that can be preserved and improved through RAD is eligible. Read more [here](#).

## Spotlight on PHA Portfolio Conversions Continued...

Streamline program administration – Many PHAs have found that pursuing a portfolio conversion, while more complex, was worth the added effort in the long run because the Section 8 platform has a simpler regulatory framework, and one that many PHAs were already familiar with. Some PHAs already own Multifamily Section 8 properties making the transition of their public housing to PBRA relatively straightforward, while other PHAs that converted their portfolio to PBV have consolidated their affordable housing administration under their overall Housing Choice Voucher program. One PHA we spoke with noted that converting only a portion of their public housing would keep the PHA's feet “in both worlds” and add an additional program to comply with rather than substituting a simpler program to administer.

Stabilize funding – PHAs have been attracted by a full portfolio conversion as a means of hedging against the perceived downward trend in public housing appropriations. With predictable initial contract rents, an inflation factor that is applied to the contract rents annually (referred to as an Operating Cost Adjustment Factor, or OCAF), and no restriction on project cash flow, owners can stabilize property operations and earn reliable management fees. PHAs have commented on their ability to anticipate and see a direct financial benefit from efficient operations.

Completing the transition to asset management – Conversion to Section 8, with project-based funding, accounting and management, represents the culmination of the effort PHAs have made over the last decade to transition into a modern asset-management model. Many PHAs have embraced this change making conversion under RAD a natural fit.

### What lessons have PHAs learned?

Start planning early – Start early with the RAD PCA, because it will take some time to complete and analyze, especially for a full inventory conversion of any size. Have a PCA provider ready to begin work as soon as the CHAP is received. This might mean the PHA obtains bids while HUD reviews the application. Prepare materials for an environmental review as soon as possible. And locate the title, Declaration of Trust, and other related documents as early as possible, especially with older or scattered properties where this is a larger undertaking. These are the items that have been the cause of numerous closing delays. Consider also whether the PHA staff has the time and capacity to manage the process or whether to supplement with outside help.

Consider sequencing of conversion – Some PHAs choose to convert properties with lighter needs and less complicated financing structures first in order to learn the RAD process and in some cases generate cash to support future deals. Other PHAs have focused their attention first on their most distressed asset, where the urgency is greatest and where they need to maximize their chance at a 9% tax credit award or otherwise take advantage of a financing opportunity. There is no single “right” way; the important thing is for PHA's to thoughtfully plan out a strategy.

Consider training needs of staff – Some PHAs have found that the shift from operating Public Housing to managing Section 8 housing necessitates staffing rearrangements and occupancy training for frontline staff. Where PHAs are using tax credits in conjunction with the conversion, many PHAs are preparing their staff for tax credit compliance so that they are equipped to manage the properties post-conversion.

Systems – Make sure your subsidy and accounting systems are set up prior to conversion. Begin conversations with your current or future software vendors. Budget plenty of time for project unit inspection and for computer database processing. In one PHA's experience, they had approximately 1,400 new admissions to the Section 8 program effective on a single day.

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## President's 2017 Budget Requests RAD Expansion

The President's FY 17 budget request, which relays the President's budget priorities to Congress, included a number of provisions to expand RAD, strengthen resident rights, and ensure that public interest is preserved. Specifically, the proposed changes would:

- Eliminate the cap on the public housing units that can convert under RAD;
- Expand the second component of RAD to include the cost neutral conversion of properties assisted by Section 202 Project Rental Assistance Contracts (PRACs)
- Make \$50 million available to provide incremental subsidy, above their current funding levels, to public housing and Section 202 PRAC conversions;
- Authorize a tenant's right to continued occupancy under the second component; and
- Standardize ownership and control requirements for converted public housing properties

All-told, these revisions reflect a critically needed expansion to more fully unleash the potential of a program that in just a few short years has brought over \$2 billion in new construction funding to improve public housing properties and has preserved hundreds of properties otherwise at risk of being lost from the affordable housing stock.

### ***Why should the cap be eliminated for public housing conversions?***

HUD has made awards up to the Congressionally authorized 185,000 unit cap. We know that these awards take time to mature and close so that PHAs can arrange the financing that properties need, residents can be fully informed of the conversion, and HUD can perform its due diligence to ensure that program requirements are fully met and that properties are on stable financial footing for the long-term. Indeed, our patience has paid off: nearly 30,000 public housing units that have converted to-date have raised over \$2 billion towards new capital improvements while also budgeting for future capital needs that properties will accrue. HUD fully expects the pace of conversions to accelerate dramatically, as we have seen in the last four months, as awards that were made one to two years ago complete their maturation. In the meantime, however, a waiting list of over 8,000 additional units has formed and PHAs are actively preparing new applications. The primary way to make sure these applicants can begin that long planning process and successfully leverage the resources to transform their public housing stocks is to eliminate the cap on public housing conversions that could occur without additional subsidy.

### ***Why is the Department proposing to make properties assisted under the 202 PRAC program eligible for RAD?***

Much like Mod Rehab contracts, 202 PRACs receive annual subsidy renewal contracts that make underwriting of a major recapitalization challenging. Allowing them to convert to Section 8 in a budget-neutral way will allow them to secure long-term subsidy contracts and leverage mortgage financing and LIHTC investment to support recapitalization transactions. These properties are at a point in their life cycle where they're not yet in crisis, but are at risk of becoming so without a strategy to leverage financing.

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## President's 2017 Budget Cont'd... *Why is \$50 million needed?*

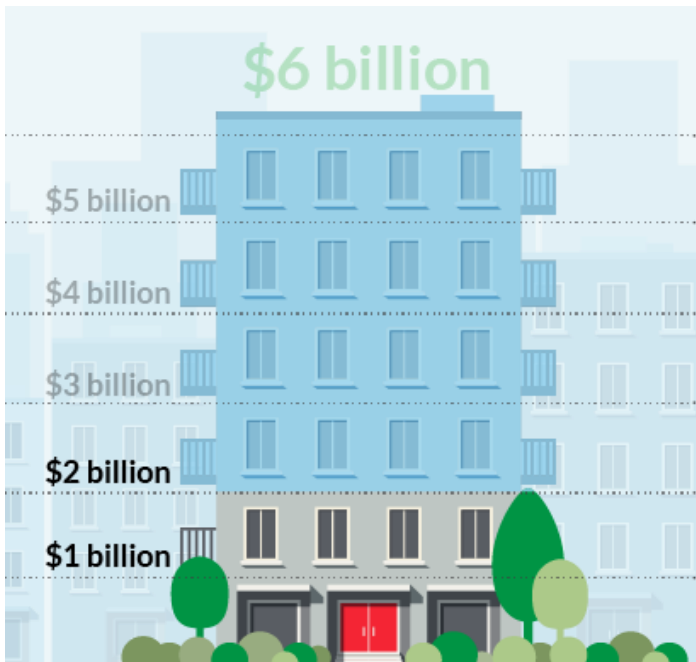
While HUD has and will continue to process as many cost-neutral conversions as possible, we are well aware that there are many properties that are in areas worth preserving, but that cannot address their capital needs without additional subsidy. PHAs have withdrawn dozens of awards under RAD for because the capital needs exceeded the financing that the property could support at cost-neutral rent levels. In many cases, even a modest subsidy increase would make a difference between a property that could successfully address its repair needs and be financially stable for the long-term and a property that cannot. HUD estimates that the \$50 million in incremental subsidies would support the conversion and redevelopment of approximately 25,000 public housing and 202 PRAC units that otherwise could not convert, thereby increasing private investment in targeted projects and surrounding neighborhoods.

### ICYMI

In an effort to help preserve and increase the amount of affordable, quality rental housing across the country, the Federal Housing Administration (FHA) announced a multifamily insurance rate reduction designed to encourage capital financing of affordable and energy-efficient apartments. The rate reductions announced will take effect on April 1, 2016, and will directly impact properties using FHA's Multifamily Housing Programs as part of the RAD-related financing by allowing the borrowers to leverage more debt without any increase in the monthly debt service payment. [Read FHA's new Multifamily Insurance Rates.](#)

Also, Multifamily published its revised Multifamily Accelerated Processing (MAP) Guide, which is intended to cut the time required to approve loan applications and to assure consistent application of program requirements and credit standards across all HUD processing offices. FHA's new MAP Guide delegates more underwriting responsibility to approved "MAP lenders" and includes all relevant guidance published by FHA since the MAP Guide was last updated in 2011. The latest revised MAP Guide was published January 29, 2016 and can be accessed [here](#).

## RAD Stats As Of 3/1/2016



### RAD 1st Component

	Units	Projects
Active CHAPs	102,319	893
Multiphase/Portfolio Reservations	48,462	322
Closed Conversions	29,039	273
Applications Under Review	13,216	156
<b>Total</b>	<b>193,036</b>	<b>1,644</b>
<b>Statutory Cap</b>	<b>185,000</b>	<b>N/A</b>
<b>Waiting List</b>	<b>8,306</b>	<b>N/A</b>

### RAD 2nd Component

	Units	Projects
Active Conversions	9,483	88
Closed Conversions	19,805	144

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