

RAD for PRACs

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HUD Section 202 Elderly Housing Projects Overview

- Enacted as Section 202 of the Housing Act of 1959, but has undergone several evolutions
- Three basic periods:

1959 to 1975

Direct Federal Loans without operating subsidy

1975 to 1990

Direct Federal Loans with long-term Section 8 housing assistance payments contract

1990 to Present

Capital Advance with long-term Section 8 Project Rental Assistance Contract (“PRAC”)

Section 202 Capital Advance Program/PRAC Projects

- National Affordable Housing Act of 1990 (Cranston-Gonzalez Act)
 - Capital Advance–1991 to present
 - Funding through Capital Advance not Direct Loan
 - Basically a grant or forgivable loan to the nonprofit owner
 - No interest and no repayment so long as project remains available for very low-income elderly persons for 40 years
 - HUD secures this use restriction through a note, mortgage, regulatory agreement, and use agreement

Project Rental Assistance Contract (“PRAC”)

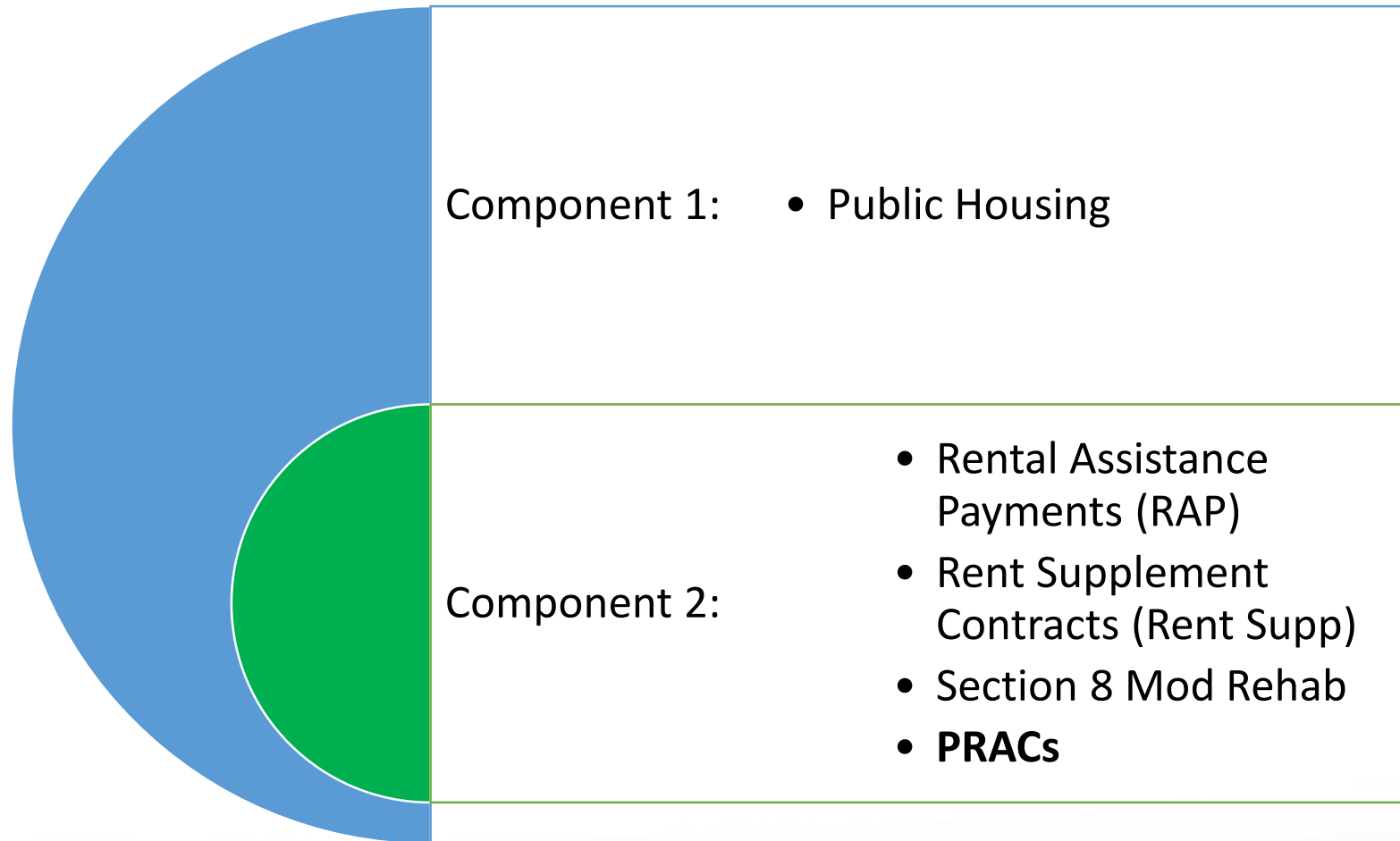
- All units shall be available for very low-income persons
- Terms of rental assistance
 - Basic income and rental terms are the same as for the Section 8 program
 - Rents are adjusted on a budget basis
- Term of the PRAC
 - Initially a 20-year term; reduced to five years in 1995 and further reduced to three years in 2006. One year renewals.

Refinancing of 202/PRAC Projects

- Challenges of Refinancing a PRAC Project
 - PRAC is not a long-term contract
 - PRAC funding does not include debt service: inability to leverage debt and equity financing
- Exciting Possibilities of the RAD Program!
 - Current status of RAD for PRACs legislation

RAD for PRAC Projects:

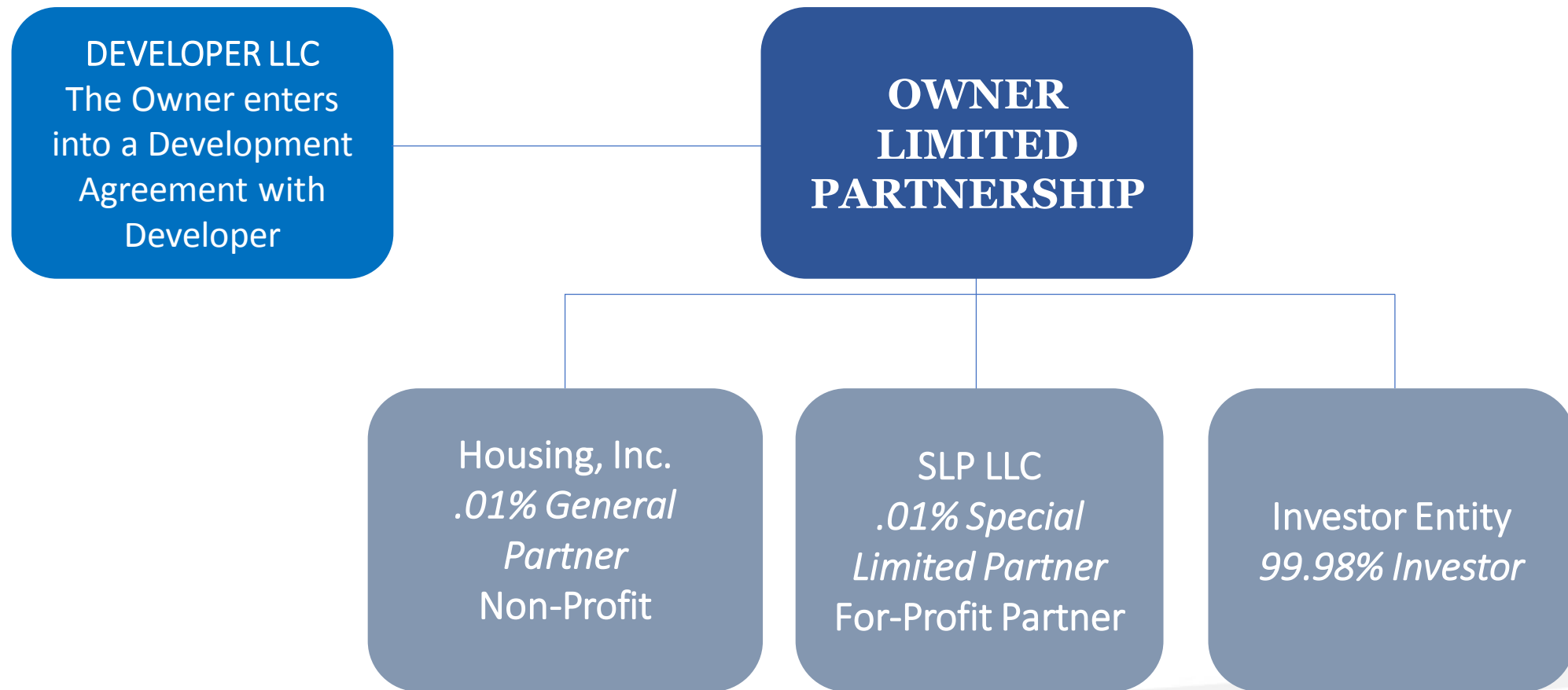
HUD has said this will be a “Component 2” Program



Refinancing PRAC Projects: Open Issues

- Rents
 - RAD as a “revenue neutral” program?
- Structuring
 - Assumes 202 Capital Advance Note and Mortgage would be subordinated to new financing
 - Non-profit Ownership Requirements (statutory)
 - Identity of Interest Issues for Management and GC

RAD FOR PRACs | Sample Organizational Chart



Thank You!



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