

RAD Updates NH&RA Annual Meeting

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RAD Conversions (Component 1) - Challenges

❑ Working with PHAs

- Sometimes challenging on older projects with greater needs and long histories

❑ PHAs and RAD

- Using LIHTC to improving existing housing
- Section 8 subsidy platform – more stability, better able to leverage debt for benefit of projects and residents
- Challenge - PHA no longer able to keep capital funds (but get PBV fee)

❑ Existing investors and lenders

- Typically not an issue these days – almost everyone is familiar and comfortable with Section 8 and understands the RAD program, including lender subordination requirements

RAD Conversions (Component 1) – Challenges, con't.

❑ Subsidy Structuring

- Section 8: PBV vs. PBRA – decide which works best for your project
- Rents – Program is revenue-neutral – no new funding from RAD, just converting existing subsidy.
- Set per RAD Notice based on “RAD rent base year” (starting 1/1/2021, reset every 2 years) as adjusted by OCAF
- Rents set based on average current PH funding levels applicable to the project in question, as limited by RAD rent caps (PBRA – 120% of FMR, plus utility allowance; PBV – 110% of FMR)
- Both PBV and PBRA RAD HAP Contracts are adjusted annually by OCAF; PBRA is renewable under MAHRAA/Section 8 Renewal Guide

RAD Conversions (Component 1) – Approaches

❑ Full RAD/Syndication

- RAD Conversion, property conveyance/ownership change, new financing, etc.

❑ Converting to RAD first, with an eye on refinancing/resyndication later

- Typically, a deal that is outside of its credit or compliance period and is in good repair without immediate need for substantial rehabilitation or major updates
- RAD Notice requirements regarding capital needs – assurance that in absence of resyndication, reserves will remain and long-term capital needs will be met
- No change in ownership or property conveyance at this point
- PBV vs. PBRA – if no other differences, PBRA can be a better choice in this scenario, particularly if planning to refinance

RAD Conversions (Component 1) – Approaches, con't.

❑ Existing MF Projects that have closed in the recent past

- Existing MF projects that probably should have been RAD in the first place, and that presumably have little capital needs
- Example: Mixed-Finance deal that closed 5 years ago, still has 5 years on credit period and ten on compliance period
- Convert subsidy to a more stable platform, but no or limited work and new financing
- Similar considerations for projects converting with an eye to refinancing/resyndication

Faircloth-to-RAD

- ❑ **Background – Faircloth-to-RAD - Closing Mixed Finance and then Converting to RAD**
 - Relies on PHA’s “Faircloth Limit” – the limit on number of public housing units
 - Section 9(g)(3) of the Housing Act of 1937 – prohibits PHAs from funding construction or operation of new PH units with capital or operating funds if the units would exceed the number of units owned, assisted or operated by the PHA as of October 1, 1999.
 - HUD believes capacity for 220,000 new units utilizing Faircloth-to-RAD
 - Develop units under Mixed Finance (MF) with pre-approval to convert to RAD
 - For PHAs developing or modernizing PH units owned by an entity other than PHA (although not necessarily a LIHTC partnership)

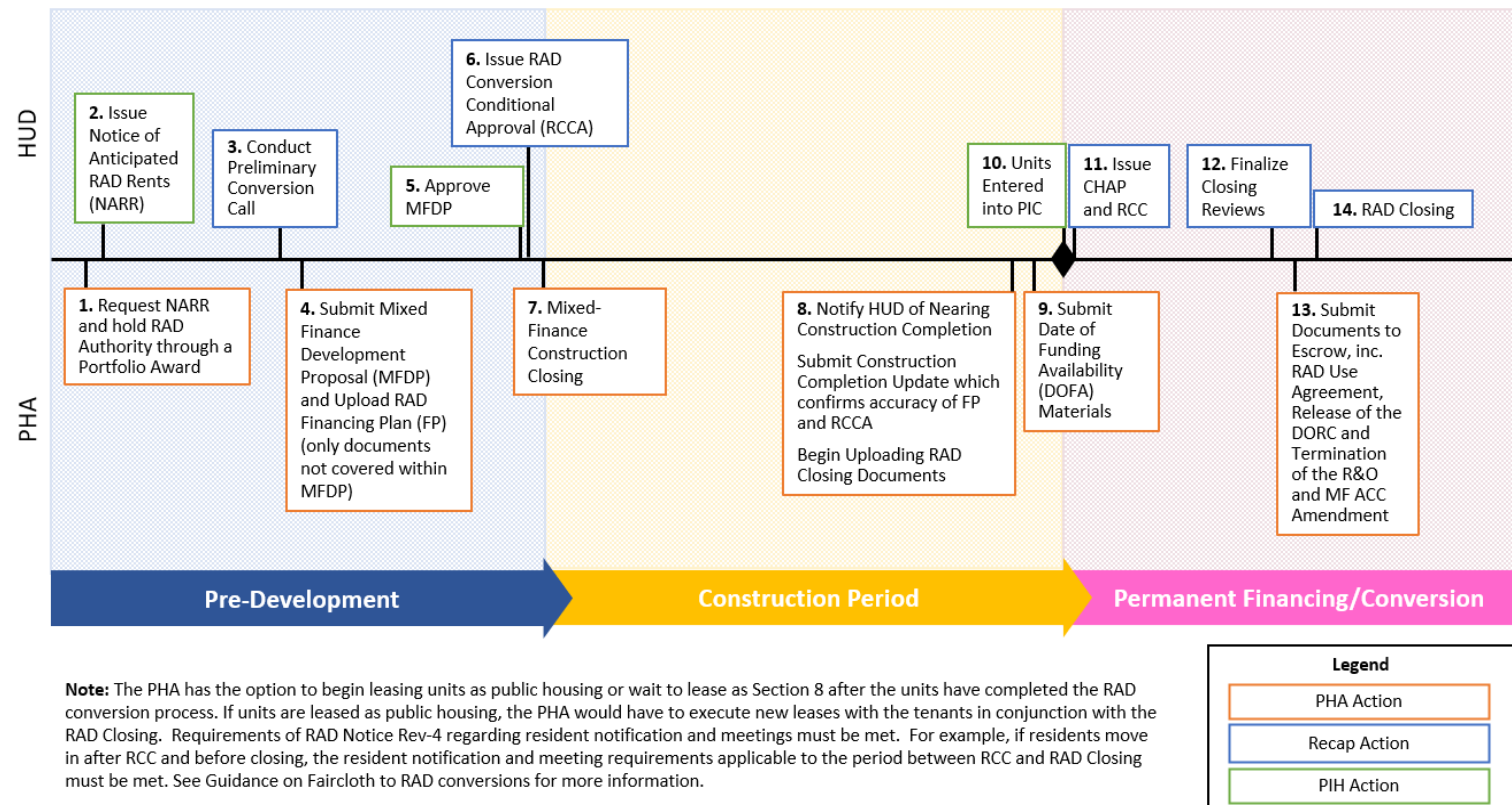
Faircloth-to-RAD

❑ Process - Closing Mixed Finance and then Converting to RAD

- Obtain a “Notice of Anticipated RAD Rents” (NARR) from HUD – equivalent of a RAD CHAP
- Submit Mixed Finance Development Proposal, along with additional RAD-required items, to both PIH and RAD
- Close using the public housing Mixed Finance (MF) process – MF approval letter accompanied by “RAD Conversation Conditional Approval” and draft RCC
- Immediately post-closing, project will have MF units subject to MF documents – construction updates provided to HUD
- When project nears completion, MF units then entered into PIC, RAD issues CHAP and RCC, and MF units are converted to Section 8 through the normal RAD closing process and documents

Faircloth-to-RAD – HUD Process Chart (from HUD)

Faircloth to RAD Conversion Process



Faircloth-to-RAD – The New Frontier

□ Potential Uses -

- PHAs utilizing excess Faircloth authority to develop (or provide subsidy to) new units
- Rent levels may be a challenge in many markets
- Consider existing or proposed units already subject to other restrictions (inclusionary zoning? LIHTC?)
- “Federalizing” state public housing stock (MA, CT, HI, etc.)

RAD Updates (Component 1)

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