

Rental Assistance Demonstration (RAD): Tales from the Front Lines of RAD Implementation



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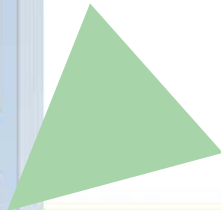
Chairperson: All phone lines are muted. Use chat to ask questions or make comments. Thank you.
Dave: How long will this meeting last?
Chairperson: About 45 minutes plus 10 minutes for Q&A



How to Make Your Next Business-Critical Web Event a Success: Tips from the Experts

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Today's Panel:

- Celia D. Smoot (*Moderator*)- LISC
- Catalina Vielma- HUD
- Michael Jacobs-NEF

Why RAD?

- Over 1 million units of public housing nationally
- At least \$25.6 billion in unmet capital needs
- 10,000 public housing units are lost annually to obsolescence and decay

...We all know RAD by now

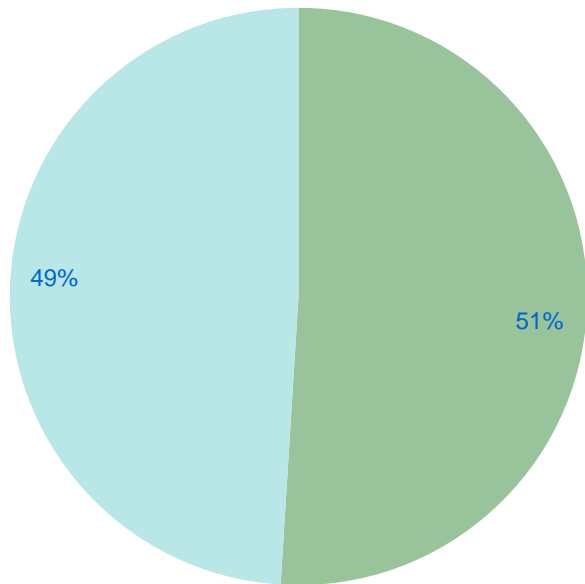
- Over 300 “live” transactions representing 56k units
- ~20 closings to date, 3 of which were FHA + RAD (Component 1)
- Processes, committees, and procedures in place

Transaction Types

1. No debt, conversion-only
2. Little debt, some rehab
3. Tax credits, medium debt, substantial rehab
4. Tax credits, higher debt, “gut” rehab/new-construction

LIHTCs and RAD

Active RAD Transactions
(data as of 5/14/14)

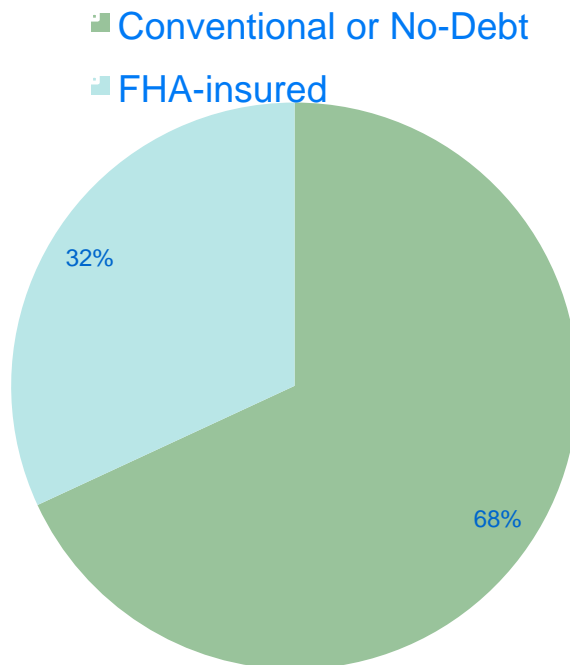


■ LIHTC ■ Non-LIHTC

- Healthy tax credit and debt appetite within current transactions
- “Marrying” tax credits, debt, and the RAD program
 - ...choose your partners carefully!

Debt and RAD

Active RAD Transactions
(data as of 5/14/14)



- Healthy debt appetite, regardless of LIHTC involvement
- FHA vs. conventional
- RAD Use Agreement always in first position

Common Issues (LIHTCs)

- Investor background: Lack of background on PH transactions can lead to difficulty structuring guarantees, equity pay-ins, underwriting...
- Ownership: RAD notice stipulates PHA must maintain “ownership interest”– some PHAs with little/no LIHTC experience find it hard to attain LIHTCs on their own, bring in developer... organizational structure worth reviewing early to ensure meets RAD notice.
- Application: RAD allows for one 9% application submitted at the next available window post-CHAP. Rolling 4% applications due within 90 post-CHAP. Limited flexibility as RAD built for closing one-year post award.
- HFAs: Some HFAs have been stuck on “back office” items, like rent bundling, CFFPs, etc. Let us know so we can help.

Common Issues (Debt)

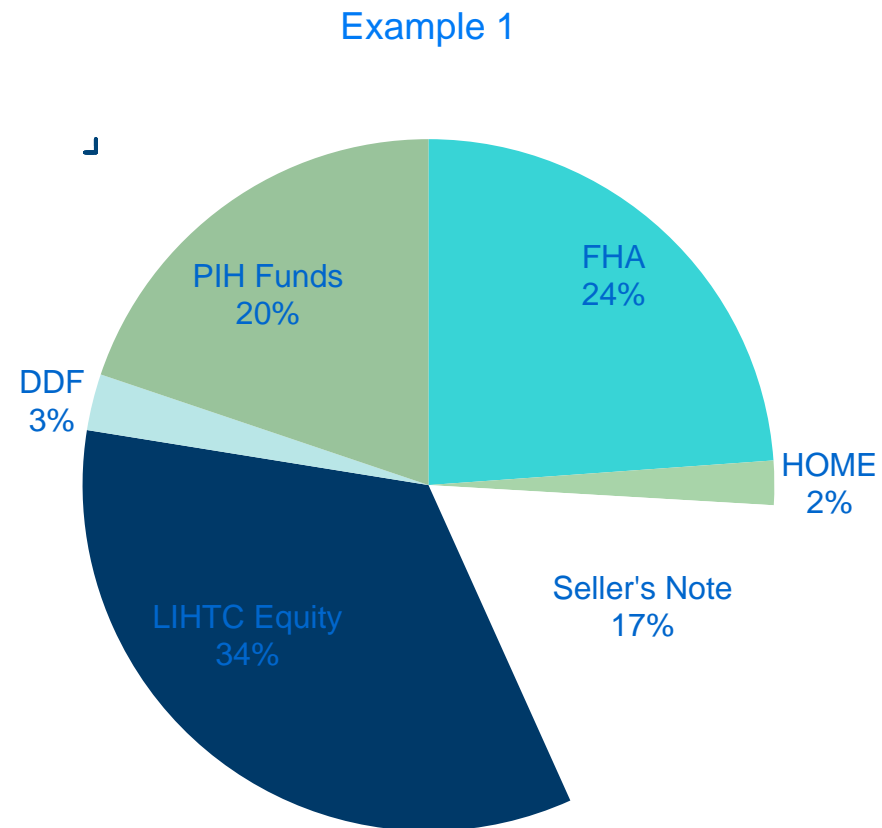
- Both...
 - CFFP, EPCs
- Conventional...
 - Some PHAs' rural locality affects banks' appetite
- FHA...
 - Scattered site, elderly, 20% LIHTC equity

What works

- Tax credits, medium debt, substantial rehab
- Tax credits, higher debt, “gut” rehab/new-construction
- Mix of tax credits, public housing capital, hard debt, secondary financing, and grants...

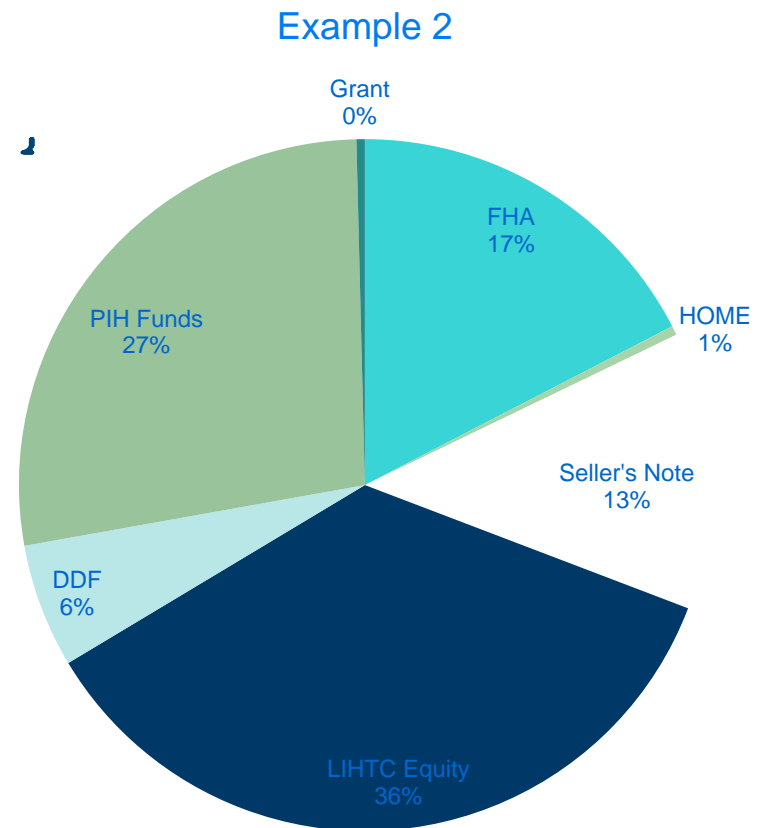
Example of Financing Structure

- 175+ units
- \$75k+/unit rehab
- Older PHA stock, built in mid-1970s without major work



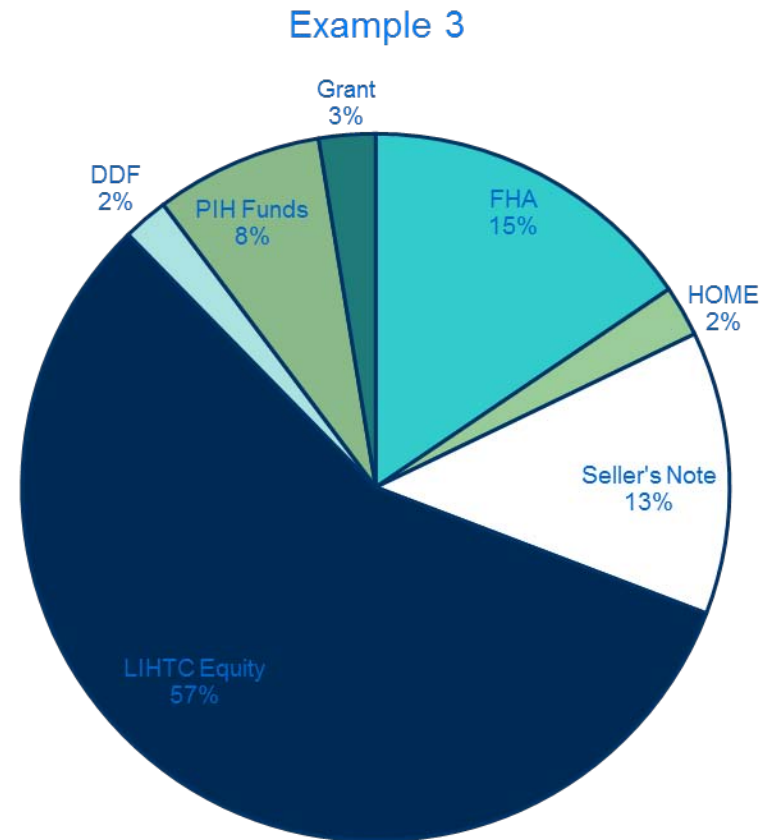
Example of Financing Structure

- 75+ units
- \$115k+/unit rehab
- Older PHA stock, built in mid-1970s with little/some rehab work



Example of Financing Structure

- 75+ units
- \$100k+/unit rehab
- Older PHA stock, built in mid-1970s, some rehab in 2000s



Questions?

- It's a demonstration program: HUD is learning alongside PHAs, syndicators, lenders, and developers
- Be patient and creative
- Reach out to colleagues

RAD Rents

Project Based Rental Assistance

Lower of:

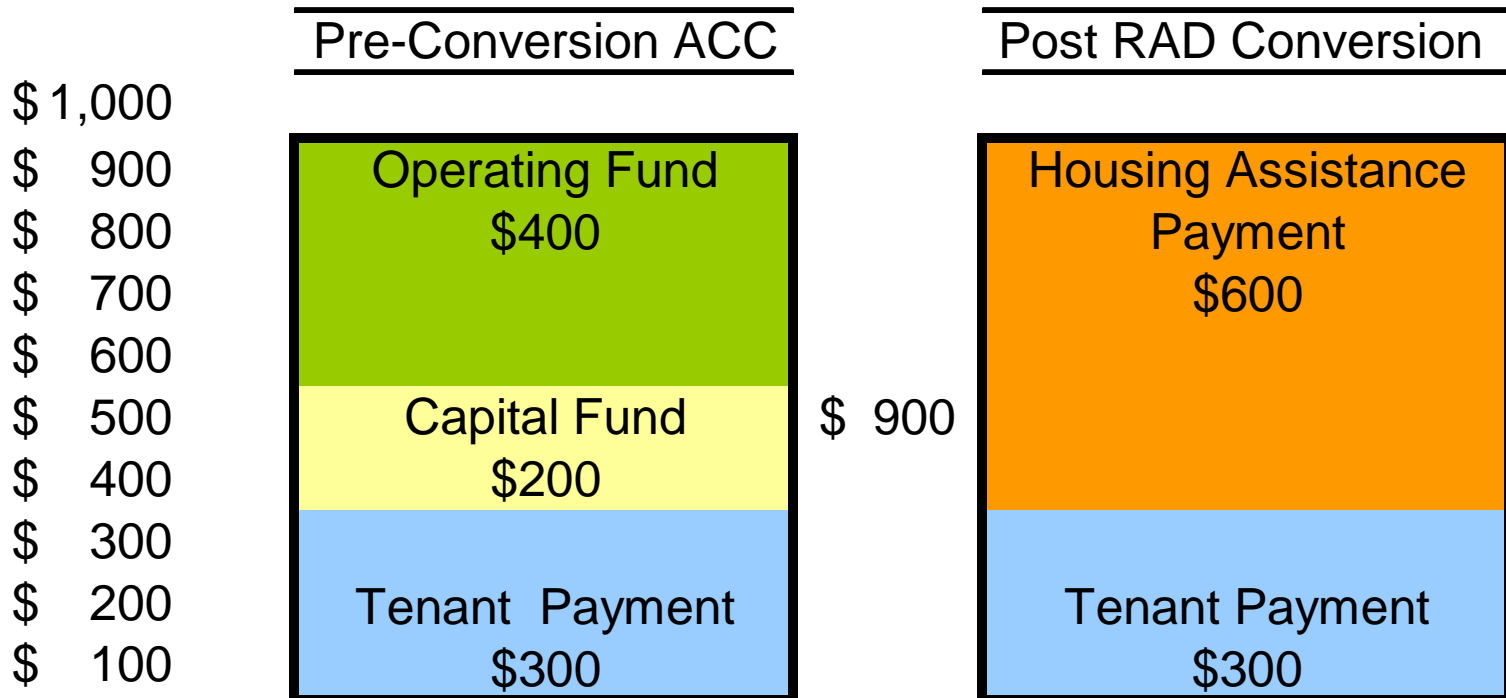
- Current funding or
- 120% of FMR (less utility allowance)
- EXCEPT where current funding is below market, wherein rent is limited to 150% of FMR

Project Based Vouchers

Lower of:

- Current funding
- 110% of FMR (less utility allowance)
- Reasonable rent

RAD Rents



Project Based Vouchers (PBVs)

- PBVs are governed by 24 CFR Part 983 in addition to several provisions under the Housing Choice Voucher regulations found at 24 CFR Part 982
- 20% Cap- Only 20% of a PHA's HCV can be converted to PBVs
- RAD eliminates 20% inventory cap
- 25% Cap- No more than 25% of units can be assisted by PBVs except for elderly, disabled or projects providing supportive services
- RAD raises PBV assistance cap to 50%

PBV – HAP Contract

- 15 Year HAP Contract Term (with ability to renew)
- RAD allows for initial 20 year HAP Contracts
- As long as renewals are offered they must be accepted
- Any change in financing will require HUD prior written approval

RAD Use Agreement

- Superior in lien priority
- Coterminous with the HAP Contract
- Transformation Provisions: If HAP Contract is abated due to breach, noncompliance or lack of Appropriations, income restrictions for new tenants are at or below 80% of AMI.

SHOW ME THE MONEY! DEBT PRODUCTS FOR RAD TRANSACTIONS

PERMANENT DEBT

- Fixed Rate
- Fixed Term (No less than 18 Years unless PBV HAP Contract is less than 18 Years)
- Fully Amortized (No More than 40 Years)
- Debt Service Coverage No Less Than 1.11

PHA ACTIVITY IN NEF PORTFOLIO

Total Projects		127
Total Units		8,884
LIHTC Units		8,481
HOPE VI		1,541
Gross Equity	\$	799,831,352

MAKE IT WORK! TOP THREE TAX CREDIT CHALLENGES TO RAD TRANSACTIONS

- **DEVELOPMENT CAPACITY**
- **GUARANTIES**
- **LIHTC PROPERTY MANAGEMENT**

MAKE IT WORK! TOP THREE TAX CREDIT CHALLENGES TO RAD TRANSACTIONS

DEVELOPMENT CAPACITY

- Investors have become more stringent on the need to have an experience LIHTC developer in place
- Choosing the RIGHT development partner becomes very important

MAKE IT WORK! TOP THREE TAX CREDIT CHALLENGES TO RAD TRANSACTIONS

GUARANTIES

- LIHTC transactions typically require certain guaranties to inure to the Investor.
 - Construction Completion
 - Operating Deficit
 - Tax Credit Compliance
- PHAs need to vet their capacity to provide these financial and operational guaranties

MAKE IT WORK! TOP THREE TAX CREDIT CHALLENGES TO RAD TRANSACTIONS

LIHTC PROPERTY MANAGEMENT

- PHAs now have new property management requirements:
 - Section 8
 - Tax Credit Compliance

CATALINA VIELMA- SENIOR UNDERWRITER MULTIFAMILY HOUSING DEPARTMENT HUD



Cat Vielma is a senior underwriter in the multi-family housing division of HUD. She works on HUD's FHA insured mortgages, with a particular focus on the tax credit pilot and Rental Assistance Demonstration (RAD) programs. As part of the RAD Team, she advises nine senior underwriters through their FHA/RAD transactions. Prior to HUD, Cat honed her underwriting skills at the National Equity Fund, a non-profit tax credit syndicator. She's a graduate of Williams College and a recipient of the Public Policy & International Affairs (PPIA) fellowship, which she completed at the Heinz School in Carnegie Mellon.

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Celia D. Smoot

Senior Program Officer- Housing LISC



Ms. Smoot joined LISC as a Senior Program Officer in 2009. She provides technical assistance to nonprofit entities managing and operating subsidized affordable multifamily housing. Ms. Smoot has a real estate financing background, specializing in affordable housing and community development projects. Prior to joining LISC, she was an attorney with the U.S. Department of Housing and Urban Development, Hessel, Aluise, and Neun, P.C., a private national law firm with an affordable housing focus, and Kutak Rock, LLP, a tax credit practice. She received a J.D. from George Washington University and a B.A. from the University of North Carolina at Charlotte.

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Michael Jacobs

SVP of Acquisitions

NEF



Michael Jacobs is a Senior Vice President and Head of the Originations Group overseeing the acquisition of low income housing tax credit properties throughout the US. Jacobs' acute sense of investment viability and long-term business perspective, along with his talent for collaboration helps maintain NEF's competitive edge over other syndicators. Jacobs has more than 19 years experience in the affordable housing industry. He is a graduate of Eastern Michigan University with a Bachelors of Science and he holds a Masters in Urban Planning from the University of Michigan.

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**THANK YOU! PLEASE ASK
QUESTIONS**

