



Rural Housing Service

Multi-Family Housing Program Overview

May 19, 2015



United States Department of Agriculture

What's New in Rural Development?

- 2015 Funding
- 2016 Budget Proposal
- Transfer Process Improvement and Underwriting
- Maturing Mortgages
- Management Fees



2015 Funding

- Rental Assistance funded at \$1.088 billion
 - Funds about 242,000 units
- Because our funding wasn't immediately available, we had to delay renewal of RA agreements during the winter.



2015 Funding

- Section 538 Guaranteed program funded at \$150 million
- Section 515 Direct funded at \$28.4 million
 - Expected to fund preservation of existing projects
- Total budget authority of \$20 million for the Preservation and Revitalization program
- \$31 million for farm labor housing (NOFA issued March 25 so it's not too late!)



2016 Proposed Budget

- Highlights of 2016 Multi-Family Proposed Budget:
 - Requested increase in several programs over 2015 levels
 - \$1.171 billion for rental assistance to fund 254,000 units – increase of \$83 million
 - Section 538 program authority proposed funding of \$200 million – increase of \$50 million
 - Section 515 proposed at \$42.2 million – increase of \$14 million
 - Preservation program proposed at \$19 million in budget authority – increase of \$2 million
 - Again proposed to make the MPR program permanent
 - Farm labor housing funded at \$31 million, same as 2015.



2016 Proposed Budget (cont'd)

- Special Initiative proposed in 2016
 - New initiative - \$15 million requested for limited new construction, additional rehabilitation, and funding incentives.
 - Combination of Section 515 funds, RA, and MPR.
 - New construction would be targeted to persistent poverty areas (Promise Zones, Strike Force areas)
 - Turning the battleship



Transfers and Underwriting

- Since mid 2014, Multi-Family has been working with stakeholders to improve the timing, predictability and consistency of its transfer underwriting and approval. These steps include:
 - Developing a Preliminary Assessment Tool
 - Purpose - Allow transfer applicants to understand RD underwriting requirements
 - Allow applicants to 'test' their transactions and determine they are financially feasible before going through the entire application process.
 - Provides ability for applicants to explain needed variations from Agency transfer principles
 - Eliminates need for multiple transfer reviews, reducing processing time
 - Tool will be available to the public soon



Transfers and Underwriting (cont'd)

- Revising Handbook to reflect greater consistency with industry underwriting standards.
- The National Office hired 4 additional staff to assist the field. These underwriters are assisting, or performing loan underwriting, on behalf of several states that do not have the capacity to do so. Additional underwriting support will reduce RD processing times and increase review consistency.
- Training field staff – In 2014, RHS provided 5 regional underwriting trainings to develop expertise in the field. Three additional underwriting trainings will be held in 2015.
- Replacing current RD underwriting template with modified Preliminary Assessment Tool – simpler to use and easier to understand, reducing underwriting mistakes.



Maturing Mortgages

- Many of RD's multi-family Section 515 property loans were originated in the 1970s and 1980s. Many of those loans are coming up on their maturity date. By 2024, over 11,500 Section 515 properties will have their loans pay off.
- Once the 515 loan pays off, the tenants are no longer eligible to receive RA.



Maturing Mortgages (cont'd)

- Rural Development (RD) is acutely aware of the challenges that maturing MFH property mortgages present to the Federal Government's important and invaluable investment in affordable rental housing for low- and moderate-income families.
- We have also reached out to a broad array of MFH stakeholders to consider tools and solutions that can help address this issue.



Maturing Mortgages (cont'd)

- Actions already taken include:
 - Allowing tenants in maturing mortgage properties up to 4 months to relocate with their RA;
 - Not accepting final payments prior to note payoff date; and
 - Proposing to extend voucher protections in 2016 budget.



Maturing Mortgages (cont'd)

- Issued Unnumbered Letter (UL) dated April 28, 2015.
Highlights of UL –
 - Borrowers do have options –
 - Reamortize for up to 20 years (aka “Ream Lite”)
 - Request debt deferral under MPR program
 - Request to prepay, OR
 - Take no action



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Maturing Mortgages (cont'd)

- Highlights of UL (cont'd)
 - UL contains –
 - Flow Chart of Process
 - Borrower Notification letter
 - Sample Tenant Notification letter
 - Format of the “Request for Exception to Avoid Maturity” – from the State Office to National Office
 - Lease Addendum for Borrowers with less than 12 months before maturity date.



Performance-Based Management Fee

- RD recognizes that property managers should be properly compensated for a job well-done. Conversely, poor performers should be incentivized to improve performance.
- RD worked with Industry groups representing CARH, IREM, and NAHMA in developing a performance basis.
- RD's proposed method starts with the current base management fee and adjusts upward using the OCAF based on project classification, and applies certain add-on fees depending on project classification.
- Final details and automation changes will need to be made and we anticipate implementation during the FY 17 budget cycle.