

Dear NAHMA Member:

Rural Development held a call with stakeholders yesterday. Here are some key points you should be aware of:

- Under the pro-rated share of funding it will receive from the continuing resolution, RD will not have enough money to renew contracts. It is requesting an “exception apportionment” from the Office of Management and Budget to get more money upfront for Rental Assistance (RA).
- As they did last year, RD is asking O/As who are due for renewal in October **not** to submit mortgage payments or RA requests before the October 1 due date.
- Senior officials confirmed there will be an increase in management fees for 2015. RD will apply HUD’s OCAF to the current state fee. A procedure notice on the fee increase is forthcoming.
- Within the next two weeks, Notices of Funding Availability (NOFAs) for the Multifamily Preservation & Revitalization Program and the Preservation Revolving Loan Demonstration Program should be published in the Federal Register.
- The Section 538 program has been accepted for securitization by Ginnie Mae.
- A significant amount of discussion was directed to RD’s controversial July 11 unnumbered letter, [“Prepayment Incentives Processing Guidance.”](#) Basically, the letter requires approval at the national office for preservation incentives which require additional Rental Assistance. Relevant excerpts from the letter state:

“Per CFR 3560.656 Incentive Offers, the Agency may offer the following incentives:

- 1) The Agency may increase the borrower’s annual return on equity;*
- 2) The Agency may agree to convert projects without interest credit or with Plan I interest credit to Plan II interest credit or increase the interest credit subsidy for loans with Section 8 assistance to lower the interest rate on the loan and make basic rents more financially feasible;*
- 3) The Agency may offer additional rental assistance or an increase in assistance;*
- 4) The Agency may make an equity loan to the borrower;*
- 5) The Agency will offer rental assistance to protect tenants from rent overburden caused by any rent increase as a result of a borrower’s acceptance of an incentive offer or tenants who are currently overburdened;*
and
- 6) In housing projects with project-based Section 8 assistance, the Agency may permit the borrower to receive rents in excess of the amounts determined necessary by the Agency to defray the cost of long-term repair or maintenance of such a project.*

Because of the funding situation, incentives (3), (4), and (5) shall not be offered to borrowers without the concurrence of the National Office. Concurrence from the National Office must be received prior to the states’ formulation of the general offer to the borrower seeking to prepay. In order to offer incentives (3), (4) and (5), the state office must provide the National

Office a justification that includes an explanation for the need to specifically offer RA incentives to retain that project and the importance of the affordable housing it provides in its community. Since additional equity loans may require additional RA to pay for the additional debt service, incentive (4) should only be offered when it is financially feasible without additional RA. As long as RA funding to a property does not increase as an immediate or future result of the offer, state offices may make specific incentives offers (1), (2), and (6) in accordance with CFR 3560.656 and with the State Director's approval."

RD officials stated they are not eliminating incentives, but they are making tough decisions with limited RA. They are asking state directors to make the case that a particular 515 property is important enough to keep in the portfolio because with the tight budget, the RA directed to preserve that property could come at the expense of another property's contract.

NAHMA is concerned about the potential difficulties this policy could cause for owners who want to preserve Section 515 properties. NAHMA's Rural Housing Committee will be carefully review this policy and recommend appropriate next steps.

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