

RD AN No. 3966 (1965-B)
April 9, 2004

TO: State Directors
Rural Development

ATTENTION: Program Directors, MFH Program Directors and Coordinators

FROM: Arthur A. Garcia (Signed by Arthur A. Garcia)
Administrator
Rural Housing Service

SUBJECT: Preservation Proposals for Equity Funding

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide guidance on how to access \$4.3 million of the Section 515 reserve that is made available to fund innovative approaches to preserve rental housing. For example, providing equity at the time of transfer to a nonprofit or public body in exchange for a restrictive-use agreement that assures that the project will remain as affordable housing for its remaining useful life would be considered an innovative approach to preservation. This AN announces that proposals to use funds should be submitted to the Office of Rental Housing Preservation (ORHP) by May 3, 2004.

COMPARISON WITH PREVIOUS AN:

Expired RD AN 3606 (1965-B), dated January 18, 2001, provided guidance on how funds may be used to allow for equity at the time of a within program transfer of ownership.

IMPLEMENTATION RESPONSIBILITIES:

States wishing to submit proposals for consideration for funding should submit a short request memorandum along with the basic project information contained on the top of Guide Letter 1965-E-1. Your memorandum should address the following:

EXPIRATION DATE: September 30, 2004

FILING INSTRUCTIONS:
Preceding RD
Instruction 1965-B

- The anticipated equity loan and the percentage of equity that the loan represents.
- The number of RA units needed (indicate whether family or elderly).
- The number of RA units available from unused RA in the State that you are willing to commit to the preservation of this project, and the number of RA units you are requesting from the National Office.
- The total number of units in the project.
- A brief description of the proposed transaction, if the equity loan is to be combined with tax credit proceeds or third-party financing for equity, or repair or rehab work.
- Will the transfer be to a nonprofit or limited-profit borrower entity?
- Will the property require repair or rehabilitation work and if so, the amount AND where the funds will come from? Specifically, will equity loan funds be used?
- Please delineate between deferred maintenance and normal rehabilitation and repair.
- If the limited-profit borrower is willing to accept 30-year restrictive-use provisions.
- Can the transfer be completed prior to September 30, 2004?
- Is there a potential impact on minorities and is the project needed in the community?
- Is the property under a restrictive-use agreement? If so, when do the restrictions expire?
- Is the property unrestricted?

The number and percentage of unused RA units you are willing to make available to the project being preserved will be the primary criteria for initial selection decisions.

To facilitate the preservation of existing multi-family housing projects, the Agency is willing to consider, on a case-by-case basis, allowing for an equity payment to the transferor at the time of a transfer. However, the following conditions must be met:

1. The appraisal for the equity determination will be at an “as-is” unsubsidized value.
2. The Office of Rental Housing Preservation (ORHP) must approve the equity payment using the process established on the incentive calculation worksheet. Project rents will not exceed comparable conventional rents.
3. The loan may be up to 100 percent of equity for nonprofit entities that agree to restrictive-use provisions for the remaining useful life of the project, or limited partnerships that agree to 30-year restrictive-use provisions.
4. The loan must be made in the best interest of the tenants and Government.

If a subsequent loan is completed as part of the transaction, an appraised value using subsidy and an “as improved” value may be used if appropriate.

We anticipate announcing funding decisions by May 31, 2004.

Please direct any questions about this issue to ORHP. You may contact Larry Anderson, (202) 720-1611, Laurence.Anderson@usda.gov or Cynthia Reese-Foxworth, (202) 720-1940, Cynthia.Reesefoxworth@usda.gov.