



Rental Assistance Demonstration

MOD REHAB CONVERSION PROCESSING GUIDE

RAD SECOND COMPONENT

OCTOBER 1, 2017

Moderate Rehabilitation Projects

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About this Guide and the Financing Plan

The ***Financing Plan Guide for Mod Rehab Conversions*** (the “Guide”) will walk you through the requirements to process a Moderate Rehabilitation conversion, including the application and the RAD Financing Plan (as outlined in Notice PIH 2012-32 (HA), REV-3). Additionally, the Guide will assist you in making sure you upload the necessary documents to the RAD Resource Desk so the HUD Reviewer/Transaction Manager assigned to your property can process your conversion. Each section of the Guide corresponds to the labeled matrix you will see in the Resource Desk as you submit your Financing Plan.

This Guide is specifically designed for RAD Moderate Rehabilitation (Mod Rehab) conversions. Where HUD has already issued specific guidance (e.g., in the form of HUD Notices) on the various components required as part of the Financing Plan, the Guide will provide limited information. However, each section of the Guide contains a “Resources” section with links to related guidance that will help you successfully complete each item. Where separate written guidance has not been issued, this Guide provides more detailed information. The Guide also provides a summary of HUD approvals that must be obtained prior to submission of the Financing Plan. Finally, Appendix A to the Guide consists of a streamlined checklist of the submission requirements.

How to Submit Your Mod Rehab Application

All Mod Rehab conversions are processed as RAD Second Component transactions. Prior to submitting a Financing Plan, an owner must make an initial submission to HUD indicating the owner’s interest in conversion under this Notice. The initial submission is submitted electronically to the RAD Resource Desk at www.radresource.net.

Below are instructions for creating an account and submitting an application for the RAD Second Component.

1. Go to www.radresource.net
2. Click “Public Access – 2nd Component”
3. Click “Create an Account”
4. Enter your information, selecting User Type “RAD Second Component Applicant” at the bottom. Click submit. NOTE: if you are applying for RAD 2nd Component, do not select any other user type. Only select “RAD Second Component Applicant.” If you are able, fill out the “Agency Name” or “Affiliate/Company” sections, but these are not required.
5. Once this has been submitted, you will see a screen that says “Your account has been created. You may login now.” Click on “login,” and log in using the username and password you just created (do not need to wait for a confirmation of approval).
6. Click “Submit an Application” at the bottom.
7. Follow instructions at the top of the page to begin the RAD 2 application process.
8. Complete the information (starred fields are required). Click “Submit Initial Interest to HUD.” Or, if you need additional time to fill out the required fields, you may click “Save for Later,” and submit to HUD at a later date.
9. After you have clicked “Submit Initial Interest to HUD,” you will receive a confirmation on your screen. Following this initial interest submission, HUD will assign a Reviewer/Transaction Manager, who will contact you to discuss the application process and your goals for the property. You may click “Continue with Application Submission” to upload any relevant documents, or “Return to Main Menu” to upload the required documents at a later time.
10. To submit a document, click “Upload Documents.” Then click “Choose File” under the corresponding section, and choose the file that you would like to upload for that section. If a document category is not applicable to your transaction, you may click “N/A” instead, and provide a brief explanation in the comment box. If you are not ready to submit a complete application, click

“Save”. However, once you upload all necessary documents and comments, click “Submit Application”.

11. You can view and upload additional information about your project any time you log on.

Tip: Assemble and electronically save your documents prior to uploading to the site.

Questions

If you have questions regarding the RAD Resource Desk or uploading documents, please contact the RAD2 inbox for assistance at RAD2@hud.gov.

Summary Overview of Transaction

A narrative summary of the property and your conversion goals. Include details such as a description of the property, background on financing and tenant type, proposed rehab, financing and any unique circumstances such as Transfer of Assistance, scattered site, etc.

What to Upload

- ✓ A narrative summary of the information specified in this section.

Mod Rehab HAP Contract

A copy of the current Mod Rehab HAP Contract(s), including all exhibits, is required. This should include the number of eligible units.

What to Upload

- ✓ A copy of the current Mod Rehab HAP Contract(s), including all exhibits.

HQS or REAC Inspections

The owner must provide evidence that the project meets the minimum threshold requirement of decent, safe, and sanitary housing. An owner must submit the project’s most recent Housing Quality Standards (HQS) or Real Estate Assessment Center (REAC) score as evidence that the project meets this minimum threshold requirement.

For PBV conversions, unless provided explicit approval by HUD (such as when the rehab anticipated in the conversion plan is needed to obtain HQS approval), the converting units must qualify as existing housing in order to be selected for conversion under the Second Component of RAD. The PHA must ensure that the units substantially meet HQS, as defined in the PHA’s Section 8 administrative plan, prior to project selection. Prior to entering into a PBV HAP Contract, the Administering PHA will inspect the units proposed for conversion to ensure that the units fully comply with HQS. The HAP Contract will not be executed until and unless the converting units fully meet HQS.

HUD requires that owners note and correct any deficiencies as part of the ongoing maintenance program, if any deficiencies are found during inspection.

What to Upload

- ✓ The most recent REAC or HQS inspection.
- ✓ If any deficiencies are found in the inspection, provide evidence or Owner certification that all deficiencies were corrected.

Owner in Good Standing

As part of the RAD program, owners must be in good standing with HUD and the PHA. The owner must have a history of compliance with program and contractual requirements, including maintaining units in a

decent, safe, and sanitary manner. After an application is submitted, your Reviewer will check that the owner is in good standing with HUD and the PHA.

What to Upload

- ✓ Certification by the PHA stating that the PHA is the current administrator of the Mod Rehab Contract. This can be done in writing or by phone.

Statement of Compliance with Fair Housing and Civil Rights

All owners must be in compliance with fair housing and civil rights requirements. An owner will not be eligible to participate in RAD if it has:

1. A charge from HUD concerning a systemic violation of the Fair Housing Act or a cause determination from a substantially equivalent state or local fair housing agency concerning a systemic violation of a substantially equivalent state or local fair housing law proscribing discrimination because of race, color, religion, sex, national origin, disability or familial status;
2. A Fair Housing Act lawsuit filed by the Department of Justice (DOJ) alleging a pattern or practice of discrimination or denial of rights to a group of persons raising an issue of general public interest;
3. A letter of findings or lawsuit filed by DOJ identifying systemic noncompliance under Title VI of the Civil Rights Act of 1964, section 504 of the Rehabilitation Act of 1973, or section 109 of the Housing and Community Development Act of 1974;
4. A cause determination from a substantially equivalent state or local fair housing agency concerning a systemic violation of provisions of a state or local law proscribing discrimination in housing based on sexual orientation or gender identity
5. A cause determination from a substantially equivalent state or local fair housing agency concerning a systemic violation of a state or local law proscribing discrimination in housing based on lawful source of income.

What to Upload

- ✓ Please provide an owner certification of compliance with Fair Housing and Civil Rights.

CoC Consultation/Support Letter (SRO Only)

The Applicant must meet with their Continuum of Care Provider (CoC) to explain the conversion of assistance, projected rehabilitation plans, the ongoing requirements for a preference for homeless individuals or families, coordinated entry for new homeless participants, any discretionary screening criteria to admission policies that will NOT be applied for converting SRO properties, and any plans to modify the means by which the project will provide housing for homeless individuals or families. To the extent that project plans entail either a reconfiguration of units, is serving a population not covered under the HEARTH Act, or includes a transfer of assistance, owners must secure support from the CoC.

What to Upload

- ✓ A letter of support from the CoC.

Certification of Compliance with Site and Neighborhood Standards

The owner (for PBRA) or the voucher administering agency (for PBV) shall include a certification that the site complies with applicable Site and Neighborhood Standards.

What to Upload

- ✓ A certification that the site complies with Site and Neighborhood Standards. Please use your own format.

Affirmative Fair Housing Market Plan

For PBRA conversions, evidence that a completed Affirmative Fair Housing Market Plan (AFHMP) has been submitted for approval to the local Fair Housing Equal Opportunity (FHEO) field office must be uploaded. Typically, the management agent or the entity responsible for marketing (if different) is responsible for completing and submitting the AFHMP. If a Project Owner plans to adopt any local or residency preferences, the Project Owner must submit its Tenant Selection Plan along with the AFHMP. Each Covered Project must have a HUD-approved AFHMP prior to closing.

The purpose of affirmative marketing is to ensure that individuals of similar income levels in the same housing market area have a like range of housing choices available to them regardless of their race, color, national origin, religion, sex, disability, or familial status.

What to Upload

- ✓ The completed Affirmative Fair Housing Market Plan. If not already approved, include the date submitted to FHEO

Choice Mobility Letter of Agreement (PBRA only)

A fully executed Choice Mobility Letter of Agreement signed by the PHA administering the vouchers is required for PBRA conversions. Alternatively, Mod Rehabs converting to PBRA may upload a request for a good cause exemption. See Section 2.6.J of the RAD Notice.

What to Upload

- ✓ A fully executed Choice Mobility Letter of Agreement signed by the PHA.

Resident Notification/Comments Received from Residents

In addition to posting adequate notice of and conducting two resident meetings, the RAD Notice requires substantive responses to comments received from residents and that those responses be included in the conversion application.

What to Upload

- ✓ Provide proof of written notification informing residents of the owner's intent to participate in RAD and the two upcoming resident meetings. The Notification letter must:
 - be delivered to all project residents, including each Mod Rehab-assisted household, as well as posted in the project office or other common area, and at no fewer than three prominent locations on the project site;
 - include the date and time of resident briefings;
 - include an estimated (for prospective) or actual (for retroactive) date of contract expiration or termination and the units that would be covered under a new PBV or PBRA HAP contract;
 - state the owner's plan for relocation, if applicable, as a result of rehabilitation or construction, including the expected length of relocation, household's right to return, and the owner's responsibility for covering relocation costs; and
 - supply information on the method to submit comments to the owner and provide for a 30-day comment period.
- ✓ Provide dates of the resident meetings held and a record of the responses (written or oral) to resident comments on the proposed conversion that were received in connection with such meetings, along with a description of how the residents' comments will be addressed in the conversion.

Resource Desk Guidance

- Sample resident letters can be found at http://www.radresource.net/2c_library.cfm

Proposed Units

Please provide the number of proposed units of each bedroom type. If reconfiguration of units is proposed, please also provide the proposed unit reconfiguration, as well as a narrative explanation of the proposal. This would include a description of the units to be removed and an explanation of why the project can better serve assisted residents at the reduced number. Information on reconfiguration can be found in Section 2.4.H of the Notice PIH 2012-32 (HA), REV-3.

What to Upload

- ✓ The number of proposed units of each bedroom type.
- ✓ Information on reconfiguration, if applicable.
- ✓ If reconfiguration causes displacement of tenants, include tenant consents to permanently relocate

Accessibility and Relocation Plan Checklist

All owners, regardless of whether or not the conversion involves relocation, must complete and submit the RAD Accessibility and Relocation Checklist. When there is no relocation, only a few questions are applicable. The template can be found on the [Resource Desk](#), under the Tenant Guidance section of the Second Component Document Library. The checklist includes a certification that the relocation plan complies with all applicable HUD requirements, including the Uniform Relocation Assistance and Real Property Acquisition Policies act of 1970 (URA) and its implementing regulations at 49 CFR Part 24, as well as Section 504 of the Rehabilitation Act of 1973 and its implementing regulations at 24 CFR 8.23. In the situation where there is no relocation, the checklist is the owner's certification that residents will not be relocated.

What to Upload

- ✓ The completed and executed RAD Fair Housing Accessibility and Relocation checklist. The form of the checklist is available on the [Resource Desk](#).

Resource Desk Guidance

- RAD Fair Housing Accessibility and Relocation Checklist
- [HUD Handbook 1378 Tenant Assistance, Relocation, and Real Property Acquisition](#)

Environmental Review

An environmental review is required for all conversions but the type of review and submission documents vary based on the type of conversion (PBRA which requires a Part 50 review, PBV with FHA-insured financing requires a Part 50 review, or PBV without FHA-insured financing which requires a Part 58¹ review). Please refer to the Environmental Review Requirements for RAD Transactions located in Attachment 2A of Notice PIH 2012-32 (HA), REV-3 for additional information.

What to Upload

For Conversions Requiring a Part 58 Review

- ✓ The completed HUD Form 7015.16; or
- ✓ A letter from the Responsible Entity conducting the Part 58 review indicating a finding of exempt activity under 24 CFR 58.34.

For Conversions Requiring a Part 50 Review

- ✓ HUD will complete the Part 50 environmental review (no need for the applicant to upload anything here).

¹ Environmental reviews for PBV projects will not be completed by HUD except in accordance with 24 CFR 58.11 in which case the review is done under Part 50 and will follow the guidance provided for PBRA conversions.

- ✓ An environmental report (consistent with instructions contained in Chapter 9 of HUD’s Multifamily Accelerated Processing (MAP) Guide); and
- ✓ A Phase I ESA in accordance with ASTM E 1527-13 (or the most recent edition). The Phase I ESA must be conducted within one year of the submission to HUD. This one-year requirement refers to the earliest of the date of the site visit, records review documents or interviews. A Phase I ESA that was conducted more than 180 days prior to the submission date to HUD, but within the allowable one-year period, must be updated pursuant to Section 4.6 of ASTM E 1527-05. A Phase I ESA prepared more than one year prior to submission to HUD, even if updated within 180 days of submission, is not acceptable. Note: For projects not undergoing substantial rehabilitation or new construction, you may instead submit a transaction screen in accordance with ASTM E 1527-18 (or the most recent edition) in lieu of a Phase I ESA.

Capital Needs Assessment

The RAD Capital Needs Assessment (CNA) consists of two parts: a written Narrative and an Excel Tool. The HUD Reviewer will evaluate the CNA as if underwriting the financial feasibility of the project. The results of the CNA must be incorporated into the applicant’s conversion plans (critical repairs, rehab needs, initial deposit to reserve for replacements, and annual deposit to reserve for replacements). Note that there are also requirements for utility saving components and green building and energy efficiency that must be included in the applicant’s plan.

Most transactions will require both the narrative report and the Excel tool. The narrative report is not required in these instances:

1. New construction or substantial rehabilitation projects
2. Projects less than five years old
3. Projects financed with Low Income Housing Tax Credits; and
4. Projects where the total number of assisted units (RAD and Section 8) will constitute less than 20% of the total number of units at the project. Some projects where less than 20% of the units are assisted may also be exempt from the portions of the Excel Tool as well.

In addition, HUD may exempt projects (e.g., projects where less than 21 units are assisted) from completing the appropriate utility consumption tool if it is determined that the project is exempt from utility consumption benchmarking under PBRA or PBV.

Tips for Submitting a Satisfactory Capital Needs Assessment

- Begin the procurement process early because of the lead time needed for completion.
- Do not upload the report and tool without carefully reviewing them first. There may be some discrepancies between the CNA, the Scope of Work, the Development Budget, and the 20 Year Reserve Schedule. Discuss any discrepancies with your third-party provider and be sure you can stand behind the report before uploading it for your HUD Reviewer and lender (if applicable).
- The CNA Tool, as well as additional guidance, can be found on the [RAD Resource Desk](#).

What to Upload

- ✓ The final version of the CNA narrative report (if required) and tool. The report must not be more than six months old.

Scope of Work

In addition to the CNA, the RAD Notice requires the submission of a Scope of Work for those required repairs and replacements identified in the CNA. The scope of work must:

1. Identify and address all repairs required in the CNA (including all items identified in the CNA as not functioning at the time of the site visit) or provide a written justification why those items are not included. Briefly discuss any differences between the conclusions / recommendations of the

CNA provider; the levels of immediate rehabilitation needs; and the owner's choices for replacement components.

2. Include quantities and costs. Rehabilitation estimates must be based upon reasonable market estimates of actual costs, confirmed either by cost estimating completed by the architect/engineer, or through actual competitive bids for major rehabilitation or construction items, in compliance with HUD requirements.
3. Include a summary of environmental issues known at that time, including, if the property was constructed before 1978, the need for lead-based paint abatement and lead-based paint hazard abatement, and a discussion of any planned environmental remediation (including post-closing Operations & Maintenance plans), and a summary of accessibility features that are required pursuant to fair housing law and regulations and the Americans with Disabilities Act and implementing regulations.
4. Include a description of how the owner will replace all utility consuming components that are past estimated useful life at the time of the RAD application (or that are not functioning at the time of the CNA inspection) with the most financially efficient alternative (taking into account initial cost and utility savings), as documented in the CNA.
5. Include a construction contingency of 10 percent (HUD may require a higher contingency on a case-by-case basis).
6. Include a reasonable timeline for completion of all rehabilitation items acceptable to HUD, generally 12 to 18 months from the date of closing the conversion and any financing, depending on the scope of rehabilitation funded.

What to Upload

- ✓ A Scope of Work with the above requirements.

Development Budget (Sources and Uses)

The Development Budget must include a reasonable, balanced and comprehensive presentation of all sources and uses of funds needed for the RAD conversion. The uploaded Sources and Uses should list out each source and each use in dollars. The sum of the sources should equal the sum of the uses.

What to Upload

- ✓ Subsidy Layering Review (SLR). Upload one if it has been performed by another agency. Note: If no SLR has been performed, HUD will complete one.
- ✓ Sources and Uses
- ✓ Narrative

Resource Desk Guidance

- A sample Subsidy Layering Review can be found at http://www.radresource.net/2c_library.cfm

Development Team

Successful RAD conversions require an experienced team that has the capability to take the property through the conversion process, manage any proposed rehab or construction, and manage the project after closing. Note: Resumes are not required but may be requested if additional information is needed.

What to Upload

- ✓ Organization chart for the ownership entity (existing, and if a sale is proposed, the new entity).
- ✓ A narrative description for each entity with the name of the entity, its role in the transaction, and a description of relevant experience. If multiple sources of financing are identified for the project, the development team must demonstrate that they have experience with at least three transactions with mixed or multiple sources of financing.

- ✓ For PBRA conversions all principals must have Previous Participation Certification in the Active Partners Performance System (APPS), and not be debarred, suspended, or subject to a Limited Denial of Participation. This process must be completed with your local HUD Field Office prior to conversion for a PBRA RAD conversion. Evidence of this submission in APPS should be uploaded in this section as well.

Proposed Financing

All sources of funds (loans, tax credits, grants, etc.) must be disclosed and meet the requirements described in the RAD Notice.

Tips for Proposed Financing

- Make sure there are no discrepancies between the rehab costs, the sources of financing, and the proforma.

What to Upload

- ✓ The latest lender, investor or grantor letter:
 - The letter must be dated no later than 60 days prior to Financing Plan submission.
 - The letter must include key terms such as funding amount, repayment terms, interest rate, amortization, maturity, prepayment restrictions, pay-in-schedule, etc. The key terms for any permanent financing must comply with conditions of the RAD Notice, such as fixed interest rate, fixed term, fully amortizing over the term, balloon payments are not permitted before year 17; and the amortization term cannot exceed 40 years. Refer to Section 1.4(B)(1) of Notice PIH 2012-32 (HA), REV-3 for additional guidance.
- ✓ The first mortgage lender's approval of all subordinate (or secondary) financing. All subordinate (or secondary) financing must be disclosed and then approved by the first mortgage lender as well as by HUD in accordance with Section 8.9 of the Mortgage Credit and Underwriting Processing Requirements of the **Multifamily Accelerated Processing (MAP) Guide**.
- ✓ Discussion of key milestones with estimated completion dates, as well as any known impediments to closing
- ✓ Terms for all seller-take back financing, if applicable

Operating Pro Forma

An operating pro forma that matches the 20-year term of the proposed PBRA or PBV HAP contract must be uploaded to the Resource Desk. The pro forma must comply with the feasibility benchmarks below.

- All other sources of project income must be supported with a narrative or must not exceed the average for the last three years (other income should not include interest income on the reserve for replacement account which must remain in the reserve and is not available for other purposes).
- Vacancy loss cannot be less than the greater of the average over the past three years or three percent (3%).
- Allowance for bad debt cannot be less than the greater of the average over the past three years or two percent (2%).
- Real estate taxes for Mod Rehab shall be no less than the most recent tax bill amount.
- Insurance costs must be documented, such as quotes from an insurance agent based on actual recent premiums for similar projects.
- All other operating expenses cannot be less than 85% of the average for the last three years.
- The annual replacement reserve deposit should be equal to that amount which if deposited annually, will be sufficient to fund all capital needs identified in the capital needs assessment (not otherwise addressed in either the rehabilitation or an initial deposit to the replacement reserve account). The deposit must also be sufficient to maintain a minimum balance at the end of each

year during that 20-year period that is at least 5 percent of the total, aggregate projected capital needs for that period.

- For conversions that include obtaining new debt, the HUD MAP Guide instructions for determining the annual replacement reserve deposit may be followed. These instructions allow the reserve account to go negative in years 11-20, providing that the negative balance does not exceed 50 percent of the first mortgage debt that has been retired (original mortgage balance less existing mortgage balance).
- For non-leveraged transactions, the stabilized cash flow should not be less than \$12 per unit monthly. For leveraged transactions, the debt coverage ratio should not be less than 1:10 over a ten-year period using 2% growth in revenue and 3% growth in expenses.

What to Upload

- ✓ A complete Operating Pro Forma that includes all major revenues and expenses for the project and applicable supporting documentation. It must match the term of the initial HAP contract. You can use a format of your choosing.
- ✓ If applicable, upload a narrative discussion of the energy and water savings that are anticipated as a result of the rehabilitation or construction and the basis for those estimates. The discussion must explain to what extent anticipated savings in utility costs have been included in the pro forma operating expenses.
- ✓ For real estate taxes, upload one of the following: 1. A legal opinion regarding the continuation of the PILOT following conversion or; 2. Evidence of real estate tax estimates if there is no PILOT.
- ✓ Upload insurance cost documentation, such as quotes from an insurance agent, based on actual recent premiums for similar projects.
- ✓ Supporting documentation (e.g. financial statements, narratives, etc.) from the last three years to support your pro forma numbers (e.g. other income, expenses, etc.) are underwritten to the guidance of Notice PIH 2012-32 (HA), REV-3.

Initial Contract Rent Setting

Rents cannot exceed the amounts permitted under program rules. If rents other than the existing rents are proposed, include supporting justification for the projected rents.

- PBRA:
 - Rent Comparability Study: Applicants are required to upload the Rent Comparability Study (RCS), which determines the comparable market rent. Guidance on the RCS can be found in the [Section 8 Renewal Policy Guidebook](#).
 - If proposing to use 120 percent of the applicable Fair Market Rent (FMR), less utility allowances, please provide an explanation. HUD may allow use of 120 percent of the applicable FMR as supported by an RCS in the case of projects that (i) preserve project-based rental assistance in communities with high percentages of rent-burdened households and where it is particularly hard to utilize tenant-based assistance, (ii) serve to expand housing opportunities in communities with poverty rates less than 30 percent, and/or (iii) support revitalization activities that are resulting in material private investment in the surrounding neighborhood. Refer to [Guidelines for Rent Setting in RAD 2 Properties](#) for additional information.
 - If proposing to use Small Area FMR in place of the FMR (pending HUD approval), please provide an explanation.
- PBV:
 - Applicants are required to upload a document from the PHA confirming that the owner's rents are consistent with the PHA's rent rules.

What to Upload

- ✓ PBRA applicants are required to upload the Rent Comparability Study and the Owner's RCS Cover Letter. Please also provide an explanation if proposing to use 120 percent of the applicable FMR or Small Area FMR.
- ✓ PBV applicants are required to upload a document from the PHA confirming that the owner's rents are consistent with the PHA's rent rules.

Market Study

A market study will only be required at HUD's request in cases where the project is currently experiencing a high vacancy rate or when project plans include unit reconfigurations or the inclusion of market-rate units.

What to Upload

- ✓ The completed market study, if requested by HUD.

Other Documents

This section allows you to upload documents that are not covered in other sections of the application but are relevant to your transaction. As previously noted in this Guide, you can add a description of the document when you upload it to the Resource Desk. Examples of documents you may want to add in this category include, but are not limited to:

- Utility allowance projections performed by a professional engineer when energy and water usage improvements are anticipated in PBRA conversions with tenant-paid utilities.
- A support letter from the PHA agreeing to administer the contract.

What to Upload

- ✓ Additional documents not covered in previous sections.

Conversion Process Flow Chart

Below is a high-level overview of a work flow for a Mod Rehab or Mod Rehab SRO RAD conversion:

Conversion Process

