



Rental Assistance Demonstration

MOD REHAB CONVERSION PROCESSING GUIDE

RAD SECOND COMPONENT

OCTOBER 2, 2019

Moderate Rehabilitation Projects

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About this Guide and the Conversion Plan

The **Conversion 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 Conversion Plan (as outlined in Notice H-2019-09 / PIH 2019-23 (HA), REV-4). 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 Conversion Plan.

This Guide is specifically designed for RAD Moderate Rehabilitation (Mod Rehab) conversions. All references to Mod Rehab and applicable requirements also include Mod Rehab SRO properties, unless specifically stated otherwise.

Where HUD has already issued specific guidance (e.g., in the form of HUD Notices) on the various components required as part of the Conversion 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 Conversion 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 Conversion 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 on “Login” – “Request a User Account.”
3. Enter your information, selecting User Type “Multifamily Owner/Applicant” at the bottom. Click submit. NOTE: if you are applying for RAD 2nd Component, do not select any other user type. Only select “Multifamily Owner/Applicant.” If you are able, fill out the “Affiliate/Company” section, but this is not required.
4. Once this has been submitted, you will see a screen that says, “Your account has been created and you may now login to the RAD Resource Desk.” Click on “login,” and log in using the username and password you just created (do not need to wait for a confirmation of approval).
5. Click “Submit an Application” next to My Applications.
6. Follow instructions at the top of the page to begin the RAD 2 application process.
7. Complete the information (starred and highlighted fields are required). Click “Submit Confirmation of 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.
8. After you have clicked “Submit Confirmation of 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 Home Page” to upload the required documents at a later time.
9. 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”.

10. 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.

Conversion Plan Overview

The overview should provide a narrative summary of the property and your conversion goals. Include details such as a description of the physical Project, the number of proposed units of each bedroom type, description of any leasing preferences for special needs population and services, project history, identification of immediate capital needs of the Project, identification of other properties to be held within the same ownership entity, anticipated financing that will be obtained to meet the capital needs, anticipated relocation, and circumstances such as new construction, Transfer of Assistance, scattered site, and reconfiguration of units.

What to Upload

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

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

Mod Rehab HAP Contract

A copy of the fully executed original and 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 fully executed original and current Mod Rehab HAP Contract(s), including all exhibits.

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.

Choice Mobility Letter of Agreement (PBRA only)

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

What to Upload

- ✓ A fully executed Choice Mobility Letter of Agreement signed by the PHA and the owner or a Good-Cause Exemption of the Choice Mobility requirement by the owner describing why Choice Mobility cannot be implemented.

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.

Important Notes

Section 8(c)(8)(A) of the Act requires that not less than one year before the termination or expiration of any contract under which assistance payments are received under section 8, which includes Mod Rehab Contracts (including SRO properties), the owner must provide written notice of the impending Mod Rehab Contract expiration to residents assisted under the Mod Rehab Contract. An owner requesting conversion under this Section of the Notice must comply with this requirement. However, conversion under this Notice will adequately protect residents from displacement and from an increase in the resident portion of the rent. Consequently, conversion may be processed and completed during the one-year notification period. If the owner has not provided residents with the one-year statutory notification at the time of the owner's request to convert assistance under this Notice, the owner must provide such notice prior to submitting its application for conversion.

For prospective conversions, if more than 50 percent of written resident comments disapprove of the conversion of assistance, HUD will contact the Project Owner to discuss options for proceeding with the conversion request or may decline the request. The owner must provide these comments in the PDF attachment, if applicable.

What to Upload

- ✓ Provide proof of written notification informing residents of the owner's intent to participate in RAD and the upcoming resident meeting. 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 the two 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;
 - include a description of any proposed rehabilitation or construction at the property, as well as, any change in ownership, unit reduction, or transfer of assistance;
 - 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 a copy of the notification letter that has been posted for tenants informing them of the RAD conversion.
- ✓ Include an attachment with a certification that the owner has held the required resident meeting and has provided residents with a reasonable period of time to submit comments on the conversion (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 https://www.radresource.net/mf_library.cfm.
- A sample one-year notification letter can be found at [Appendix 11-1 of HUD's Section 8 Renewal Guide](#).

Proposed Reconfiguration

If a reconfiguration of units is proposed, please provide a narrative explanation of the proposal, including a description of the units to be removed, an explanation of why the project can better serve assisted residents at the reduced number, and a letter of support from the COC if the project is a Mod Rehab SRO project. Also, please provide both the current unit configuration at the Mod Rehab project and the proposed reconfiguration at the Mod Rehab project. Information on reconfiguration can be found in Section 2.4.I of the Notice H 2019-09 / PIH 2019-23 (HA), REV-4.

Important Note: If the change in unit configuration results in a reduction of assisted and occupied units, PHAs may request TPVs for any eligible residents that elect not to return to the property upon completion of the change in unit configuration (see Section 2.4.F of the RAD Notice regarding Right to Return

requirements). The Office of Recapitalization will initiate the TPV request via a memorandum to the local Public and Indian Housing Field Office. TPVs must be issued before signing the HAP contract.

What to Upload

- ✓ Narrative explanation of proposal, including a description of the units to be removed and an explanation of why the project can better serve assisted residents at the reduced number.
- ✓ A written certification that the change in bedroom distribution will not result in the involuntary permanent displacement of any resident, and will not result in discrimination based on race, color, national origin, religion, sex, disability, or familial status.
- ✓ Both the current unit configuration and proposed reconfiguration at the property.
- ✓ If reconfiguration results in a reduction of units, the following will need to be submitted:
 - Rent Roll verifying the number of Vacant Units.
 - If reconfiguration causes displacement of tenants, include tenant consents to permanently relocate.
 - A narrative describing the selection criteria and process in which the tenant protection vouchers (TPV) were allocated to residents.
 - **Items to consider:**
 - How was your selection process non-discriminatory, fair, and equitable (e.g., lottery)?
 - If a certain unit type is being reduced, the owner must consider the characteristics of the residents being impacted.
 - Provide a tenant notification package in accordance with Section 2.8.3 of the Notice, regarding the TPVs that will be issued due to unit reduction. **Note:** This may be a separate notice if the owner did not notify residents of this unique situation during the RAD tenant notice. The owner must follow the same requirements for package submission as in 2.8.3 and Attachment 2A (i.e., PDF of tenant notice, comments, description of how they were addressed, and narrative/certification of meeting requirements).
- ✓ For Mod Rehab SRO properties contemplating reconfiguration, a letter of support from the Continuum of Care must be provided.

Capital Needs Assessment

Except as noted below, each project selected for an award will be required to perform a detailed physical inspection to determine both short-term rehabilitation needs and long-term capital needs to be addressed through a Reserve for Replacement (RfR) Account. A Capital Needs Assessment (CNA) must be submitted with the Conversion Plan.

The results of the CNA must be incorporated into the applicant’s conversion plans (critical repairs, rehab needs, initial deposit to reserve for replacements (IDRR), and annual deposit to reserve for replacements (ADRR)). Note that there are also requirements aimed at saving energy and water: for components that are being replaced and where Energy Star, Water Sense, and Federal Energy Management Program products exist, those products must be used; and for all components that use utilities or impact utilities (e.g., roof, windows), energy efficient alternatives must be evaluated and the most financially prudent decision must be selected for the property.

Type of Transaction	CNA Requirement	Threshold Triggering a CNA review	Exemptions
FHA Transactions	CNA eTool (<i>Per MAP Guide</i>)	N/A	Refer to MAP Guide

Non-FHA using Equity Sources of Financing	CNA that has been procured by lender and/or equity provider	ADRR below \$450 per unit per year	ADRR greater than or equal to \$450 per unit per year
Other Transactions (No FHA/Equity Financing)	CNA procured by lender or owner completed within 12 months of Conversion Plan	Conventional loan or no financing	Projects built within last 5 years or that qualify as New Construction or Substantial Rehab need not include an assessment of critical or immediate needs when submitting their CNA

Note: HUD may exempt projects from submitting a CNA where the project has 20 or fewer units or where the total assisted units (e.g., RAD units and other units supported by PBV, etc.) at the project will constitute less than 20% of the total units at the project (or a higher amount at HUD’s discretion).

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 without carefully reviewing it first. There may be some discrepancies between the CNA, the Scope of Work, the Development Budget, the Pro Forma, and the 20-Year Reserve Schedule. Discuss any discrepancies with your third-party needs assessor and be sure you can stand behind the report before uploading it for your HUD Reviewer and lender (if applicable).
- Ensure there are no negative balances in the RfR for Years 1-10.
- If Years 11-20 have negative balances in the RfR, ensure that you can demonstrate that any negative balances in the second 10 years of a RfR schedule do not exceed 50% of the cumulative amortization of the mortgage.
- The CNA eTool, as well as additional guidance, can be found on the HUD Capital Needs Assessment Tool [website](#).

What to Upload

- ✓ A copy of the CNA that has been procured, if applicable. Ensure the report is completed by a qualified, independent, third-party professional.

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. The comparables in the RCS should be in the same SAFMR. If comparables in the same SAFMR cannot be found that meet the criteria in Chapter 9 of the Section 8 renewal guide, then comparables outside of the SAFMR may be selected;

however, explanations and adjustments should be made accordingly based on the differences in the SAFMR.

- For projects undergoing work, ensure that an RCS is submitted that includes both “as-is” rents at the project and “post-rehab” rents at the project.
- 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 as part of the lesser of test
- ✓ 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.

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 of why those items are not included. Briefly discuss any differences between the proposed Work and the conclusions and recommendations of the CNA provider, additional scope items not identified in the CNA, and the Project Owner’s choices for replacement components.
2. Include quantities and costs. Rehabilitation cost estimates must comply with HUD requirements.
3. Include a summary of environmental issues and corresponding remediation activities known at that time, and a summary of accessibility features that are required pursuant to applicable accessibility standards and other accessibility requirements. Other accessibility requirements include, but are not limited to, physical features that need to be provided as reasonable accommodations for qualified persons with disabilities.
4. Include a reasonable timeline for completion of all rehabilitation items, acceptable to HUD, from the date of Conversion Closing and any financing, depending on the scope of rehabilitation needed.
5. For properties built prior to 1978, the scope of work must address lead safety with respect to paint, dust, soil (including compliance with 24 CFR 35, subparts B – R), and water (including lead service line replacement).

For Conversions using FHA financing or equity sources of financing, submit a copy of the Scope of Work included with the FHA Application for Firm Commitment, or submitted to the lender, equity provider (including LIHTC, historic tax credit, or Opportunity Zone equity providers), LIHTC allocating agency, or comparable funding source.

Tips for Submitting a Satisfactory Scope of Work

- Ensure the Scope of Work matches the Development Budget and Conversion Overview Submitted.
- For transactions that require a CNA, ensure the scope of work matches the rehab outlined in the CNA.
- For properties where alterations are being undertaken to a project that has 15 or more units and the cost of the alterations is 75 percent or more of the replacement cost of the completed facility, then owners must set aside 5% of the units for mobility and 2% of the units for visual / hearing.
- Execution of a PBRA contract through RAD that provides rental assistance to previously assisted units does not trigger Davis-Bacon prevailing wage requirements. However, to the extent that

construction or rehabilitation is performed on nine or more units that were not previously rent assisted or rent restricted and will be newly assisted as a result of the conversion transaction (including, without limitation, through transfer of assistance), such construction or rehabilitation is subject to Davis-Bacon prevailing wage requirements. In such cases, Davis-Bacon applies to a PBRA conversion to the same extent it would apply if the conversion were a PBV conversion.

What to Upload

- ✓ For all conversions not using FHA or equity sources of financing, submit a Scope of Work with the above requirements.
- ✓ For conversions using FHA financing or equity sources of financing, submit a copy of the Scope of Work included with the FHA Application for Firm Commitment, or submitted to the lender, equity provider, LIHTC allocating agency, or comparable funding source.
- ✓ For properties that have 15 or more units and the cost of alterations is 75% or more of the replacement cost of the completed facility, the owner must submit verification of the replacement cost and verification that 5% of the units have been set aside for mobility and 2% of the units have been set aside for visual / hearing impairment.
- ✓ Davis Bacon Wage Rate certification is needed to the extent that construction or rehabilitation is performed on nine or more units that were not previously rent assisted or rent restricted and will be newly assisted as a result of the conversion transaction.

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.

Transaction Type	Required Environmental Review
Non-FHA with PBRA	Part 50
FHA insured (including Risk Share)	Part 50
Non-FHA with PBV (including FHA Risk Share)	Part 58

For multi-phase developments, the environmental documents submitted with the Conversion Plan during the first phase must be submitted for the entire site, i.e., all of the phases of the multi-phase development, and the environmental review conducted during the first phase will cover the entire site. Further, requests to transfer assistance from the Converting Project to a new location are subject to environmental review.

Part 50 Specific Conversion Requirements		
Type of Transaction	HUD Review Required	Required Documentation
Part 50 without FHA insurance and without any rehab, construction or demolition (Refer to CPD Notice 2016-02).	Tiered Review (Coastal Barrier Resources Act, Flood Insurance, Floodplain Management, Contamination, Lead-Based Paint, Asbestos, and Radon)	Project Owners will be required to submit documentation to facilitate HUD’s site-specific review
Part 50 with FHA insurance and/or any rehab construction, or demolition	Full Part 50 Review	A transaction screen in accordance with ASTM E 1528-14 (or most recent edition) for conversions that do not include substantial rehab or new construction or a Phase I ESA in accordance with ASTM E 1527-13 (or the most recent edition). Owners may submit a Phase I ESA that is up to 5

		years old upon submission; however, it must be updated by a Transaction Screen that is up to 1 year old upon submission
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Note: For FHA financing, the review is completed by the HUD Multifamily Housing Production Office.

Please refer to the Environmental Review Requirements for RAD Transactions located in Attachment 2A of Notice H 2019-09 / PIH 2019-23 (HA), REV-4 for additional information.

What to Upload

For Conversions Requiring a Part 58 Review

- ✓ The completed HUD Form 7015.16 or a screenshot of the completed screen in HEROS; or
- ✓ A letter from the Responsible Entity conducting the Part 58 review indicating a finding of exempt activity under 24 CFR 58.34(a)(12). A sample letter is included in the link below under Resource Desk Guidance. Either a copy of the paper form or a screenshot of the completed screen in HEROS will suffice.

For Conversions Requiring a Part 50 Review

- ✓ **For All Part 50 Reviews (including Tiered Reviews):** Owners (or their vendors) must submit environmental reports and documentation for HUD review into the HUD Environmental Review Online System (HEROS), where HUD will complete its review.
- ✓ **For a Tiered Part 50 Review:** Project Owners will be required to submit documentation to facilitate HUD’s site-specific review.
- ✓ **For a Part 50 Review that does not include Substantial Rehab or New Construction:** A transaction screen in accordance with ASTM E 1528-14 (or the most recent edition of a Phase I ESA in accordance with ASTM E 1527-13 (or the most recent edition)
- ✓ **For a Part 50 Review:** A Phase I ESA in accordance with ASTM E 1527-13 (or the most recent edition). Owners may submit a Phase I ESA that is up to 5 years old upon submission; however, it must be updated by a Transaction Screen that is up to 1 year old upon submission.
- ✓ **For Projects contemplating rehab:** Provide verification that the estimated cost of rehabilitation is less than 75 percent of the total estimated cost of replacement after rehabilitation.

Resource Desk Guidance

- [Quick Reference Guide for Environmental Review Requirements for RAD Conversions](#): This guide has specific guidance relating to the MAP guide for Lead-Based Paint and Asbestos Containing Materials requirements that the vendor and owner must address in relation to testing, work, and Operations and Maintenance Plans when submitting the Environmental Portion of the RAD transaction.
- [CPD Notice 2016-02](#): Provides Guidance for Categorizing an Activity as Maintenance for Compliance with HUD Environmental Regulations, 24 CFR Parts 50 and 58.

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.

Important Tip: The cost of accessibility improvements and relocation must be fully funded in the Development Budget.

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 Exhibit 3-1](#)
- [RAD Fair Housing and Civil Rights Notice](#)

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 in the development budget, and the proforma.
- For conversions using FHA financing, the Owner must submit their FHA Application for Firm Commitment before the RAD Conversion Plan is submitted to the Office of Recapitalization.

What to Upload

- ✓ For each proposed loan, equity contribution, or grant, the Conversion Plan must include:
 - A brief discussion of conditions/milestones to be satisfied prior to closing, including any known impediments to closing within the timeframe required under the Notice;
 - Estimated closing date(s) for all proposed financing; and
 - The latest lender, investor, or grantor commitment letter:
 - The letter must be dated no later than 60 days prior to Conversion Plan submission.
 - The letter must include key terms such as funding amount, repayment terms, interest rate, amortization, maturity, prepayment restrictions, pay-in-schedule, etc.
- ✓ For Conversions not using FHA financing or equity Sources of financing, the owner must meet these additional requirements:
 - Key terms for any permanent financing must comply with the following conditions under RAD Notice REV-4:
 - Fixed rate of interest, for a fixed term, and fully amortized over no more than 40 years;
 - Not have a balloon payment until after the earlier to occur of a) expiration of the term of the HAP Contract or b) 17 years from the date of the permanent debt financing; and
 - Not have a debt service coverage less than the higher of 1.11 or lender requirements.
 - All subordinate (or secondary) financing must be disclosed and then approved by the first mortgage lender.
 - Terms for all seller-take back financing must be disclosed, if applicable.

- If project revenue or existing reserves will be a source of funding, submit evidence of the current account balances.

Development Budget (Sources and Uses)

All Development Budgets 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.

For Conversions Using FHA Financing, the Project Owner must submit the FHA Application for Firm Commitment review **before** the RAD Conversion Plan is submitted to the Office of Recapitalization.

For Conversions with New Financing (Not using FHA or Equity Sources of Financing), the owner must ensure that the Development Budget addresses the following:

- ✓ Identify existing loans or debt that will be paid off at the closing, if applicable.
- ✓ Include a construction contingency of 10 percent (HUD may require a higher contingency on a case-by-case basis) if the Project Owner plans to obtain new financing simultaneously with the Conversion.
- ✓ Demonstrate that any Identity of Interest (IOI) loans or advances will be converted to unsecured Surplus Cash Notes (Project's cash remaining, after debt service, project operational costs, and other permitted payments), unless otherwise approved by HUD.
- ✓ If applicable, identify the initial operating deficit during the construction period and how that deficit will be funded, such as an operating deficit escrow or similar fund.

Tips for Development Budget

- If Relocation is required, ensure that a Relocation Budget is addressed.
- Ensure the Development Budget rehabilitation matches the scope of work provided.
- Ensure the IDRR matches the Pro Forma and the CNA.

What to Upload

- ✓ For Conversions using FHA financing or equity sources of financing, submit a copy of the Development Budget included with the FHA Application for Firm Commitment, or submitted to the lender, equity provider, LIHTC allocating agency, or comparable funding source.
- ✓ For all other Conversions with New Financing (No FHA or Equity Financing), submit a Development Budget to the standards presented above.
- ✓ 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.
- ✓ For all conversions, provide a Narrative on the Development Budget (this can be addressed in the Conversion Plan Overview).

Resource Desk Guidance

- A sample Subsidy Layering Review can be found at https://www.radresource.net/mf_library.cfm.

Proposed Development Team

The Project Owner must identify the proposed legal entity that will own the Covered Project following conversion, the proposed management agent following conversion, and the “principals” of both entities. 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).
- ✓ For all conversions with a proposed change in ownership entity, the new Project Owner must provide evidence of successful experience owning and operating HUD or other multifamily housing properties.
- ✓ For all conversions with a proposed change in management agent, the new agent must provide evidence of successful experience managing and operating HUD or other multifamily housing properties.
- ✓ For all conversions in which Work is proposed, the Project Owner must submit the identity of the general contractor or construction manager, or a statement that the Project Owner will be managing construction directly, together with evidence of the general contractor's, construction manager's, or Project Owner's recent and successful experience with similar rehabilitation or construction projects.
- ✓ 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 the local HUD Field Office prior to a RAD PBRA conversion. Evidence of this submission in APPS should be uploaded in this section as well.

Resource Desk Guidance

- New Project Owners may be required to demonstrate that the criteria specified in [HUD Handbook 4350.1, Chapter 13, Change in Ownership: Transfer of Physical Assets](#) is met, in part or in whole.

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. Ensure that the rents in the revenue/income section have been underwritten to the correct program rules (PBRA or PBV).

For transactions with FHA financing or equity Sources of financing, provide a copy of the Operating Pro Forma that was submitted with the FHA Application for Firm Commitment or submitted to the lender, equity provider, LIHTC allocating agency, or comparable funding source.

For all other conversions, the pro forma must comply with the feasibility benchmarks below.

- Include columns capturing the average amount for the past three years for all line items listed in the Pro Forma. Provide explanations and/or supporting documentation for any major deviations of the historical average from the year 1 data entered on the Pro Forma.
- All other sources of project income must not exceed the average for the last three years (do not include interest income on the replacement reserve account).
- Vacancy loss shall be no 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%).
- All other operating expenses cannot be less than 85% of the average for the last three years.
- The ADRR should be equal to that amount which, if deposited annually, will be sufficient to fund all capital needs, as identified in the CNA, arising during the first 20 years and otherwise not addressed up-front in either the rehabilitation or an initial deposit to the replacement reserve account.

- The Owner should use reasonable estimates for inflation, but in doing so, the rate for escalating the increase in repair costs should not exceed the rate of interest on reserve deposits by more than 1%.
- HUD may consider alternative arrangements with respect to the Initial Deposit to the Replacement Reserve (IDRR) if risks to the Covered Project can be adequately mitigated.
- 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, provided 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.

Tips for Pro Forma

- Ensure the rents are being underwritten to the correct RAD program (PBRA or PBV).
- The ADRR should match the amount proposed in the Conversion Overview and CNA, if required.
- Provide a narrative and supporting documentation for major deviations from the 3-year historical to the Year 1 numbers.

What to Upload

- ✓ For transactions with FHA Financing or equity Sources of financing, provide a copy of the Operating Pro Forma that was submitted with the FHA Application for Firm Commitment or submitted to the lender, equity provider, LIHTC allocating agency, or comparable funding source.
- ✓ For all other transactions, provide:
 - 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.
 - 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.) that are underwritten to the guidance of Notice H 2019-09 / PIH 2019-23 (HA), REV-4.

Market Study

A market study or net demand analysis may 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.

What to Upload

- ✓ The completed market study or net demand analysis, if requested by HUD.

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 (Section 2.4.H of the RAD Notice, REV-4).

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 Multifamily Regional Center 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. The AFHMP may not conflict with any special condition arising from the RAD conversion or any provision in a remedial order or agreement. 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 it was submitted to FHEO.

Coordination with Continuum of Care (SRO Only)

Mod Rehab SRO projects converting under RAD must provide a certification with their Conversion Plan as evidence that the local CoC has been consulted with regard to the RAD conversion, and that it will report under the CoC's Homeless Management Information System (HMIS) and the annual Housing Inventory Count (HIC). To the extent that project plans entail a reconfiguration of units or include a transfer of assistance, owners must also secure a support letter from the CoC.

What to Upload

- ✓ Owner certification that the local CoC has been consulted, **and** that the owner will participate in the CoC's Homeless Management Information System (HMIS) and the annual Housing Inventory Count (HIC).
- ✓ A letter of support from the CoC to the extent that project plans entail a reconfiguration of units or include a transfer of assistance.

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, the 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 Owner is in good standing and that the owner has a history of compliance with program and contractual requirements, including maintaining units in a decent, safe, and sanitary manner.
- ✓ If the acquisition occurs prior to the expiration or termination of the Mod Rehab Contract, the Administering PHA must consent to the assignment of the contract, in accordance with the provisions of the Mod Rehab Contract. Provide the PHA's consent to assignment.

Transfer of Assistance

Where an Owner proposes assistance to be transferred to a new site as part of the conversion, Owners are strongly encouraged to request HUD approval of the proposed site prior to submission of the Conversion

Plan. The Owner is strongly encouraged to complete the RAD Transfer of Assistance Site Proposal Worksheet and upload the document to the RAD Resource Desk.

When complete, Owners should upload the Excel version of this file to the RAD Resource Desk Conversion Plan grid by selecting "Transfer of Assistance" as the Document type. Failure to upload using the correct selection will result in delayed processing. If the proposed transfer of assistance will take place in phases, submit one worksheet for each phase.

Further, HUD will consider whether conversion on-site is economically non-viable; whether the Converting Project is physically obsolete or severely distressed; how the transfer would affect the Converting Project's residents; and all applicable fair housing and civil rights requirements.

For PBV transfers of assistance to a new site, the Mod Rehab contract will remain in effect at the original site and will not be terminated until the units at the new site are ready for occupancy and the new HAP Contract is executed. For PBRA transfers of assistance, the new HAP Contract can be executed at the close of construction financing and the Project Owner can use the Section 8 Pass-Through.

Important Notes:

- Transfer of assistance does not include transfers to an adjacent site.
- Execution of a PBRA contract through RAD that provides rental assistance to previously assisted units does not trigger Davis-Bacon prevailing wage requirements. However, to the extent that construction or rehabilitation is performed on nine or more units that were not previously rent assisted or rent restricted and will be newly assisted as a result of the conversion transaction (including, without limitation, through transfer of assistance), such construction or rehabilitation is subject to Davis-Bacon prevailing wage requirements. In such cases, Davis-Bacon applies to a PBRA conversion to the same extent it would apply if the conversion were a PBV conversion.

What to Upload

- ✓ RAD Transfer of Assistance Site Proposal Worksheet
- ✓ For PBRA, ensure the local HUD Multifamily Field Office is contacted regarding Section 8 Pass-Through. Correspondence with the local office should be uploaded to the Resource Desk.
- ✓ Davis-Bacon Wage Rate certification is needed to the extent that construction or rehabilitation is performed on nine or more units that were not previously rent assisted or rent restricted and will be newly assisted as a result of the conversion transaction.

Special Provisions Affecting Conversion of SROs

Homeless Preference

All properties converted shall follow procedures under the PBV and PBRA programs to establish an admissions preference for converted properties for homeless individuals or families. Please refer to Section 2.7.A of the RAD Notice, REV-4 for further guidance on how the owner (through a Tenant Selection Plan for PBRA) and PHA (through their administrative plan for PBV) should establish the preference.

Tenant Selection in Permanent Supportive Housing

In setting preferences for new admissions following accommodation of current residents pursuant to Section 2.4.F of the RAD Notice, REV-4, the Administering PHA or Project Owner may not deny admission to or otherwise discriminate against or among any federally protected classes, including among different groups of persons with disabilities. Although an owner or PHA may adopt a preference for admission of

families that include a person with disabilities, the owner or PHA may not adopt a preference for admission of persons with a specific disability. However, please refer to Section 2.7.E of the RAD Notice, REV-4 for additional guidance regarding a preference for households with individuals who would qualify for certain supportive services offered at the property.

For Mod Rehab SRO projects converting assistance to PBV:

The Administering PHA may establish a selection preference for families who qualify for voluntary services, including disability-specific services, offered in conjunction with assisted units, provided that the preference is consistent with the PHA plan. The voluntary services may be designed to be particularly beneficial for specific subpopulations, pursuant to PBV program requirements.

For Mod Rehab SRO projects converting assistance to PBRA:

The Project Owner may establish a preference for admission of households including a person who qualifies for the services provided at the site, including services, aids, benefits, and accommodations which are designed to be particularly beneficial for specific subpopulations, if it is determined that all of the criteria in Section 2.7.E of the RAD Notice, REV-4 are met.

What to Upload

- ✓ *For PBV Conversions:* The determination made by the Office of Fair Housing and Equal Opportunity, in consultation with the Office of General Counsel regarding the preference.
- ✓ *For PBRA Conversions:* The authorization to implement the preference by regional asset management staff and by the Office of Fair Housing and Equal Opportunity staff, in consultation with Office of General Counsel staff in the applicable HUD Region, that the Project Owner's determination documentation is adequate for purposes of HUD's limited review.

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 work flow overview for a Mod Rehab or Mod Rehab SRO RAD conversion:

