



OFFICE OF HOUSING

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

MAR 12 2020

MEMORANDUM FOR: Project Rental Assistance Contract (PRAC) Property Owners

FROM: C. Lamar Seats, Deputy Assistant Secretary, Office of Multifamily Housing Programs, ~~HT~~

SUBJECT: Update on Budget Based Rent Adjustments for Properties Assisted under Project Rental Assistance Contracts (PRACs)

I am pleased to announce the Office of Multifamily Housing has resumed routine processing and approval of budget-based rent adjustments to increase Reserve for Replacement deposits at properties assisted under Section 202 Project Rental Assistance Contracts (PRACs). As you may be aware, in July of 2019, the Office of Multifamily Housing Programs temporarily suspended approvals for this type of increase due to escalating subsidy requirements that strained the program's annual budget. Since that time, HUD has continued to approve PRAC rent increases to cover core operating cost needs, such as changes in utilities, routine maintenance, taxes, critical repairs, etc. With appropriations for the full fiscal year now available, HUD has a clearer picture of the resources available for rent increases in 2020.

As our office awaited enactment of the FY 2020 Appropriations Act, we undertook a much-needed effort to standardize our field office procedures for reviewing PRAC Capital Needs Assessments (CNAs) and determining how those capital needs should be reflected within the annual PRAC project operating rents. Our updated process prioritizes core operating costs for all renewing PRAC contracts, while recognizing that, especially as our PRAC assets age, project budgets must consider future repair and replacement of major building systems/ components.

Multifamily's updated approach takes into account the new option for Section 202 PRAC properties to convert to Project Based Section 8 through the Rental Assistance Demonstration (RAD). Through RAD, many PRAC owners will be able to leverage financing to address capital repairs on the timeline projected in their CNA without large, short-term increases to PRAC replacement reserves. The FY 2021 President's Budget released on February 10, 2020 proposes to expand the RAD program to include Section 811 PRACs, in addition to the existing authority for Section 202 PRAC conversions. Owners seeking more information on RAD conversion should contact the Office of Recapitalization via email – RAD2@hud.gov or visit www.radresource.net.

To ensure that owners receive consistently high quality customer service for their rent adjustment requests, we have adopted clearer standards for field staff to use when determining whether a CNA is needed to justify an increase in replacement reserve deposit levels and a training plan that will prepare our staff for the review of CNAs when submitted. Further, we have established protocols for Asset Management staff in HUD field offices to coordinate with staff in the Office of Recapitalization when owners are planning to convert Section 202 PRAC properties

through RAD. This coordination will allow for consistent sharing of key information and streamline processing to avoid duplicative tasks. To this end, owners who intend to apply for a RAD conversion within the next year should indicate this in their cover letter for any budget-based rent increase request.

We recognize that some owners with PRAC anniversary dates this past fall and winter may have been denied or forgone requesting rent increases to support larger reserve for replacement deposits. We encourage owners who had this experience to consult with your assigned Account Executive to develop a plan for HUD reconsideration of such requests. Please note, Asset Management will require submission of a recent CNA (use of the E-Tool is not currently required) to justify significant increases in monthly reserve deposits. A CNA will typically not be required where requested monthly deposits remain at/below \$250 a unit OR the requested percentage increase to the deposit falls below the Operating Cost Adjustment Factor in the state where the property is located. Large rent increases may require additional internal budget processing prior to approval, making it particularly important that such requests are submitted timely – 120 days prior to the annual contract renewal or amendment effective date.

Please contact your assigned Account Executive with any questions about the process for adjusting rents or reserve for replacement deposits at your PRAC property. Thank you for your patience during the past several months and your continued commitment to affordable housing.