

UNNUMBERED LETTERS ISSUED FOR THE APRIL OF 2012

Dated	Subject	Distribution
04-02-12	HUD's Veterans Affairs Supportive Housing Program	S/D
04-02-12	Servicing Section 515 Loans that Received Damages under the Prepayment Settlement Agreement and File Retention for Loans Subject to Future Claims	S/D
04-04-12	Rural Energy for America Program Energy Audit and Renewable Energy Development Assistance Awards	S/D
04-17-12	Waiver of HB-1-3550 Requirements: <ul style="list-style-type: none"> <li>• Newspaper Publications of Rural Area Designation Reviews</li> <li>• Written Narrative Description of Map Boundary Lines</li> </ul>	S/D
04-18-12	Intermediary Relending Program Unemployment Rate	S/D
04-20-12	Multi-Family Housing Comparative Cost Data – Hyperion	S/D
04-26-12	Interest Rate Changes for Housing Programs and Credit Sales (Nonprogram)	S/D, AD, RDM
04-26-12	Guidance on the Rehabilitation of Properties in the MFH Section 515 Rural Rental Housing and Section 514/516 Farm Labor Housing Programs	S/D

April 2, 2012

TO: State Directors  
Rural Development

ATTN: Program Directors  
Rural Housing

FROM: Tammye Treviño *(Signed by Tammye Treviño)*  
Administrator  
Housing and Community Facilities Programs

SUBJECT: HUD's Veterans Affairs Supportive Housing Program

This purpose of this Unnumbered Letter is to advise State Directors, borrowers and management agents in the Rural Development (RD) Multifamily Housing Program about the availability of housing vouchers and supportive services for homeless veterans through the Veterans Affairs Supportive Housing Program (HUD-VASH) of the U.S. Department of Housing and Urban Development (HUD).

HUD recently announced the availability of the housing vouchers, which are part of \$75 million appropriated for Fiscal Year 2012 to support the housing needs of homeless veterans. VA Medical Centers (VAMC) provide supportive services and case management to eligible homeless veterans. This is the first of two rounds of the 2012 HUD-VASH funding. HUD expects to announce the remaining funding by the end of this summer.

VAMCs work closely with homeless veterans then refer them to public housing agencies for these vouchers, based upon a variety of factors, most importantly the duration of the homelessness and the need for longer term more intensive support to obtain and maintain permanent housing. The HUD-VASH program includes both rent assistance and the comprehensive case management that VAMC staff provides.

Veterans participating in the HUD-VASH program rent privately owned housing and generally contribute no more than 30 percent of their income toward rent. VA offers eligible homeless veterans clinical and supportive services through its medical centers across the U.S., Guam and Puerto Rico.

EXPIRATION DATE:  
April 30, 2013

FILING INSTRUCTIONS:  
Housing Programs

More information is available at HUD's website:

[http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/public\\_indian\\_housing/programs/hc/v/vash](http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/hc/v/vash)

Rural Development has no comparable rent subsidy program, but wanted State Directors, borrowers, and management agents of RD's Multifamily Housing Program properties to be aware of the availability of this funding. Attached to this UL is a list of the housing authorities that received vouchers for distribution. RD has a number of properties located in now-urbanized and suburban areas; and RD currently has about 23,000 HUD Section 8 voucher holders residing in RD properties. We encourage borrowers and management agents to reach out to their local housing authorities and advise them of the availability of RD's Section 515 Rural Rental Housing Program and Section 538 Guaranteed Rural Rental Housing Program properties.

RD staff is also encouraged to contact local Veterans organizations, such as the American Legion and Veterans of Foreign Wars, to let them know of the availability of RD-financed or guaranteed properties in their area.

If you have any questions regarding this UL, please contact Stephanie White, Director of the Multi-Family Housing Portfolio Management Division at (202) 720-1615.

Attachment

STATE	CITY	HOUSING AUTHORITY	VA MEDICAL CENTER	# OF VOUCHERS	1 year budget authority for vouchers awarded
<b>Alaska</b>	Anchorage	Alaska Housing Finance Corporation	Alaska VA HCS	25	\$ 164,926
	Anchorage/Statewide	Alaska Housing Finance Corporation	Alaska VA HCS	25	\$ 164,926
			<b>Alaska Total</b>	<b>50</b>	<b>\$ 329,853</b>
<b>Alabama</b>	Birmingham	Housing Authority of the Birmingham District	Birmingham VAMC	50	\$ 260,756
	Montgomery	Housing Authority of the City of Montgomery	Central AL HCS	25	\$ 135,481
	Tuscaloosa	HA Tuscaloosa	Tuscaloosa VAMC	25	\$ 86,825
			<b>Alabama Total</b>	<b>100</b>	<b>\$ 483,062</b>
<b>Arkansas</b>	Little Rock	North Little Rock Housing Authority	Eugene J. Towbin VAMC	25	\$ 95,930
	Fayetteville	Fayetteville Housing Authority	VA HCS of the Ozarks	25	\$ 85,820
			<b>Arkansas Total</b>	<b>50</b>	<b>\$ 181,750</b>
<b>Arizona</b>	Phoenix	City of Phoenix Housing Department	Phoenix VA VA HCS	100	\$ 616,491
	Tucson	Housing And Community Development Tucson	Southern AZ HCS	75	\$ 403,977
	Mesa	City of Mesa HA	Phoenix VA VA HCS/Mesa CBOC	25	\$ 148,054
	Sierra Vista	Housing Authority of Cochise County	Southern AZ HCS/Sierra Vista CBOC	25	\$ 137,098
	Yuma	Housing Authority of the City of Yuma	Southern AZ HCS/Yuma CBOC	25	\$ 161,403
	Prescott	Mohave County Housing Authority	Northern Arizona HCS	25	\$ 136,099
			<b>Arizona Total</b>	<b>275</b>	<b>\$ 1,603,122</b>
<b>California</b>	San Francisco	Housing Authority of the City & County of San Francisco	San Francisco VAMC/Downtown CBOC	200	\$ 2,728,301
	LA County	Housing Authority of the County of Los Angeles	VA Greater Los Angeles HCS	200	\$ 1,750,826
	Oakland	Oakland Housing Authority	VA Northern CA HCS/Oakland BHC	50	\$ 500,366

	City of LA	Housing Authority of the City of Los Angeles	VA Greater Los Angeles HCS	600	\$ 5,413,328
	Fresno	Housing Authority City of Fresno	VA Central CA HCS	50	\$ 275,518
	Sacramento	County of Sacramento Housing Authority	Sacramento VAMC	75	\$ 493,838
	Bakersfield	Housing Authority of the County of Kern	Greater LA HCS/Bakersfield CBOC	25	\$ 125,832
	San Bernardino	Housing Authority of the County of San Bernardino	Loma Linda HCS	50	\$ 319,597
	Santa Barbara	Housing Authority of the County of Santa Barbara	VA Greater LA HCS/Santa Barbara CBOC	25	\$ 250,719
	Merced	County of Merced Housing Authority	VA Central CA HCS/Merced CBOC	25	\$ 169,485
	Stockton	County of San Joaquin Housing Auth.	Palo Alto HCS/Stockton CBOC	25	\$ 139,930
	Modesto	County of Stanislaus Housing Auth	Palo Alto HCS/Modesto CBOC	25	\$ 162,286
	Riverside	Housing Authority of the County of Riverside	Loma Linda HCS	125	\$ 990,051
	Monterey	County of Monterey Hsg Auth	Palo Alto HCS/Seaside CBOC	25	\$ 190,775
	Oxnard	Housing Authority of the City of San Buenaventura	VA Greater Los Angeles HCS/Oxnard CBOC	25	\$ 271,148
	Chico	County of Butte Hsg Auth	VA Northern CA HCS/Chico CBOC	25	\$ 137,162
	San Jose/Menlo Park	Housing Authority of the County Santa Clara	Palo Alto HCS Menlo Park Division	100	\$ 1,193,421
	Richmond	City of Pittsburg Hsg Auth	VA Northern CA HCS/Martinez OPC	50	\$ 501,317
	City of San Diego	San Diego Housing Commission	San Diego VAMC	75	\$ 635,558
	San Luis Obispo	Housing Authority of the City of San Luis Obispo	VA Greater LA HCS/San Luis Obispo CBOC	50	\$ 391,745

	Long Beach	City of Long Beach Housing Authority	Long Beach HCS	50	\$ 432,262
	Watsonville	Santa Cruz County Hsg Auth	Palo Alto HCS/San Jose CBOC	50	\$ 585,103
	Pasadena	Housing Authority of the City of Pasadena	Greater LA HCS/Pasadena CBOC	25	\$ 213,546
	Ukiah	Mendocino County HA	San Francisco VAMC/Ukiah CBOC	25	\$ 108,210
	Santa Rosa	City of Santa Rosa	San Francisco VAMC/Santa Rosa CBOC	50	\$ 445,331
	Santa Ana	Orange County Housing Authority	Long Beach HCS/Santa Ana-Bristol Medical Center	75	\$ 884,560
	County of San Diego	Housing Authority of the County of San Diego	San Diego VAMC	75	\$ 600,635
	Auburn	Placer County Housing Authority	Sierra Nevada HCS/Sierra Foothills CBOC	10	\$ 89,144
			<b>California Total</b>	<b>2185</b>	<b>\$ 19,999,996</b>
<b>Colorado</b>	Denver	Housing Authority of the City And County of Denver	VA Eastern CO HCS	35	\$ 218,253
	Denver	Colorado Division of Housing	VA Eastern CO HCS	40	\$ 270,703
	Denver/Aurora	Aurora Housing Authority	VA Eastern CO HCS	25	\$ 147,415
	Denver/Adams County	Adams County Housing Authority	VA Eastern CO HCS	25	\$ 207,380
	Boulder	Boulder County Housing Authority	VA Eastern CO HCS	25	\$ 229,620
	Fort Collins	Fort Collins Housing Authority	Cheyenne VAMC/Fort Collins	15	\$ 98,768
	Grand Junction	Grand Junction Housing Authority	Grand Junction VAMC	40	\$ 188,902
	Colorado Springs	Colorado Department of Local Affairs	VA Eastern CO HCS/Colorado Springs CBOC	25	\$ 148,626

	Pueblo	Colorado Department of Local Affairs	VA Eastern CO HCS/Pueblo CBOC	40	\$ 237,802
			<b>Colorado Total</b>	<b>270</b>	<b>\$ 1,747,469</b>
<b>Connecticut</b>	Hartford	Hartford Housing Authority	VA CT HCS/Newington VAMC	50	\$ 397,939
	New Haven	Hsg Authority of the City of New Haven	VA CT HCS/West Haven VAMC	50	\$ 554,148
	Waterbury	Waterbury Housing Authority	West Haven VAMC/Waterbury CBOC	40	\$ 257,629
	West Haven	West Haven Housing Authority	VA CT HCS/West Haven VAMC	15	\$ 137,064
	Bridgeport	Connecticut Department of Social Services	VA CT HCS/West Haven VAMC	10	\$ 108,384
			<b>Connecticut Total</b>	<b>165</b>	<b>\$ 1,455,164</b>
<b>District of Columbia</b>	Washington	D.C Housing Authority	Washington DC VAMC	150	\$ 1,548,748
			<b>District of Columbia Total</b>	<b>150</b>	<b>\$ 1,548,748</b>
<b>Delaware</b>	Wilmington	Wilmington Housing Authority	Wilmington VAMC	25	\$ 168,331
			<b>Delaware Total</b>	<b>25</b>	<b>\$ 168,331</b>
<b>Florida</b>	Jacksonville	Jacksonville Housing Authority	North FL/South GA HCS - Jacksonville OPC	100	\$ 500,890
	Tampa	Tampa Housing Authority	James A Haley VAMC	75	\$ 481,405
	Orlando	Orlando Housing Authority	Orlando VAMC	75	\$ 518,201
	Miami	Miami Dade Public Housing and Community Dev	Bruce W. Carter VAMC	75	\$ 795,467
	Daytona Beach	Housing Authority of City of Daytona Beach	Orlando VAMC/Daytona Beach CBOC	50	\$ 262,150
	West Palm Beach	West Palm Beach Housing Authority	West Palm Beach VAMC	60	\$ 426,795

	Ft. Lauderdale	Housing Authority of the City of Fort Lauderdale	Bruce A Carter VAMC/Broward Co. VA Clinic	50	\$ 445,045
	Panama City	Panama City Housing Authority	Gulf Coast HCS/Panama City OPC	15	\$ 68,724
	Titusville	Housing Authority of the City of Titusville	Orlando VAMC/Viera CBOC	25	\$ 121,971
	Ocala	Ocala Housing Authority	Malcolm Randall VAMC/Ocala CBOC	25	\$ 124,997
	Crestview/Fort Walton	Crestview Housing Authority	Gulf Coast HCS/Joint Ambulatory Care Center	15	\$ 82,637
	Ft. Myers	Housing Authority of the City of Fort Myers	Bay Pines VAMC/Ft. Myers CBOC	25	\$ 165,548
	St. Petersburg	Pinellas County Housing Authority	Bay Pines VAMC/St. Petersburg CBOC	100	\$ 734,978
	Gainesville	Gainesville Housing Authority	Malcolm Randall VAMC	100	\$ 556,602
	New Port Richey	Pasco County Housing Authority	James A Haley VAMC/New Port Richey CBOC	25	\$ 193,683
	Walton County/Fort Walton	Walton County Housing Authority	Gulf Coast HCS/Joint Ambulatory Care Center	10	\$ 55,490
			<b>Florida Total</b>	<b>825</b>	<b>\$ 5,534,582</b>
<b>Georgia</b>	Augusta	Housing Authority of the City of Augusta	Charlie Norwood VAMC	25	\$ 109,544
	Savannah	Housing Authority of Savannah	Ralph H Johnson VAMC	15	\$ 88,538
	Atlanta	Housing Authority of the City of Atlanta	Atlanta VAMC	25	\$ 255,095
	Atlanta/Marietta	Housing Authority of the City of Marietta	Atlanta VAMC	50	\$ 342,033
	Atlanta	Housing Authority of the City of Decatur	Atlanta VAMC	25	\$ 179,652

	Atlanta/College Park	Housing Authority of the City of College Park	Atlanta VAMC	50	\$ 355,437
	Atlanta	Housing Authority of the County of Dekalb	Atlanta VAMC	25	\$ 145,627
	Atlanta/East Point	Housing Authority of the County of Dekalb	Atlanta VAMC/ East Point CBOC	50	\$ 291,254
			<b>Georgia Total</b>	<b>265</b>	<b>\$ 1,767,180</b>
<b>Hawaii</b>	Hilo, Maui, Kona, and Kauai	Hawaii Public Housing Authority	Spark M. Matsunaga VAMC	25	\$ 212,002
	Honolulu	Hawaii Public Housing Authority	Spark M. Matsunaga VAMC	50	\$ 424,004
			<b>Hawaii Total</b>	<b>75</b>	<b>\$ 636,006</b>
<b>Iowa</b>	Davenport	Davenport Housing Commission	Iowa City VAMC/Davenport VA Clinic	15	\$ 83,870
			<b>Iowa Total</b>	<b>15</b>	<b>\$ 83,870</b>
<b>Idaho</b>	Boise	Boise City Housing Authority	Boise VAMC	25	\$ 110,698
	Coeur d'Alene	Idaho Housing And Finance Association	Spokane VAMC/Coeur d'Alene CBOC	25	\$ 106,331
			<b>Idaho</b>	<b>50</b>	<b>\$ 217,029</b>
<b>Illinois</b>	Chicago	Chicago Housing Authority	Jesse Brown VAMC	100	\$ 769,557
	Hines	Housing Authority of the County of Cook	Edward Hines Jr. VAMC	100	\$ 760,872
	McHenry	McHenry County Housing Authority	Lovell Federal Health Care Center/McHenry CBOC	15	\$ 115,777
			<b>Illinois Total</b>	<b>215</b>	<b>\$ 1,646,206</b>
<b>Indiana</b>	Ft. Wayne	Fort Wayne Housing Authority	VA Northern IN HCS/Fort Wayne Campus	15	\$ 68,375
	Muncie	Housing Authority of the City of Muncie	VA Northern IN HCS/Muncie CBOC	15	\$ 83,276
	Kokomo	Kokomo Housing Authority	VA Northern IN HCS/Peru CBOC	15	\$ 78,471

	Gary	Housing Authority of the City of Gary	Jesse Brown VAMC/Adam Benjamin, Jr. OPC	15	\$ 111,862
	Evansville	Housing Authority of the City of Evansville	Marion VAMC/Evansville OPC	15	\$ 76,310
	Indianapolis	Indianapolis Housing Agency	Richard L Roudebush VAMC	50	\$ 240,884
	Bloomington	Housing Authority of the City of Bloomington	Richard L Roudebush VAMC/Bloomington CBOC	25	\$ 132,445
	Marion	Housing Authority of the City of Marion	Marion VAMC	15	\$ 45,876
	South Bend	Indiana Housing And Community Development Authority	VA Northern IN HCS/South Bend VA OPC	15	\$ 78,939
			<b>Indiana Total</b>	<b>180</b>	<b>\$ 916,440</b>
<b>Kansas</b>	Topeka	Topeka Housing Authority	Colmery-O'Neil VAMC	25	\$ 93,101
	Wichita	Wichita Housing Authority	Robert J. Dole VAMC	25	\$ 124,035
			<b>Kansas Total</b>	<b>50</b>	<b>\$ 217,136</b>
<b>Kentucky</b>	Louisville	Louisville Metro Housing Authority	Robley Rex VAMC	50	\$ 237,419
	Lexington	Housing Authority of Lexington	Lexington VAMC	50	\$ 243,040
			<b>Kentucky Total</b>	<b>100</b>	<b>\$ 480,458</b>
<b>Louisiana</b>	New Orleans	Housing Authority of New Orleans	Southeast LA HCS	25	\$ 180,830
	Baton Rouge	Housing Authority of East Baton Rouge	Southeast LA HCS/Baton Rouge CBOC	25	\$ 193,817
	LaFayette	Housing Authority of the City of Lafayette	Alexandria VAMC/LaFayette CBOC	25	\$ 94,818
	Shreveport	Bossier Parish Section 8	Overton Brooks VAMC Shreveport	25	\$ 100,187
			<b>Louisiana Total</b>	<b>100</b>	<b>\$ 569,653</b>

<b>Massachusetts</b>	Boston	Boston Housing Authority	Boston VAMC	75	\$ 771,250
	Cambridge	Cambridge Housing Authority	Boston VAMC	40	\$ 456,945
	New Bedford	New Bedford Housing Authority	Providence VAMC/New Bedford CBOC	25	\$ 150,868
	Northampton	Northampton Housing Authority	Northampton VAMC	50	\$ 265,816
	Lowell	Chelmsford Housing Authority	Edith Nourse Rogers Memorial VAMC/ Lowell CBOC	50	\$ 419,309
	Worcester	Department of Housing & Community Development	Northampton VAMC/Worcester CBOC	25	\$ 234,648
	Brockton	Department of Housing & Community Development	Boston VAMC/Brockton Campus	15	\$ 140,789
	Haverhill	Department of Housing & Community Development	Edith Nourse Rogers Memorial VAMC/Haverhill CBOC	25	\$ 234,648
	Quincy	Department of Housing & Community Development	Boston VAMC/Quincy OPC	40	\$ 375,436
			<b>Massachusetts Total</b>	<b>345</b>	<b>\$ 3,049,708</b>
<b>Maryland</b>	Baltimore	Housing Authority of Baltimore City	Baltimore VAMC	75	\$ 684,687
	Montgomery County	Housing Opprty Com of Montgomery Co	Washington DC VAMC	15	\$ 169,502
	Latham	Housing Authority of Prince Georges County	Washington DC VAMC	25	\$ 282,944
	Elkton/Cecil County	Cecil County Housing Agency	Perry Point VAMC	25	\$ 157,694
	Baltimore	Baltimore County Housing Authority	Baltimore VAMC	25	\$ 201,335
	Pocomoke City/Worcester County	MD Dept. of Housing And Community Development	VA MD HCS/Pokomoke City OPC	15	\$ 118,669
			<b>Maryland Total</b>	<b>180</b>	<b>\$ 1,614,832</b>

<b>Maine</b>	Togus	Maine State Housing Authority	VA Maine HCS	15	\$ 79,308
			<b>Maine Total</b>	<b>15</b>	<b>\$ 79,308</b>
<b>Michigan</b>	Flint	Flint Housing Commission	Ann Arbor HCS/Flint OPC	25	\$ 143,085
	Battle Creek	Battle Creek Housing Commission	Battle Creek VAMC	25	\$ 91,475
	Lansing	Lansing Housing Commission	Battle Creek VAMC/Lansing CBOC	25	\$ 122,860
	Ann Arbor	Ann Arbor Housing Commission	Ann Arbor HCS	25	\$ 130,643
	Muskegon	Muskegon Housing Commission	Battle Creek VAMC/Muskegon OPC	15	\$ 73,429
	Grand Rapids	Kent County Housing Commission	Battle Creek VAMC/Grand Rapids OPC	50	\$ 308,209
	Detroit	Michigan State Housing Development Authority	John Dingell VAMC	75	\$ 472,343
			<b>Michigan Total</b>	<b>240</b>	<b>\$ 1,342,044</b>
<b>Minnesota</b>	St. Paul	Public Housing Agency of the City of St Paul	Minneapolis VAMC	40	\$ 236,711
	Duluth	HRA of Duluth	Minneapolis VAMC/Hibbing CBOC	5	\$ 23,183
	St. Cloud	HRA of St. Cloud	St. Cloud VAMC	15	\$ 66,205
	Mankato	Mankato EDA	Minneapolis VAMC	5	\$ 27,165
	Minneapolis	Metropolitan Council	Minneapolis VAMC	50	\$ 403,079
			<b>Minnesota Total</b>	<b>115</b>	<b>\$ 756,343</b>
<b>Missouri</b>	Kansas City	Housing Authority of Kansas City	Kansas City VAMC	50	\$ 290,042
	Poplar Bluff	St. Francois County Public Housing Agency	John J. Pershing VAMC	25	\$ 84,855
			<b>Missouri Total</b>	<b>75</b>	<b>\$ 374,897</b>
<b>Mississippi</b>	Biloxi	The Housing Authority of the City of Biloxi	Gulf Coast HCS	25	\$ 178,078
	Jackson	The Housing Authority of the City of Jackson	G.V. Sonny Montgomery VAMC	50	\$ 239,288
			<b>Mississippi Total</b>	<b>75</b>	<b>\$ 417,366</b>

<b>Montana</b>	Great Falls	Montana Department of Commerce	Montana HCS/Great Falls CBOC	25	\$ 119,416
	Helena	Montana Department of Commerce	Montana HCS Fort Harrison	25	\$ 119,416
			<b>Montana Total</b>	<b>50</b>	<b>\$ 238,832</b>
<b>North Carolina</b>	Charlotte	Housing Authority of the City of Charlotte	WG Hefner VAMC Salisbury/Charlotte CBOC	50	\$ 322,258
	Asheville	Housing Authority of the City of Asheville	Asheville VAMC	25	\$ 138,295
	Fayetteville	Fayetteville Metropolitan Housing Authority	Fayetteville VAMC	25	\$ 153,632
	Greensboro	Housing Authority of the City of Greensboro	WG Hefner VAMC Salisbury/Winston-Salem CBOC	25	\$ 124,407
	Winston-Salem	Housing Authority of the City of Winston-Salem	WG Hefner VAMC Salisbury/Winston-Salem CBOC	25	\$ 104,270
	Durham	The Housing Authority of the City of Durham	Durham VAMC	25	\$ 171,775
	Durham	Housing Authority of the County of Wake	Durham VAMC	25	\$ 146,617
	Rutherford	Isothermal Planning & Development Commission	Asheville VAMC	10	\$ 48,067
			<b>North Carolina Total</b>	<b>210</b>	<b>\$ 1,209,321</b>
<b>North Dakota</b>	Bismarck	Burleigh County Housing Authority	Fargo VAMC/Bismarck CBOC	15	\$ 64,122
			<b>North Dakota Total</b>	<b>15</b>	<b>\$ 64,122</b>
<b>Nebraska</b>	Lincoln	Lincoln Housing Authority	VA Nebraska-W. Iowa HCS/Lincoln CBOC	10	\$ 32,153
	Omaha	Douglas County Housing Authority	VA Nebraska-W. Iowa HCS/Omaha VAMC	40	\$ 249,417
			<b>Nebraska Total</b>	<b>50</b>	<b>\$ 281,570</b>

<b>New Hampshire</b>	Manchester	New Hampshire Housing Finance Agency	Manchester VAMC	15	\$ 126,279
			<b>New Hampshire Total</b>	<b>15</b>	<b>\$ 126,279</b>
<b>New Jersey</b>	Atlantic City	State of NJ Dept. of Comm. Affairs	Wilmington VAMC/Northfield VA Health Clinic	10	\$ 88,362
	Jersey City	State of NJ Dept. of Comm. Affairs	NJ HCS - Lyons Campus/Jersey City CBOC	25	\$ 220,904
	New Brunswick	State of NJ Dept. of Comm. Affairs	NJ HCS - E. Orange Campus/Piscataway CBOC	25	\$ 220,904
	Newark	State of NJ Dept. of Comm. Affairs	NJ HCS - E. Orange Campus/Newark CBOC	15	\$ 132,542
	Paterson	State of NJ Dept. of Comm. Affairs	NJ HCS - Lyons Campus/Paterson CBOC	25	\$ 220,904
	Somerville/Lyons	State of NJ Dept. of Comm. Affairs	VA New Jersey HCS - Lyons Campus	25	\$ 220,904
	Tinton Falls	State of NJ Dept. of Comm. Affairs	NJ HCS - E. Orange Campus/Tinton Falls CBOC	25	\$ 220,904
	Trenton/Hamilton	State of NJ Dept. of Comm. Affairs	NJ HCS - E. Orange Campus/Hamilton CBOC	50	\$ 441,808
			<b>New Jersey Total</b>	<b>200</b>	<b>\$ 1,767,233</b>
<b>New Mexico</b>	Albuquerque	Bernalillo County Housing Department	Raymond G. Murphy VAMC	25	\$ 163,547
			<b>New Mexico Total</b>	<b>25</b>	<b>\$ 163,547</b>
<b>Nevada</b>	Reno	City of Reno Housing Authority	Sierra Nevada HCS	50	\$ 348,330
	Las Vegas	Southern Nevada Regional Housing Authority	Southern Nevada HCS	100	\$ 667,525
			<b>Nevada Total</b>	<b>150</b>	<b>\$ 1,015,855</b>

<b>New York</b>	Syracuse	Syracuse Housing Authority	Syracuse VAMC	35	\$ 170,158
	Bronx	New York City Housing Authority	James J. Peters VAMC	200	\$ 2,286,996
	Brooklyn	New York City Housing Authority	New York Harbor HCS	100	\$ 1,143,498
	Manhattan	New York City Housing Authority	New York Harbor HCS	100	\$ 1,143,498
	Albany	Albany Housing Authority	Samuel S. Stratton VAMC	25	\$ 118,600
	Binghamton	Binghamton Housing Authority	Syracuse VAMC/Binghamton VA OPC	10	\$ 52,439
	Amherst/Buffalo	Town of Amherst Housing Authority	VA Western NY HCS	15	\$ 72,338
	Long Island	NYS Housing Trust Fund Corporation	Northport VAMC/Islip CBOC	50	\$ 474,874
	Northport	NYS Housing Trust Fund Corporation	Northport VAMC	25	\$ 237,437
	Yonkers	NYS Housing Trust Fund Corporation	VA Hudson Valley HCS - Franklin Delano Roosevelt Campus	25	\$ 237,437
			<b>New York Total</b>	<b>585</b>	<b>\$ 5,937,273</b>
<b>Ohio</b>	Columbus	Columbus Metropolitan Housing Authority	Chalmers P. Wylie VAMC	50	\$ 270,938
	Dayton	Dayton Metropolitan Housing Authority	Dayton VAMC	25	\$ 109,946
	Toledo	Lucas Metropolitan Housing Authority	Ann Arbor HCS/Toledo VA OPC	25	\$ 100,826
	Lorain	Lorain Metropolitan Housing Authority	Louis Stokes VAMC/Lorain CBOC	25	\$ 152,755
	Richland	Mansfield Metropolitan Housing Authority	Louis Stokes VAMC/Mansfield CBOC	25	\$ 113,740
	Butler	Clermont Metropolitan Housing Authority	Cincinnati VAMC/Hamilton VA Health Care Associates	15	\$ 79,677

	Fairfield	Fairfield Metropolitan Housing Authority	Chillicothe VAMC/Lancaster CBOC	15	\$ 74,916
			<b>Ohio Total</b>	<b>180</b>	<b>\$ 902,798</b>
<b>Oklahoma</b>	Oklahoma City	Housing Authority of the City of Oklahoma City	Oklahoma City VAMC	40	\$ 142,857
	Muskogee	Housing Authority of the City of Muskogee	Jack C. Montgomery VAMC/Muskogee VAMC	25	\$ 92,282
	Tulsa	Oklahoma Housing Finance Agency	Jack C. Montgomery VAMC/Ernest Childers VA OPC	25	\$ 146,172
			<b>Oklahoma Total</b>	<b>90</b>	<b>\$ 381,311</b>
<b>Oregon</b>	Portland/Clackamas County	Housing Authority of Clackamas County	Portland VAMC/East Portland CBOC/West Linn CBOC	25	\$ 178,708
	Portland	Housing Authority of Portland	Portland VAMC	60	\$ 373,592
	Eugene	Housing Authority & Comm Svcs of Lane Co	Roseburg VAMC/Eugene CBOC	50	\$ 200,178
	Medford	Housing Authority of Jackson County	S Oregon Rehab Center and Clinic	40	\$ 178,437
	Bend	Central Oregon Regional Housing Authority	Portland VAMC/Bend CBOC	10	\$ 68,257
			<b>Oregon Total</b>	<b>185</b>	<b>\$ 999,172</b>
<b>Pennsylvania</b>	Allentown	Allentown Housing Authority	Wilkes-Barre VAMC/Allentown OPC	15	\$ 114,642
	Pittsburgh	Allegheny County Housing Authority	Pittsburgh VAMC	50	\$ 217,376
	Harrisburg	Harrisburg Housing Authority	Lebanon VAMC/Camp Hill CBOC	25	\$ 136,160
	Butler	Housing Authority of the County of Butler	Butler VAMC	15	\$ 76,522
	Erie	Housing Authority of the City of Erie	Erie VAMC	15	\$ 57,781
	Coatesville	Housing Authority of the County of Chester	Coatesville VAMC	50	\$ 332,100

	Indiana	Housing Authority of Indiana County	Pittsburgh VAMC	25	\$ 103,978
	Bristol	Bucks County Housing Authority	Philadelphia VAMC	10	\$ 72,065
	Altoona	Housing Authority of the County of Blair	James E. Van Zandt VAMC	15	\$ 61,873
			<b>Pennsylvania Total</b>	<b>220</b>	<b>\$ 1,172,498</b>
<b>Rhode Island</b>	Providence	Housing Authority Providence	Providence VAMC	25	\$ 171,494
			<b>Rhode Island Total</b>	<b>25</b>	<b>\$ 171,494</b>
<b>South Carolina</b>	Charleston	Housing Authority of the City of Charleston	Ralph H Johnson VAMC	60	\$ 326,112
	Columbia	Housing Authority of the City of Columbia	Wm Jennings Bryan Dorn VAMC	100	\$ 465,678
	Greenville	Housing Authority of Greenville	Wm Jennings Bryan Dorn VAMC/Greenville CBOC	25	\$ 123,265
	Myrtle Beach	Housing Authority of Myrtle Beach	Ralph H Johnson VAMC/Myrtle Beach CBOC	15	\$ 75,165
			<b>South Carolina Total</b>	<b>200</b>	<b>\$ 990,219</b>
<b>South Dakota</b>	Sioux Falls	Sioux Falls Housing And Redevelopment Commission	Royal C. Johnson VAMC	25	\$ 152,975
			<b>South Dakota Total</b>	<b>25</b>	<b>\$ 159,975</b>
<b>Tennessee</b>	Memphis	Memphis Housing Authority	Memphis VAMC	50	\$ 252,887
	Johnson City	Johnson City Housing Authority	James H. Quillen VAMC	25	\$ 88,253
	Knoxville	Knoxville's Community Development Corp.	James H. Quillen VAMC/Knoxville CBOC	25	\$ 110,467
	Chattanooga	Chattanooga Housing Authority	VA TN Valley HCS/Chattanooga CBOC	15	\$ 56,706
	Nashville	Metropolitan Development & Housing Agency	VA TN Valley HCS/Nashville Campus	75	\$ 433,474

	Jackson	Jackson Housing Authority	Memphis VAMC/Jackson CBOC	10	\$ 44,570
	Murfreesboro	Murfreesboro Housing Authority	Alvin C. York VAMC	10	\$ 52,621
	Clarksville	Dickson Housing Authority	VA TN Valley HCS/Clarksville CBOC	15	\$ 79,538
			<b>Tennessee Total</b>	<b>225</b>	<b>\$ 1,118,517</b>
<b>Texas</b>	Austin	Austin Housing Authority	VA Central Texas HCS/Austin OPC	100	\$ 703,285
	El Paso	Housing Authority of the City of El Paso	VA El Paso HCS	25	\$ 99,498
	Fort Worth	Housing Authority of Fort Worth	VA North Texas HCS/Fort Worth OPC	50	\$ 298,264
	Houston	Houston Housing Authority	Michael E. DeBakey VAMC	150	\$ 899,952
	San Antonio	San Antonio Housing Authority	Audie L. Murphey VAMC	20	\$ 99,145
	Corpus Christi	Corpus Christi Housing Authority	VA Texas Valley Coastal Bend HCS/Corpus Christi OPC	25	\$ 157,548
	Dallas	Housing Authority of the City of Dallas	Dallas VAMC Campus	100	\$ 629,950
	Lubbock	Housing Authority of Lubbock	Thomas E. Creek VAMC	25	\$ 143,669
	Abilene	Housing Authority of the City of Abilene	West Texas VAMC	50	\$ 161,208
	Houston	Harris County Housing Authority	Michael E. DeBakey VAMC	50	\$ 301,252
	San Antonio	Bexar County Housing Authority	Audie L. Murphey VAMC	20	\$ 126,592
	Amarillo	City of Amarillo Housing Authority	Thomas E. Creek VAMC	25	\$ 146,066
	Temple	Central Texas Council of Governments	Central Texas Veterans Health Care System	50	\$ 253,898
			<b>Texas Total</b>	<b>690</b>	<b>\$ 4,020,327</b>

<b>Utah</b>	Salt Lake City	Housing Authority of the County of Salt Lake	George E. Wahlen VAMC	50	\$ 304,701
	Salt Lake City	Housing Authority of Salt Lake City	George E. Wahlen VAMC	25	\$ 148,958
	St. George	St. George Housing Authority	George E. Wahlen VAMC/St. George CBOC	10	\$ 46,815
			<b>Utah Total</b>	<b>85</b>	<b>\$ 500,474</b>
<b>Virginia</b>	Norfolk	Norfolk Redevelopment & Housing Authority	Hampton VAMC/VA Beach CBOC	25	\$ 187,566
	Roanoke	Roanoke Redevelopment & Housing Authority	Salem VAMC	10	\$ 32,701
	Hampton	Hampton Redevelopment & Housing Authority	Hampton VAMC	100	\$ 558,149
	Alexandria	Fairfax County Redevelopment & Hsg Authority	Washington D.C. VAMC/Alexandria CBOC	10	\$ 107,679
	Prince William County	Prince William County Office of HCD	Washington D.C. VAMC/Alexandria CBOC	10	\$ 128,138
	Richmond	Virginia Housing Development Authority	Hunter Holmes McGuire VAMC	25	\$ 187,365
			<b>Virginia Total</b>	<b>180</b>	<b>\$ 1,201,597</b>
<b>Vermont</b>	White River Junction	Vermont State Housing Authority	White River Junction	25	\$ 153,036
			<b>Vermont Total</b>	<b>25</b>	<b>\$ 153,036</b>
<b>Washington</b>	Seattle	Seattle Housing Authority	Seattle VAMC	58	\$ 409,544
	Seattle	HA of King County	Seattle VAMC	57	\$ 476,832
	Port Angeles	Peninsula Housing Authority	VA Puget Sound HCS/Port Angeles CBOC	25	\$ 139,385
	Tacoma	HA City of Tacoma	American Lake VAMC	25	\$ 150,356
	Snohomish	Housing Authority of Snohomish County	Seattle VAMC	75	\$ 585,873

	Yakima	HA City of Yakima	Jonathan M. Wainwright Memorial VAMC/Yakima CBOC	10	\$ 40,298
	Tacoma	HA of Pierce County	American Lake VAMC	25	\$ 174,451
	Spokane	HA City of Spokane	Spokane VAMC	25	\$ 102,647
	Mt. Vernon	Housing Authority of Skagit County	VA Puget Sound HCS/Mt. Vernon CBOC	25	\$ 144,969
			<b>Washington Total</b>	<b>325</b>	<b>\$ 2,224,355</b>
<b>Wisconsin</b>	Milwaukee	Housing Authority of the City of Milwaukee	Clement J. Zablcoki VAMC	25	\$ 111,898
	Madison	Madison Community Development Authority	Wm. S. Middleton VAMC	25	\$ 152,457
	Milwaukee/Waukesha	CDA of the City of West Allis	Clement J. Zablcoki VAMC	25	\$ 149,095
			<b>Wisconsin Total</b>	<b>75</b>	<b>\$ 413,450</b>
<b>West Virginia</b>	Charleston	Charleston/Kanawha Housing Authority	Huntington VAMC	10	\$ 49,166
	Huntington	Housing Authority of the City of Huntington	Huntington VAMC	15	\$ 62,509
	Beckley	Housing Authority of Raleigh County	Beckley VAMC	15	\$ 53,812
			<b>West Virginia</b>	<b>40</b>	<b>\$ 165,487</b>
<b>Wyoming</b>	Cheyenne	Housing Authority of the City of Cheyenne	Cheyenne VAMC	10	\$ 45,205
			<b>Wyoming Total</b>	<b>10</b>	<b>\$ 45,205</b>
			<b>GRAND TOTAL:</b>	<b>100,70</b>	<b>\$ 72,637,500</b>

April 2, 2012

TO: State Directors  
Rural Development

ATTN: Program Directors  
Multi-Family Housing

FROM: Tammye Treviño *(Signed by Tammye Treviño)*  
Administrator  
Housing and Community Facilities Programs

SUBJECT: Servicing Section 515 Loans that Received Damages under the Prepayment  
Settlement Agreement and File Retention for Loans Subject to Future Claims

The purpose of this Unnumbered Letter (UL) is to provide guidance on servicing the accounts of borrowers who have accepted damages as a result of the Settlement Agreement (Agreement) dated May 21, 2007, for the 731 properties involved in prepayment litigation (aka SAT Projects) and retention of information in Section 515 cases that may be subject to similar litigation.

Part III, Section B, of the Agreement outlines the impact of the settlement for borrowers who accepted damages as a result of the execution of the Agreement. Borrowers who received damages shall be treated on an equal basis with all other borrowers in the Section 515 program, in their dealings with the Government, except for the following:

1. The borrower shall not be entitled to receive any of the incentives made available to discourage prepayment of loans under the 7 CFR 3560.656.
2. The borrower shall not be entitled to prepay the loan which was the basis for a claim, including prepayment subject to continuing restrictions (i.e., "G-4" restrictions), excepting those situations where the Government determines that the property is no longer needed in the Section 515 Program (see 3560.662 (f) for guidance).

EXPIRATION DATE:  
March 31, 2013

FILING INSTRUCTIONS:  
Housing Programs

In applying the above, a borrower who received damages pursuant to the Agreement may file a request to prepay the loan on which their claim was based, but may not receive any incentives to avert prepayment. The borrower can only prepay the loan, or be released from the obligations under the Restrictive-Use Covenant (RUC), if the Agency determines the project is no longer needed in the Section 515 program, or if the financial assistance provided to the tenants of the housing will no longer be provided due to no fault, action or lack of action on the part of the borrower, in accordance with 7 CFR 3560.662 (f). The borrower can sell or transfer the project in accordance with 3560.659, under the prepayment regulations or in accordance with 7 CFR 3560.406, at anytime. It should be noted here that any appraisal conducted in conjunction with a sale or transfer of these properties should consider the RUC in accordance with 7 CFR 3560.752 (b) (1) (i). Additionally, if the transfer or sale fails to materialize and close, the prepayment request will be withdrawn and returned to the borrower. The impact of the RUC and Agreement would affect any new requests for prepayment or any outstanding requests that were pending at the time the Agreement became effective.

If, in the course of servicing the loans on properties that received damages under the Agreement, it is determined it will be necessary to seek liquidation of the account through foreclosure, the opinion of the Regional Office of General Counsel (OGC) must be obtained as to whether or not the Rural Development mortgage must be subordinated to the RUC in order to survive a foreclosure sale. If OGC determines that mortgage must be subordinated to the RUC, the subordination will be completed prior to acceleration of the account. The Multi-Family Housing Information System (MFIS) should also be updated to reflect the date that the new RUC expires on the property that received damages.

Based on the issues that precipitated the Agreement, it has been determined that any loan made or assumed during the period of December 21, 1979, to December 14, 1989, could be the subject of future litigation. Administrative Notice 4485 (2033-A), dated January 11, 2010, which will be re-issued shortly, addresses the retention of information in case files for accounts for which prepayment was requested. However, in order to insure that the records and documents regarding these loans are adequately preserved, it will be necessary to retain the loan file and servicing files in the cases of any Section 515 loan made or assumed during the period of December 21, 1979, to December 14, 1989, until 6 years after the loan is satisfied. This would also include any electronic correspondence (e-mail) and data stored in MFIS.

Questions regarding this UL may be directed to the Preservation and Direct Loan Division or Cynthia Johnson at 202.720.1940 or e-mail at [cynthial.johnson@wdc.usda.gov](mailto:cynthial.johnson@wdc.usda.gov).

April 4, 2012

TO: State Directors, Rural Development

ATTN: Business Programs Directors  
State Energy Coordinators

SUBJECT: Rural Energy for America Program  
Energy Audit and Renewable Energy Development Assistance Awards

The Rural Energy for America Program, fiscal year 2012 funding selections for the Energy Audit and Renewable Energy Development Assistance (REDA) grants submitted to the National Office are as follows:

<b>State</b>	<b>Project</b>	<b>Grant Amount</b>
Arizona	Navajo Tribal Utility Authority	\$ 100,000
Colorado	Poudre Valley Rural Electric Association, Inc.	\$ 50,000
Florida	Talquin Electric Cooperative, Inc.	\$ 100,000
Georgia	University of Georgia	\$ 100,000
Kentucky	University of Louisville Research Foundation, Inc.	\$ 100,000
Maine	Greater Portland Council of Governments	\$ 80,000
Maine	Maine Community College System	\$ 100,000
Oregon	Oregon Department of Energy	\$ 100,000
Washington	Washington State University	\$ 90,000
Wisconsin	Dairyland Power Cooperative	\$ 60,000
	<b>Total 10</b>	<b>\$ 880,000</b>

Applications will be processed in accordance with RD Instruction 4280-B, section 4280.195. Applications where the majority of the grant funds are being directed to Energy Audit expenses shall have a Type of Assistance (TOA) code of 506, and where the majority of the expenses are REDA shall have a TOA code of 507.

States must ensure that the work plan proposed in the application meets the project eligibility requirements of RD Instruction 4280-B, section 4280.187, and the definitions of Energy Audit and Renewable Energy Development Assistance in RD Instruction 4280-B, section 4280.103. Any change in the work plan must be approved by the National Office.

EXPIRATION DATE:  
September 30, 2012

FILING INSTRUCTIONS  
Community/Business Programs

States with applicants that are receiving subsequent funding through this program need to ensure that the grantees are complying with their existing work plans and Grant Agreements. RD Instruction 4280-B, section 4280.110(c) requires applicants to have made satisfactory progress towards completing previously awarded projects.

Please notify applicants not selected, and provide appeal rights in accordance with 7 CFR, part 11.

If you have any questions, please contact Kelley Oehler, Branch Chief, Energy Division, at (202) 720-6819.

*(Signed by PANDOR H. HADJY)*

PANDOR H. HADJY  
Deputy Administrator  
Business Programs

April 17, 2012

**TO:** All State Directors  
Rural Development

**ATTN:** Rural Housing Program Directors,  
Guaranteed Loan Specialists,  
Area Directors and Area Specialists

**FROM:** Tammye Treviño *(Signed by Tammye Treviño)*  
Administrator  
Housing and Community Facilities Programs

**SUBJECT:** Waiver of HB-1-3550 Requirements:

- Newspaper Publications of Rural Area Designation Reviews
- Written Narrative Description of Map Boundary Lines

**PURPOSE:**

The purpose of this Unnumbered Letter is to waive the following requirements found in Chapter 5, Section 5.3 of the Direct Single Family Housing Loans and Grants Field Office Handbook (HB-1-3550):

1. Newspaper publication of rural area boundary review.
2. The requirement to submit a written narrative describing the boundary lines for ineligible rural area maps.

**BACKGROUND:**

Section 502 of the Housing Act of 1949, as amended, defines “rural” for most housing programs offered by Rural Development. In implementing the statute, Rural Development instructions provide states the flexibility in determining which communities are eligible, but require re-evaluation of eligibility determinations every 3 to 5 years and upon issuance of the decennial U.S. Census of Population.

**EXPIRATION DATE:**  
April 30, 2013

**FILING INSTRUCTIONS:**  
Housing Programs

Based upon Chapter 5, Section 5.3 of the Direct Single Family Housing Loans and Grants Field Office Handbook (HB-1-3550), when a re-designation of boundary lines is proposed by field staff during their periodic reviews, the State Office will publish a notice informing the public of the areas have been recommended for re-designation. The HB-1-3550 indicates the public notice should be published at least 90 days prior to the final determination in a general circulation newspaper serving the affected area.

Chapter 5.3 of the 3550 Handbook also requires the submission of a written narrative describing the boundary lines of ineligible rural areas. We have found this process to be burdensome to maintain without adding any measurable benefits for impaired users.

**PROCEDURE:**

1. Notification to the Public: Notice by general circulation newspapers is no longer the most effective method of communicating to stakeholders. More resourceful and efficient means of communicating include ListServ messages, Web site updates and mass email communications. Other suggestions include posting on the front page of the State's Web site; adding a communication to other lender communications; such as loan approvals, maybe even adding a sentence and link in an email signature line that will link to the State Web site area about the eligibility area changes. The HB-1-3550 will be updated with this type of public notice in mind.

Therefore, in lieu of a requirement to provide notice to the general community in the local newspaper, the state should ensure adequate notification is provided to partners, groups and organizations that would be affected by the proposed re-designated rural area change through one of the aforementioned forms of electronic communication. Notice by regular mail and newspaper publication may still be used if appropriate—however electronic communication is encouraged as a cost-effective means of reaching affected groups. Whichever method of communication is chosen, it should include a visual map of the affected areas. The following is a list of suggested contacts which can be reached by ListServ message, mass email communications, and other methods:

- Minority publications in the affected areas to determine if a monthly news letter or news program will publish or air the notification of formal review of re-designated boundaries;
- Non-profits who have an interest in the affected areas;
- Public service clubs such as Kiwanis Club, Rotary Club and the Chamber of Commerce;
- Labor groups, women's groups, community centers, business associations, community activity organizations or any group interested in rural development in the areas impacted;
- Government agencies, including state, Federal and county entities that have an interest in the affected areas for re-designation;
- Self-help grantees that have an interest in the affected areas;
- City council members, building departments and planning departments in the affected areas;
- Organizations that work with Rural Development – such as Realtors, business organizations, and contractors doing business in the affected areas; and
- Mortgage brokers, state approved lenders and nationally approved lenders who perform business in the affected areas.

All notifications, electronic or otherwise, must be completed at least 30 days prior to re-designation of the boundary lines. The local office and or State office should maintain a perpetual master file to document all rural area decisions and must include documentation of all efforts for public notification.

2. Narrative Description of Ineligible Area Boundaries: The written narratives of ineligible area boundaries that accompany online maps will be replaced by the following statement: “Anyone that needs assistance in viewing or understanding this map should contact [*insert in Blank the Name of State Office Contact*].

Aside from this unnumbered letter, an Administrative Notice is in clearance regarding the receipt and implementation of the 2010 census data. You may find additional information about rural area designations on the Agency’s SharePoint site through the web-link below. The HB-1-3550 will also be updated to reflect these changes as quickly as possible.

<https://rd.sc.egov.usda.gov/teamrd/hcfc/sfh/Single%20Family%20Housing%20Information/Forms/AllItems1.aspx?RootFolder=%2fteamrd%2fhcfc%2fsfh%2fSingle%20Family%20Housing%20Information%2fRural%20Area%20Designation&FolderCTID=0x012000FAEA09B3A193524AA6AAC002EF563C63&View=%7b91FA6CF0%2d5A4D%2d413B%2dB65F%2dFC6ACA904921%7d>

Questions regarding this memorandum may be directed to the Single Family Housing Direct Division at 202.720.1474, or the Guaranteed Loan Division at 202.720.1452.

**Electronically sent to RD State Directors, SF Program Directors, State GRH Contacts, and National Office State on April 17, 2012, at 4:50 PM EDT**

April 18, 2012

TO: State Directors, Rural Development  
ATTN: Business Programs Directors  
SUBJECT: Intermediary Relending Program  
Unemployment Rate

RD Instruction 4274-D, section 4274.344(c)(2)(iii), provides for priority points for Intermediary Relending Program applications based on unemployment rates. The overall National unemployment rate for March 2012 was 8.2 percent. This unemployment rate will be used to compute the unemployment rate points until updated by the National Office. This supersedes the figure announced in an unnumbered letter issued on May 16, 2011.

JUDITH A. CANALES  
Administrator  
Business and Cooperative Programs

EXPIRATION DATE:  
April 30, 2013

FILING INSTRUCTIONS:  
Community/Business Programs

April 20, 2012

TO: State Directors  
Rural Development

ATTENTION: Multi-Family Housing Program Directors

FROM: Tammye Treviño  
Administrator  
Housing and Community Facilities Programs

SUBJECT: Multi-Family Housing Comparative Cost Data – Hyperion

The purpose of this Unnumbered Letter (UL) is to announce the availability of a tool for Multifamily Housing (MFH) Program field staff that will allow the utilization of comparative cost data for the determination of cost reasonableness in review of MFH project budget line items (e.g., insurance cost, management fees, operations and maintenance). The data report will improve identification of unusually high or low expenses, reduce incidents of waste, fraud and abuse, and provide underwriters with relevant data on which to make informed decisions.

The Office of the Inspector General conducted an audit of the Rural Rental Housing Program to determine if the Agency had sufficient controls in place to ensure the appropriateness of certain project costs and disclosure of any relationships to identity of interest (IOI) entities. Key recommendations included the assembly and analysis of certain cost data to allow meaningful cost comparisons of individual expenses and follow up on unusually high or low reported costs, as well as differences in expenses between IOI and non-IOI managed MFH properties.

The Multi-Family Information System (MFIS) currently has existing automated tools that help field staff in the analysis of proposed and actual budgets for multifamily properties. The Budget Analysis applies common tests across multiple budget line items which in turn provide observations, or “flags”, if certain thresholds are exceeded. These are instances where the Servicing Official must follow-up with the borrower to obtain clarification or justification. The Budget Analysis, however, does not provide for comparison of individual line items as identified in the audit.

In order to derive an effective means of cost comparisons, a report has been developed which allows states to “assemble and analyze” cost data. This report will enable the States to compare cost data between regions, states within those regions, areas, counties, and projects; between management companies, or for all properties managed by one entity, or by owner type

EXPIRATION DATE:  
April 30, 2013

FILING INSTRUCTIONS:  
Housing Programs

(non-profit, for-profit, etc.). The report will also allow the field staff to compare costs for projects with utility allowances, Section 8 or Rental Assistance units, or projects restructured through the Multifamily Preservation and Restructuring program. Field staff will be able to more easily compile, analyze, and utilize median cost data, thereby better determining any excessive costs or unjustified expenses with IOI companies.

The report is located on the Hyperion Production site at <https://rddw.sc.egov.usda.gov/workspace> and can be accessed utilizing the user's eAuth ID and password. Users will need to ensure that Hyperion web client software is installed to generate this Hyperion report.

The National Office will provide an overview of the access and utilization of the Hyperion report through on-line Live Meeting training in April 2012. Training material is available on the MFH Information share-point site.

If you have any questions or comments, please contact Laura L. Horn at (202) 720-5443 or via email at [laura.horn@wdc.usda.gov](mailto:laura.horn@wdc.usda.gov)

April 26, 2012

TO: State Directors  
Area Directors  
Rural Development Managers

ATTN: Rural Housing Program Directors

FROM: Tammye Treviño *(signed by A. Cristina Chiappe)*  
Administrator  
Housing and Community Facilities Programs

SUBJECT: Interest Rate Changes for Housing Programs  
and Credit Sales (Nonprogram)

The following interest rates, effective May 1, 2012, are reported as follows:

<u>Loan Type</u>	<u>Existing Rate</u>	<u>New Rate</u>
<b>ALL LOAN TYPES</b>		
Treasury Judgment Rate	0.170%	0.180%

The new rate shown above is as of the week ending March 31, 2012. The actual judgment rate that will be used will be the rate for the calendar week preceding the date the defendant becomes liable for interest. This rate may be found by going to the Federal Reserve website for the weekly average 1-year Constant Maturity Treasury Yield ([http://www.federalreserve.gov/releases/h15/data/Weekly\\_Friday\\_H15\\_TCMNOM\\_Y1.txt](http://www.federalreserve.gov/releases/h15/data/Weekly_Friday_H15_TCMNOM_Y1.txt)).

**RURAL HOUSING LOANS**

Rural Housing (RH) 502 Very-Low or Low	3.250	3.250
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EXPIRATION DATE:  
May 31, 2012

FILING INSTRUCTIONS:  
Administrative/Other Programs

Single Family Housing (SFH) Nonprogram	3.750	3.750
Rural Housing Site (RH-524), Non-Self-Help	3.250	3.250
Rural Rental Housing and Rural Cooperative Housing	3.250	3.250

Please notify appropriate personnel of these rates.

Sent by Electronic Mail on April 26, 2012, at 10:00 by Policy Analysis Branch. State Directors should advise other personnel as appropriate.

April 26, 2012

TO: State Directors  
Rural Development

ATTN: Multi-Family Housing (MFH) Program Directors, Coordinators,  
Specialists, State Architects, Construction Analysts and Capital Needs  
Assessment Reviewers

FROM: Tammye Treviño                   *(Signed by Tammye Treviño)*  
Administrator  
Rural Housing Service

SUBJECT: Guidance on the Rehabilitation of Properties in the MFH Section 515 Rural  
Rental Housing and Section 514/516 Farm Labor Housing Programs

## **Introduction**

The purpose of this Unnumbered Letter (UL) is to provide guidance on the rehabilitation of Rural Development Multi-Family Housing (MFH) properties in the Section 515 Rural Rental Housing and 514/516 Farm Labor Housing programs. The information within this document primarily provides guidance on the standards and requirements for projects using only Agency funding to complete the repairs or rehab. When financing sources include “third party” sources there may be other or additional construction requirements and conditions which will need to be discussed and mutually accepted by all parties involved. With only “third party” financing, authorized RD field staff should apply the principles of this Unnumbered Letter to the extent necessary to assure the Agency's security interest is adequately addressed. This guidance is comprised of eight main sections:

- 1) References to Rehabilitation in 7 CFR Part 3560 and the Handbooks
- 2) Background Considerations
- 3) Repair or Rehabilitation
- 4) Architectural Services
- 5) Financial Considerations
- 6) Construction Funding
- 7) Protecting the Government's Interest
- 8) Construction Administration.

EXPIRATION DATE:  
April 30, 2013

FILING INSTRUCTIONS:  
Housing Programs

This Unnumbered Letter provides guidance that has not been issued in writing to the field previously. Use of referenced Form RDs are required when new or subsequent direct RD funding is involved. When no new RD financing is applied then the use of American Institute of Architects forms or other industry accepted forms are appropriate. Two attachments are included.

**1) References to Rehabilitation in 7 CFR Part 3560 and the MFH Handbooks**

Attachment A, *References to Rehabilitation in 7 CFR part 3560 and MFH Handbooks*, consists of a comprehensive list of references to the term rehabilitation in 7 CFR part 3560, HB-1-3560, HB-2-3560 and HB-3-3560. These references include information on rehabilitation in order to revitalize a property.

Please note that many of the requirements of new construction from RD Instruction 1924-A and 7 CFR part 1924 apply to rehabilitation. Further guidance on what portions of RD Instruction 1924-A and 7 CFR part 1924 apply is given in this Unnumbered Letter and Attachment B “*Repair vs. Rehabilitation Reference Guide*”.

**2) Background Considerations**

Consider the financial and physical condition of the property in determining whether a project needs repairs or the maintenance requires rehabilitation. Also consider how best to manage the funds for the rehabilitation or repair. A property that has been well maintained may only need to capitalize or put money into the reserve account now for repair or replacements that will be completed over the 20 year repair and replacement schedule. This schedule is an estimated plan for the way in which repairs and replacement work may occur and the amount of funds that should be set aside, each year, over the term, to address those physical facility needs. On the other hand, a property where there has been a lack of funds necessary to address physical issues may need to be rehabilitated and may also include the transfer to a new owner.

Rehabilitation typically occurs in one of two ways: 1) the owner (or purchaser) proposes rehabilitation or, 2) the Agency’s Capital Needs Assessment (CNA) Reviewer and Underwriter) jointly agree that rehabilitation is appropriate for the property. In both situations, the owner contracts for an “as-is” CNA based on existing conditions at the property and should follow the guidance in the current Unnumbered Letter concerning CNAs.

**A. Property Owner/ Purchaser Proposes Rehabilitation.** When the property owner (or purchaser / transfer owner) proposes rehabilitation and has funds committed by RD or a third party source, the owner contracts for an “as-is” CNA and follows the guidance in the Unnumbered Letter concerning a CNA. Then the owner and Rural Development jointly develop a rehabilitation repair list (also called Scope of Work) for the planned rehabilitation. The Scope of Work is a separate document and developed outside the CNA. The owner should get estimates for the cost of rehabilitation from other sources

including an architect, cost estimator, or actual bids. The owner should provide a copy of the Scope of Work approved by RD to the CNA Provider who will then prepare a “post rehabilitation” or “Post-Rehab” CNA as if the rehabilitation had been completed. This “post rehabilitation” or “Post-Rehab” CNA will be used to evaluate the project's Reserve Account to assure the physical needs of the property can be met over the term of the CNA. Any item with an estimated useful life (EUL) of 20 years or less would appear in the 20 year CNA repair and replacement schedule. Any rehabilitation items that would wear out and require replacement within the next 20 years, such as appliances, must be shown in the appropriate year(s) of the CNA.

If the project has requested funds for rehabilitation, but they have not been committed, an “as-is” CNA is still performed. If funds are not available for rehabilitation, the CNA performed would be an “as-is” CNA, reflecting the anticipated repair and replacement schedule for the property over the next 20 years. A “Post-Rehab” CNA would not be performed until funds are available and committed since this is an additional cost to the owner and the Agency.

- B. Rehabilitation Recommended by CNA Reviewer/ Underwriter.** The CNA Reviewer and Underwriter jointly may recommend rehabilitation. This decision could be made during review of the CNA itself, or more likely, during underwriting of the financial assistance after the CNA has been reviewed and accepted by Rural Development.

The CNA Reviewer may know the property or be concerned over the quantity of repairs shown as necessary in the first few years. In discussions between the Underwriter and CNA Reviewer there may be agreement that the better financial solution for the property would be to pull the items in those first few years (years 1-3, or whatever time period makes the most sense) into a rehabilitation to be performed “now” (in the first year). If the Agency and owner both concur, the CNA Reviewer makes those comments in the draft or final review of the “as-is” CNA Report to the CNA Provider. The CNA Provider then prepares both the “as-is” CNA and the “Post-Rehab” CNA. The items included in the rehabilitation are pulled from the years they were planned in the CNA and a “Post-Rehab” CNA is created. In such a situation, the “Post-Rehab” CNA may show “zeros” for repairs for the property in those first few years. However, the individual line items should still be shown in the CNA and not removed if they will require repair or replacement during the 20 years of the CNA.

The CNA Provider may be due an additional fee to revise his contract to create both an “as-is” and an “Post-Rehab” CNA.

If the decision to rehabilitate is determined later in the process by the Agency and the Agency has approved the CNA, Agency staff will need to revise the CNA, as described later under “Financial Considerations”. After the CNA has been approved, the Agency cannot go back and require the CNA Provider to revise it. It is the responsibility of the Agency to revise the CNA to reflect the Agency’s decision to require a rehabilitation of the property.

The Agency decision on whether to pull items forward and require rehabilitation for a property should be a joint decision between the CNA Reviewer (who has the expertise on the CNA process), the Loan Underwriter and the Owner. In doing so, consultation with the applicable field office, the MFH Coordinator / Program Director and the Team Leader is appropriate. The CNA Provider may be consulted as well.

### **3) Repair or Rehabilitation**

For a Multi-Family Preservation and Revitalization (MPR) or Credit Sales transaction, if the combined repair and replacement costs for year 1 of the property total \$350,000 or more, or the costs exceed \$12,500 per unit, you may consider the work “rehabilitation; everything else is considered a repair. For example, an eight unit property with repairs totaling over \$100,000 would constitute “rehabilitation”. For a property with more than 28 units, the \$350,000 figure becomes the determining factor. When determining how to underwrite the transaction, if repair costs total over \$12,500 per unit, or if total repair costs are over \$350,000, consider that a “rehabilitation”.

The Underwriter should first look at the amount of repairs needed in the first year of the CNA. The immediate needs under “Health & Safety” maybe added to year one of the CNA if those issues have not yet been resolved. If a 24 unit property lists \$360,000 in repairs in year one, it is rehabilitation. If the 24 unit property lists \$260,000 in repairs in year one and \$90,000 in repairs in year 2, the Underwriter and CNA Reviewer need to evaluate whether it is in the best interests of the tenants, the property and the Agency to combine years one and two for a rehabilitation of the property. As noted in the previous section, this should be a joint decision made by Agency staff, including field, State, and the National Office Team Leader.

If the rehabilitation threshold is met, it does not necessarily mean that rehabilitation must be done. For example, roof replacement could be a large cost (enough to meet the rehabilitation cost threshold) in a large property, but could be done as repair / replacement. It is important to first determine if the cost threshold has been met. Then, determine if the repair item(s) warrants rehabilitation.

The rehabilitation threshold on each project can be affected by the funding source (i.e, LIHTC or GRRH thresholds) and the jurisdiction of the project. Staff should consider all factors and conditions as to whether a rehabilitation is appropriate.

In a repair and replacement scenario, the Agency will typically have only one CNA: the “as-is” CNA for the property. The “as-is” CNA shows the CNA Provider’s opinion of existing conditions at the property as well as the repair and replacement schedule for the next 20 years. With committed rehabilitation funds, the Agency will have two CNAs: the “as-is” CNA and the “Post-Rehab” CNA, showing the repair and replacement schedule over the next 20 years, after the rehabilitation has been performed. **If during the underwriting the Agency determines rehabilitation is necessary, the Agency will have two CNA’s: the**

**“as-is” CNA, which is the CNA Provider’s opinion of existing conditions at the property and the “Post-Rehab / Underwriter’s Revised CNA”, which accounts for the rehabilitation and any adjustments that were made by the underwriter in the process.**

#### **4) Architectural Services**

Questions will arise as to when it is appropriate to seek a project architect’s services to design and oversee the rehabilitation. Generally speaking, if the definition or monetary threshold of “rehabilitation” described above is met; architectural services should be obtained.

There are a number of factors that enter into the decision to use architectural services and it will need to be made on a case-by-case basis, with guidance from the State Office and the Team Leader. Factors to consider in making the decision to use architectural services include:

- **Cost / quantity of the work:** Evaluate the scope of the rehabilitation. If the cost of the work exceeds \$500,000 and administration of the construction will require numerous visits to perform inspections, review pay estimates, check and approve change orders and to provide contract administration, it is appropriate to have a professional architect to perform these duties.
- **Type/ complexity of repairs needed:** Consider whether the repair(s) require multiple building trades. Repairs may be costly, but if the scope is to replace roofing for every building in a 100 unit development, while costly, may not be complex and therefore an architect may not be needed. On the other hand, solving a site drainage and moisture problem property may not be as costly, but would demand professional expertise. Both an architect and an engineer might be involved in that case.
- **Structural changes:** Whenever structural changes are needed as part of the rehabilitation, an architect should be consulted for the structural issues as a minimum. Typically, this would indicate a need for architectural services throughout.
- **Additional structures or facilities:** In some cases, there may be a need to add an accessible unit, an office, or site amenities such as a laundry or community room to a property. If new construction is required, architectural services should be sought.
- **Accessibility issues:** If a property requires a number of accessibility corrections, a project architect may prove invaluable in determining the best, most cost effective way to achieve the needed results.
- **State law:** In some states, an architect may be required by state law for rehabilitation work of a certain dollar amount or scope.
- **Local or state building departments:** Some local building departments perform a plan review and perform building code inspections at set times during the workday, using trained, qualified personnel. Others merely take a check and issue a building permit. Other areas may have no “building department” at all. The level of involvement and competency of local building department staff overseeing the project can be a factor in deciding to use architectural services. In some states, the state government may have a state fire marshal plan review and inspections while others do not. State Fire Marshal

oversight may also be a factor in deciding to use architectural services. For many states, rehabilitation work has no required permitting or inspection process. It is important to determine what resources are locally available and to what extent they will need to be involved in the project rehabilitation.

- **State Office staffing:** In states without a State Architect, a project architect may provide additional assurance and risk reduction, confirming that all of the items requiring rehabilitation have been addressed. This could be a determining factor. However, having a State Architect on staff does not mean that the need for a project architect is eliminated.
- **Field expertise & staffing:** If the field staff overseeing a rehabilitation project have years of experience in MFH and in construction, the need for outside architectural oversight may be reduced. In other cases, a project architect provides good assurance that building codes will be met.

The determination of whether to require architectural services for rehabilitation needs to be made by the MFH Program Staff in the State Office along with the Team Leader, considering the factors described above.

The cost for architectural services in new construction typically runs approximately 5-7% of the total construction costs in our program. Architectural services typically run approximately 50% higher for rehabilitation work. An architect's fee range of 7-12% of the construction costs for rehabilitation may be appropriate. Architectural services are described in 7 CFR section 1924.13(a)(5).

**The Agency will provide oversight during the rehabilitation for the benefit of the Agency regardless of the source of any other required inspections, supervision or oversight. Additional project monitoring shall be provided as necessary through an accepted independent third party entity. The monitoring responsibilities may include construction inspections, cost and schedule monitoring and pay application reviews. These services can be performed by the project architect or other professional with appropriate qualifications similar to the experiences of a construction manager. The Agency and owner should agree on the need and role regarding the administration of the construction phase.**

## **5) Financial Considerations**

For simple repairs, (transactions that fall short of the above-mentioned rehabilitation threshold) the Underwriter will establish funding so that all financial tools available under the MFH program are disbursed through the Reserve Account. States are to follow the established procedures set out in Handbook HB-2-3560, Chapter 4, paragraph 4.17 for withdrawing funds from the Reserve Account. Either obligation of loan funds using the multiple advance method or disbursement of funds in a single advance are typical options. For guidance on properly setting up multiple advance loans in AMAS (or current system) refer to the AMAS Manual, Chapter 2.

- A) Separate Construction Accounts for Rehabilitation Work.** For rehabilitation work, (transactions that exceed the thresholds described earlier) the rehabilitation funds will

be deposited into a separate construction account. This is to avoid co-mingling rehabilitation funds with reserve account funds. Disbursement of these funds shall be closely monitored and require Agency concurrence in order to assure the funds are used appropriately, especially when Agency funds are involved, Rehabilitation funds may be disbursed either as multiple advances or through a construction lender (using interim financing). If using multiple advances, the Underwriter will disburse all loan funds through a supervised bank account set up following 7 CFR part 1902. The Agency and property owner will follow the requirements in RD Instruction 1924-A and 7 CFR part 1924 for obtaining bids, providing plans & specifications, contract documents, surety, payments, change orders and inspections. *In short, handle these transactions the same way a Section 515 repair loan would be handled.*

**B) Hard Costs v. Soft Costs.** The Underwriter should review the costs and finances to make sure that all applicable “soft costs” typically associated with construction and rehabilitation have been adequately addressed in the financial analysis. (“Hard costs” are the bricks and mortar - tangible elements of construction. “Soft costs” is the common nomenclature used for those items that are not “hard costs” – not easily seen on site.) The term “soft costs” normally include such items as:

Architect’s fees	Engineer’s fees
Environmental fees	Legal fees
Closing costs	General Requirements (incl surety)
Overhead	Profit
Interest during Construction	Contingency
Tenant Relocation expenses	Cost Certification
Other Fees	

**C) CNA Falls Short of Bid.** CNA repair and replacement (r & r) estimates sometimes fall short of a bid from a contractor to rehabilitate the property. One reason is that CNA Providers include a “probable cost” for r & r, which differs from a cost estimate or proposal for rehabilitation. CNA Providers use industry standard cost data bases for the repair item costs. Those data bases normally include costs for labor, materials, overhead and profit. These are the normal costs a vendor would have in replacing **an item** at the property. With rehabilitation, on the other hand, there are typically more soft costs than just the overhead and profit. A rehabilitation project usually involves multiple construction activities performed by several contractors or subcontractors resulting in a cost proposal that includes acceptable management, coordination/scheduling and other related “soft costs” necessary to complete the project successfully. The line item costs in a CNA do not include soft costs. Other examples of soft costs would include surety, interest during construction (if any), a construction trailer, etc. Additionally, costs to relocate tenants can be considerable and are part of the development costs but should not be included in the CNA line items.

Other reasons for a CNA estimate to fall short of an actual bid could be the age of the CNA (needs adjusting for inflation), or a decision to replace items with a higher

quality item rather than an “in-kind” material (wood flooring rather than carpet, for example). Generally the items will be replaced with “in-kind” materials. There may be situations where replacement of an item with a higher quality material makes sense, i.e. if it has a longer Estimated Useful Life (EUL), less maintenance, less energy usage, etc. If using higher quality materials, the costs for the higher quality should be correctly reflected in the rehabilitation costs as specified in the Statement of Work.

CNA Providers may use RS Means to enter their line items. RS Means is a database tool that provides cost information to the construction industry so contractors can provide accurate estimates and projections for their project costs. If used, the RS Means cost database includes materials, labor, overhead and profit. RS Means costs typically don't include those other “soft costs” listed earlier. When adjusting the financials for the underwriting and to ensure that all the “soft costs” are accounted for, the Agency should not “double count” by adding in for overhead and profit a second time. If the CNA Provider used some other cost database than RS Means, contact them to determine if the cost numbers they provided included material, labor, overhead and profit, or just materials and labor. The CNA Provider should note the source of their cost information in the “Narrative” section of the CNA.

**D) Profit.** Profit or contractor charges (fees) are normally calculated on the totals of the “hard” costs only of a construction project. For new construction, 10% profit is an industry average. For rehabilitation, 10-15% is also an industry average for profit, depending on the size and scope of the rehabilitation. These averages are established from decades of contract performances and may fluctuate based on economic factors or other market conditions. Larger rehabilitations will be closer to 10% profit. Smaller rehabilitations, with budgets closer to the \$350,000 definition of rehabilitation, will be closer to 15% profit. To get a rough estimate for the costs of rehabilitation, input a profit percentage, based on the size and scope of the project to the line items in the CNA. However, Owners sometimes provide written cost estimates for the rehabilitation. In this case, the profit would be listed separately in the cost estimate and those numbers can be transferred directly to the CNA.  
*(Reference Sources & Uses on the Underwriting Template)*

**E) Overhead & General Requirements.** Per the Forms Manual Insert (FMI) for Form RD 1924-13, “Estimate and Certificate of Actual Cost” under “Overhead” includes items that are part of “doing business. Overhead is defined at 7 CFR 3560.11 and includes costs such as tools, equipment, workman’s compensation, unemployment tax, social security, medicare, management and secretarial salaries, profit sharing, pensions, office insurance / rentals / utilities / equipment, liability insurance, legal costs, automobile / truck expenses and depreciation.

“General Requirements” are those items that are required for a specific project, not just “doing business” and is also defined at 7 CFR 3560.11. These costs would include field supervision / superintendent, field office / phones, shed / storage /

toilets, performance and payment bonds (surety), building permits, site security, temporary utilities, property insurance on the project, and trash removal.

Without historical data, establishing a cost figure for “Overhead” and “General Requirements” for rehabilitation work is difficult. “Overhead” for a rehabilitation business is similar to a company performing new construction. When determining overhead for rehabilitation, it is prudent to use the same estimate of 4% overhead as in new construction (this should have already been included in the cost base for the CNA line items). “General Requirements” will be a range of 7-9%, based on the size of the rehabilitation. Again, a large rehabilitation job would be closer to 7%, whereas a smaller job, nearer the \$350,000, would be closer to 9%. An adequate cost estimate from the owner should include amounts for overhead and general requirements. In order to be acceptable to the Agency for underwriting purposes, the Scope of Work cost estimate for the rehabilitation provided by the owner must be complete and thorough. If Agency financing is involved, it must be submitted on Form RD 1924-13. The owner may obtain those estimates through an architect, cost estimator, or through bidding to contractors.

- F) Contingencies and Cost Over-runs.** Estimating contingency funds, (“Contingencies”) set aside for unanticipated required changes in rehabilitation work is also challenging. For new construction, contingencies of 5-10% of the construction cost are common in commercial work. For rehabilitation, there are more unknown conditions that can contribute to necessary changes in the work. In estimating “Contingencies” for rehabilitation, use a range of 10-15% of the construction cost. The lower number would be used for cases where the work is fairly well defined and less complex in nature. For a project with less well defined work (for example, addressing a myriad of accessibility issues on a site, or a property with moisture problems), a higher contingency is appropriate. **If contingency funds remain at the end of the rehabilitation, additional work that would be an eligible loan expense in the program may be added as a change order, or the remaining funds may be deposited into the reserve account.**

Rehabilitation funds will be separated out from the loan funds that will be used to capitalize the Reserve Account, which is specifically for use in maintaining the property over the remaining years of the CNA. Part of the loan application process requires a signed statement from all applicants agreeing to pay for cost overruns from non-project sources. **It is not the intent to have cost overruns funded from reserve funds as this could cause shortages in the Reserve Account resulting in unmet needs during the 20 year CNA period.**

**G) Repair v. Rehabilitation cost estimating**

**Soft Costs for Rehabilitation.** For rehabilitation, the CNA should be used to estimate the cost of repairs needed for the property over the coming 20 years. If a Scope of Work and a “Post-Rehab” CNA are provided, the Underwriter needs to review the Scope of Work and estimates for the rehabilitation to verify that all the

appropriate “soft costs” for that project have been reflected in the estimated cost of the rehabilitation work. The repair costs for the CNA should have been taken from a valid data source and should not need review at Underwriting since they were reviewed earlier by the CNA Reviewer. If all “soft costs” are not accounted for, the Underwriter needs to work with the Owner to estimate those costs and include them. Once the estimated cost for the rehabilitation has been determined, the Underwriter can then determine the financial needs for the Reserve Account, based on the 20 year repair costs from the post-rehab CNA.

**Agency determined rehabilitation/ Agency revising CNA.** If the CNA completed for the property was an “as-is” CNA and the CNA has already been accepted by the Agency and the Underwriter, in consultation with the CNA Reviewer and Owner, and it is determined that rehabilitation is in order, the Agency will be responsible for revising the CNA. The Underwriter or CNA Reviewer will take the existing “as-is” CNA and remove repair items and costs that will be part of the rehabilitation from the CNA template. The items may be located in different years of the CNA projections. These items will be used to create a Scope of Work and estimates for the rehabilitation. This Scope of Work would simply be the list of repair items taken out of the CNA. The owner will be responsible to obtain estimates which would include the costs from the CNA for those items, plus any anticipated “soft costs” described above. As noted earlier, the owner may utilize an architect, a cost estimator, or contractor bidding to obtain costs for the rehabilitation.

**Cost Estimates.** As described earlier, the cost estimate for rehabilitation work from a contractor normally includes materials, labor, general requirements, overhead and profit. Costs such as architectural services, engineering services, tenant relocation, legal fees, closing costs, interest during construction, cost certification, or contingencies would not normally be included. These are the kinds of “soft costs” that the Underwriter needs to ensure are included in the total rehabilitation funding. The CNA Reviewer or State Architect may be able to assist in estimating some of these costs. .

Cost certification may be required. If the contractor has an identity of interest with any of the suppliers, the owner, or the management company, a cost certification conforming to the requirements of RD Instruction 1924-A and 7 CFR part 3560.72(b) will be required and must be included in the estimate of “soft costs”.

The Underwriter will show the “rehabilitation” on the Underwriting Template on the Transaction Variables Page under Sources and Uses along with the appropriate additional “soft costs” for the rehabilitation of that property. With Agency proposed rehabilitation, the Underwriter or CNA Reviewer should verify that 1) the rehabilitation items were “zeroed out” on the Rural Development CNA Template to be used for future repairs and reserve account funding and 2) repaired items completed earlier than originally scheduled in the rehabilitation are listed again in the CNA schedule for future replacement as appropriate based on their EUL. Base the new annual required Reserve Deposit funding on the revised, “**Post-Rehab** / Underwriter Revised CNA” (UR-CNA) schedule.

**As-Is v. Post-Rehab and Underwriter Revised CNAs.** It is important to remember that the CNA Provider's original "as-is" or "Post Rehab" CNA is not wrong if it needs to be revised. CNAs can only be revised by the RD Underwriter. Updates or corrections to a CNA should be performed by the CNA Provider. However, in reviewing the financial status of the property, the Underwriter may make a recommendation that it is in the best interest of the tenants, the property and the government to rehabilitate the property at this time. The Agency (Underwriter, CNA Reviewer, Program Director, Team Leader and possibly National Office staff) consider the recommendation and will make the decision whether to rehabilitate now or in the future depending on funding. If the rehabilitation occurs now, the CNA needs to be revised as the CNA Reviewer "accepted" the original CNA. It was correct, as it provided a true reflection of the property's condition. The CNA Provider is not obligated to "correct" or "change" the CNA once it has been accepted by the Agency. The Agency will have two CNA's on this property:

- the *accepted As-Is CNA* that the Agency (and Owner) agreed to and
- the "Post-Rehab / Underwriter Revised(UR)", **UR-CNA** used for underwriting purposes.

The original CNA shows the determination of an independent provider as to what repairs will be needed. The second CNA gives the replacement schedule anticipated for the future 20 years of the project. Therefore, the Agency needs to maintain a copy of both CNAs in the case file to adequately document the transaction. *Again, the CNA Reviewer and/or Underwriter need to verify that the repair items completed earlier than originally scheduled are listed in the CNA for replacement, as appropriate.* The CNA Reviewer and Underwriter should work together in developing this "revised" UR-CNA.

There are cases where:

1. Rehabilitation has been determined to be the preferred course of action (rather than a repair) prior to the CNA contract or completion of the CNA. In this case the CNA Provider gives the Agency both an "as-is" and an "Post-Rehab" CNA; or
2. Rehabilitation has been determined necessary during underwriting by the Agency, in which case the Agency develops an Post Rehab-CNA and retains the original "as-is" CNA from the CNA provider.
3. The CNA has been finalized and approved by the CNA Reviewer, Underwriter, Provider and Owner, but the funding in the Reserve Account will not support line items necessary for replacement over the 20 year term, The Underwriter should discuss the situation with the Team Leader. There are two choices:
  - a. Develop an Post Rehab-CNA, derived from the existing CNA. This is necessary in order to preserve the data contained in the original CNA, allowing the Agency to maintain a "baseline" for the condition of the

property. Upload the data from the original CNA into the Underwriting Template and use it to redistribute replacement of line items throughout the 20 year period. This will allow the CNA Reviewer and Underwriter, working together, to insure that sufficient funds are in the reserve account for replacement line items at any given time during the replacement period. Once the CNA Reviewer and Underwriter are able to come to an agreement as to what is the best replacement schedule for the long term viability of the project, the UR-CNA will then be generated from the data in the Underwriting Template. This UR-CNA should be acceptable to the Agency and owner to be used as the working CNA throughout the repair and replacement schedule and Agency's use in servicing the property. In this way, the Agency has developed a replacement period schedule that will work based on the funds available.

- b. Discuss what other options are available with the Team Leader. It may be that the poor condition of the property and the available financial assistance cannot overcome the present problems.

**Retain all “As-Is” and “Post Rehab” CNAs.** Whenever a UR-CNA is provided, the original CNA and UR-CNA must both be retained in the Agency file for the property and distributed to the Owner. The final repair and replacement CNA must be on file with the property management on-site as well. A developed UR-CNA is an Agency solution for a CNA submitted by a CNA Provider which did not reflect the availability of funds in Reserve. If the reserve funds necessary to repair line items at any given time throughout the estimated replacement schedule are insufficient, a UR-CNA is developed. The UR-CNA is not developed by the CNA Provider, but by the Agency designated CNA Reviewer, Underwriter and Owner or other Agency representatives who may provide assistance in the development process.

## 6) Construction Financing

There are three methods for handling construction financing for rehabilitation:

- A) The Agency prefers interim construction financing. The Owner finds a lender willing to finance the cost of the rehabilitation. Once rehabilitation is completed, the Agency will expend funds from the financing tools or other Agency servicing action to pay off the construction loan. During the rehabilitation, payments to the contractor are made from the lender's construction loan. The money paid out accrues interest during the period of the work. At the end of the job, the permanent financing (3<sup>rd</sup> party, MPR tools, Section 538 guaranteed loans, or Agency financing) is dispersed to pay off the loan, interest that accrued during the construction and any closing costs. This is the preferred method because the Agency makes one final payment and the interim lender assumes all risk associated with the rehabilitation work. The Agency still needs to perform progress inspections of the work per 7 CFR 1924.6 and should receive copies of the pay requests upon verification that the work is progressing normally and that the payments to the

contractor are limited to the percentage of work completed to protect the government's security interest. (In this instance, the Underwriter must remember to include the construction interest as a "soft cost" for the rehabilitation work.)

- B) The second method of financing the rehabilitation would be through multiple advances by the Agency. If the Agency is providing the funds for the rehabilitation, rather than draw all the money out at the beginning of work and place it in a Supervised Bank Account, funds are drawn out on a monthly basis or as needed. "Multiple" advances of funds are made throughout the job, rather than all money at the beginning (into a supervised bank account) or the end (from interim financing). An estimate of costs or schedule should be developed prior to beginning work indicating when funds would be required. Generally, the contractor would provide such a schedule. Funds are requested on a monthly basis to pay for work completed and / or materials suitably stored on-site. This payment schedule may need to be revised as work progresses. The Agency must inspect the work to verify the work is progressing adequately, and must verify that the amounts for the draw requests are appropriate. The Agency must obtain appropriate documentation showing previous payments were properly applied (subcontractors and vendors paid) and that there are no liens of record. In addition, the Agency must track the funds, to verify that the work is on target, on budget, that funds are requested in time to make necessary payments and that adequate funds remain. This would include all expenses for "hard costs" as well as "soft costs".
- C) If third party funds are being used for the rehabilitation (including Section 538 guaranteed loans) and interim financing is not being used, set up a separate construction account, force account, or Supervised Bank Account (each State Office may have a different name for this type of account) for the funds. If the third party financier requires, funds can be requested over time, although depositing all in the account at the beginning of work is preferred as it eliminates the need to track funds for deposits. The Agency should complete progress inspections to verify work is proceeding normally and concur in pay requests. The payments must reflect the percentage of work completed in order to protect the government's security interest. Because the third party funds are being expended to rehabilitate a property in which the Agency has a financial interest, the Agency should track all draws / pay requests. This would include draw payments to the contractor (normally monthly), architect's fees, engineering fees, relocation expenses and all other soft costs associated with the property.

**Funds Disbursement.** Funds for the rehabilitation would be disbursed through either a construction lender or a construction account (supervised bank account set up according to RD Instruction 1902-A) and the initial required deposit to the reserve account, if any, as part of the financing tools would be deposited into the reserve account at closing.

## 7) **Using a Section 538 Guarantee in the Rehabilitation of a Section 515 or 514/516 Property**

This section will clarify which standards apply when using Section 538 funds to

rehabilitate an existing Section 515 or Section 514/516 property. There are some differences between the requirements of the Section 538 Guaranteed Rural Rental Housing program and the Section 515 or 514/516 programs. Generally, the Section 515 or 514/516 program requirements are stricter, and generally the stricter requirements will apply to the property. MFH staff should be consulted for specific questions regarding rehabilitation funded by Section 538 guaranteed funds. Section 538 reserve account requirements would be used. For contingencies during rehabilitation, use the Section 538 requirement for 2% of construction cost, funded from the owner, bank letter of credit and unused funds going to the Operations and Maintenance fund first, then to owner, as cited in 7 CFR part 3565. For occupancy and rent restrictions, use the more stringent standards, which are currently found in 7 CFR part 3560.

If the Section 538 guarantee is for permanent financing only, follow the construction monitoring requirements of RD Instruction 1924-A and 7 CFR part 1924, subpart A, as explained in this document. Surety for 100% of the contract amount should be obtained, in the form of performance and payment bonds, a bank letter of credit, or cash deposit. See 7 CFR 1924.13(e)(iii) and HB-1-3650, Chapter 5, paragraph 5.15. Performance and payment bonds are the preferred and most common form of surety for construction. A certified and audited cost certification is required pursuant to 7 CFR 3565.303(d)(8). If the Section 538 guarantee covers construction as well, follow the requirements of HB-1-3565, chapter 5, paragraph 5.21 as if it were new construction. In this case State Office staff would review, but not sign pay requests. Surety in the form of a performance and payment bond is preferred, but a bank letter of credit for 25% of the contract or acceptable collateral may be acceptable to the lender. Cost certification requirements outlined in Handbook 3565 will be followed. An identity of interest with the contractor will require audited and certified costs on Form RD 1924-13.

#### **A) Protecting the Government's Interests**

To protect the Government's security interest in a property that is receiving government funding support, it is important to ensure a smooth, thorough and professional rehabilitation process. Construction durability, accessibility to the disabled population, compliance with building code and municipal regulations as well as improved marketability of the property are critical to the security interests of the Government as the lender. In the construction industry, there are cases where a contractor builds poorly, does not pay subcontractors, or abandons a job in the middle of construction. In these instances, the property may be in worse shape than it was before construction began. Since partially completed units cannot be rented, the income stream for the property could be interrupted, for an unknown and potentially lengthy period of time. Unpaid subcontractors might place liens on the property if they have not been paid by the contractor. Bringing in a new contractor to complete the work could be expensive as well as time consuming. To prevent these situations from arising, it is important that a representative of the Agency visit the site during construction to verify that work is progressing on time and on budget. If the work is not progressing satisfactorily, it is important to make sure that the project gets back on track with the schedule, budget and

quality of work as soon as possible. You should meet with the Owner, the Architect and the contractor to address the problems and develop solutions.

Prior to the commencement of construction, verify that security for the Agency's investment is in place, generally in the form of surety for 100% of the cost of the construction work as required by 7 CFR section 1924.13(e)(1)(iii). Primarily, the surety is provided in the form of performance and payment bonds provided by the Contractor. Further explanation of the allowable security options is noted below in paragraph 8)B).

## **8) Construction Administration**

Many of the same issues dealing with Contracts and Construction Administration apply to rehabilitation work, just as they apply to new construction. Examples of issues addressed in RD Instruction 1924-A that apply for the rehabilitation of a MFH property include:

### **A) Procurement –7 CFR 1924.13(e)(1)**

If new funding is provided by the Agency, the preferable method of development for rehabilitation work is by competitive bid as defined in 7 CFR 1924.13(e)(1)(i). A negotiated bid may be accepted if an exception is granted by the State Director as described in 7 CFR 1924.13(e)(1)(vii). If an identity of interest as defined in RD Instruction 1924-A exists between the applicant and a contractor or any persons providing goods or services to the property (including the management company), and 7 CFR 1924.13(e)(1)(v) requires a cost certification for the rehabilitation. The State Director may also require a cost certification for cases where he/she determines it appropriate. The requirements in RD Instruction 1924-A that address surety requirements, progress inspections, retainage, pay requests and change orders will be followed. Typical contract documents with Agency Guides will be used.

If no new funding is provided by the Agency, the requirements of RD Instruction 1924-A are recommended but not required as it pertains to the bidding process or the contract documents with Agency supplements. The requirements in RD Instruction 1924-A that address progress inspections, retainage, pay requests and change orders are recommended as well. These recommendations will assist in protecting the Government and our security interest in the property if problems arise. As noted below, surety will be required due to the original funding / lien on the property.

### **B) Surety – RD Instructions 1924.6(a)(3) and 7 CFR 1924.13(e)(1)(iii)**

Surety will be required in certain circumstances as listed in 7 CFR 1924.6(a)(3) and 1924.13(e)(1)(ii). Surety may be provided in the form of Performance and Payment Bonds, a cash deposit (Minimum 10% construction contract. See 7 CFR 1924.6, or a bank letter of credit. All of these options are the responsibility of the contractor/constructor and the designated surety and would not become project funds unless a major failure of the contractor's performance occurred. Surety is provided to protect the owner and the lien holder in the event the contractor is unable to complete the work, or does not pay suppliers and subcontractors. Surety protects the Agency should a

contractor fail to perform, abandon a project or not pay subcontractors. The Agency's investment would be at great risk. When Performance and Payment Bonds are provided for the project, the amount must be enough to complete the construction. If the contractor is unable to provide bonds, a procedure exists in RD Instructions 1924.6(a)(3) and 7 CFR 1924.6(a)(3)(iii) and (iv) to request an exception or alternative.

Surety may be required even if a construction lender / interim financing is used for the rehabilitation; however, the Agency is less concerned about surety with new construction that is using interim financing because the Agency does not have anything invested in the property until the project is completed. On the other hand, in rehabilitation projects, Agency security interest is affected at the commencement of construction due to existing mortgages on the property. It is important to require surety or some alternative financial security product allowed by 7 CFR 1924.6, if the construction lender / interim financing does not require it. 7 CFR 1924.6(a)(3)(iv) indicates a Latent Defects Bond as an acceptable method for security. For rehabilitation projects, this bond is only appropriate as a supplement to performance and payment bonds.

When a lender's (interim financing) surety requirements are in effect and RD funds are not involved with the project, then RD staff should evaluate the extent and adequacy of those requirements and request supplemental measures as necessary. Surety requirements are slightly different when a Section 538 guarantee covering the construction is provided as explained earlier.

### **C) Cost Estimates – RD Instruction §1924.13(e)(1) and 7 CFR 1924.13(e)(1)**

Form RD 1924-13 or comparable detailed estimate form, is required whenever Rural Development has a financial interest in the property. When the loan is obligated through AMAS, key in the data from this form as required by AMAS. In projects where architectural services are being provided, there will be sufficient work involved to warrant use of the form. The form will assist in tracking project funds to determine if the project is over / under budget and will assist in determining when change orders are necessary to move funds from one line item to another. Since estimates in rehabilitation work tend to vary more than in new construction, it's anticipated that variations in funds from the estimate to the final cost data will occur.

**For those cases with Agency funding where the rehabilitation is small and no architectural services are required, the Agency will determine on a case-by-case basis if Form RD 1924-13 will be required or a similar detailed cost estimate form is adequate.**

For those transactions where Rural Development is not providing any new funds, the form is not required. However, the Agency still needs the detailed cost estimate information for underwriting the loan, even if not provided on Form RD 1924-13.

### **D) Contracts – RD Instruction §1924-A, §1924.13(e)(1)**

If new Rural Development loan funds are part of the rehabilitation transaction, all requirements of RD Instruction 1924-A and 7 CFR part 1924, subpart A for contract documents must be followed. Construction Contract A101 and General Conditions A201, both part of American Institute of Architects (AIA) family of contracts with appropriate Agency guides (See RD Instruction 1924-A, Guide 1, Attachments 6 and 10) as appropriate, must be completed, reviewed and accepted by the Agency. While the standard AIA contract was not created specifically for rehabilitation work, it is sufficient to be used in rehabilitation projects. The Agency will consider the use of other contracts, but will require the necessary Federal funding language from the RD Instruction 1924-A Guide documents to be included as part of the contract. If no specific Agency contract guide document is available for use with the chosen contract, existing appropriate guides can be tailored for adaptation to the contract to ensure the applicable language is applied to the project. In these cases an regional OGC pass-thru is required.

If there are no new Rural Development funds as part of the transaction, the owner may choose to use the AIA Construction Contract A101 or a different contract for the rehabilitation. The Agency Guide is not required when the Agency is not providing new funding, however an Agency review of the contract may determine that some implementation of the Guide language (ie; Surety, retainage, EEO and Agency role language) should occur prior to Agency concurrence.

All contracts for rehabilitation must indicate that work will be completed in a reasonable, realistic time frame. It is expected that rehabilitation should be completed within a maximum of 12-18 months.

**E) Pre-Construction Conference – RD Instruction 1924-A §1924.6(a)(11)(i) and 7 CFR 1924.6(a)(11)(i)**

A Pre-Construction Conference (PCC) is required for any new Agency property rehabilitation regardless of funding source.

A PCC is a good time to discuss construction administration issues prior to beginning the work. It is an opportunity for all parties (owner, management company, architect, Agency contacts and rehabilitation contractor) to meet face to face and exchange contact information, discuss roles and responsibilities, and discuss anticipated questions or issues on the project. At the PCC, parties should discuss the process and schedule of rehabilitation, the impact on tenants who may need to be relocated, the timing and frequency of inspections, processing of pay requests and change orders, retainage as written in the contract, as well as expectations and requirements for close out items to be provided at final inspection. The Agency should be a participant, not the leader of the meeting, so as not to create confusion about the responsibility for the work. The project architect should chair this meeting, if there is a project architect on the project. If there is no project architect, the Contractor or the Owner should lead the meeting, depending on who is best suited. Form RD 1924-16, “Record of Pre-Construction Conference”, may be used to document the issues discussed. A well run PCC can prevent serious problems later and is worth the time.

**F) Inspections – RD Instruction 1924-A, §1924.9 and §1924.13(a)(5)(v) and 7 CFR 1924.9 and 1924.13(a)(5)(v)**

Agency inspections are required in all cases, whether new Agency funds are used or not. See 7 CFR sections 1924.9 and 1924.13(a)(5)(v).

In new construction, inspections are required for “footing”, “framing” and “final”. See 7 CFR section 1924.9. In rehabilitation, an inspection is needed only at the “final” stage. In situations when adding a new unit, new community room, new laundry room or other feature, inspections are required at all stages.

For typical rehabilitation work, there may be cases where walls are relocated or opened and RD Instruction 1924-A and 7 CFR section 1924.9 would require a framing inspection before the wall is closed, to assure that electrical, plumbing, mechanical, insulation, etc. are in place and done correctly before the wall is closed. The majority of the inspections in rehabilitation work are based on a request for payment. The contractor wants to get paid at regular intervals during the work and an inspection is required to dispense funds. It is recommended that Agency staff inspect the rehabilitation work as often as possible during the construction period. If Agency staff are not able to visit the property before each pay request, the pay request may be approved based on the percentage of work completed from the inspection report from the inspecting architect or the local authority having jurisdiction (a local building department). Typically, the time frame for payments is monthly. Review the contract to determine what the frequency of contractor payments is and determine how notice of a pay request and / or inspection will be handled by the parties involved. Agency inspections are to verify the work has been completed in proportion to the funds requested, that work is progressing adequately, that the work is of acceptable quality and that the government’s security interest is being protected.

After the project architect has inspected the project, the Agency should ask for his/her inspection reports (or field reports or site visits). If the local jurisdiction / building department is making inspections, the Agency should ask for copies of those reports.

**G) Change Orders - RD Instruction 1924-A, §1924.10 and 7 CFR 1924.10**

Agency approval of change orders should follow the process set forth in 7 CFR 1924.10 regardless of the funding source, as they impact our security interest in the property.

During an inspection, if there are items that are different from what was described in the scope of work, plans and/or specifications, it is important to call attention to these items. A change order will be required as set forth in 7 CFR 1924.10. Anticipate change orders in rehabilitation projects. Much of the Scope of Work will have been based on assumptions. Once work begins, many unforeseen circumstances or conditions may arise that need to be addressed. The contractor or project architect should document these variances as change orders. Change orders should be approved prior to the work being

done. However; the work is sometimes performed before the change order is approved. This typically occurs when the item is essential to the project and further work could not have proceeded without the change. In such cases, include copies of the change order in the project file to document the work.

Although change orders may either reduce or increase the contract amount and the work, most change orders in rehabilitation will be for those unforeseen items that add to costs. A balance must be struck between the funds available (including any “contingencies” that were built into the funding), the work needed, and the work planned. While part of the application process is to obtain a signed statement from the owner/applicant agreeing to pay for cost overruns from personal resources, there may be situations where it is important to develop a “no cost” change order, that acknowledges the additional unforeseen work needed and funds it by reducing work elsewhere in the job to balance the costs out.

The “no cost” change order in rehabilitation work would be anticipated only after all contingency monies have been used and more unexpected work has arisen. Typically, in new construction, landscaping is reduced to help offset cost overruns. The Agency could determine that reducing landscaping in a rehabilitation job was acceptable to help offset additional work needed.

However, the owner has agreed to cover cost overruns. Decisions to adjust the scope of work because of cost overruns, even it only involves landscaping, should be made in conjunction with the Agency’s Team Leader, the owner and the architect. The determination of where funds come from for cost overruns after contingencies have been depleted needs to take into consideration the best solution for the property, tenants, Agency and owner.

If the financing was set up to include “Contingencies”, they should be treated as a separate line item cost shown on one of the blank lines of Form RD 1924-13 (lines 56 or 57). Each expenditure of funds from “Contingencies” will be documented by a change order. Track contingencies funds, provided through the Agency program financing, in the same way as a soft cost item – architect’s fees, engineering fees, etc. If, at the end of the job, contingency funds remain, they may be used for additional work (as long as it would be an eligible loan expense for a new loan), or will be placed into the reserve account and used for future replacements. There is only one “contingency” to be used to cover overages in either “hard” or “soft” costs. As discussed previously, Section 538 guaranteed loan funds have a different contingency percentage and requirements.

**H) Pay Requests / Payments – RD Instruction 1924-A, §1924.6(a)(12) and §1924.13(e)(1) and (2) 7 CFR 1924.6(a)(12); 1924.13(e)(1) and (2)**

When new Rural Development funds are being provided, payments will be made by one of the following contract methods: “One Lump Sum” or “Partial Payments”. See 7 CFR section 1924.6(a)(12)

A lump sum payment may be appropriate rather than partial payments, when there is one area of work that does not affect other systems or spaces of the building. An example would be the replacement of a roof. While it is usually an isolated and straightforward element of work, the cost may exceed \$350,000, and could be considered “rehabilitation”, rather than “repair”. This is a judgment call on the part of the underwriter in collaboration with the State Architect. Whether it is “rehabilitation” or “repair”, there would need to be a schedule for the work and a corresponding payment schedule. Because the time period for completion of such work may be very short (one or two months), payment may be issued in one lump sum upon 100% completion of the work. It is important to ensure that the contract is written stating that payment will be made upon completion of all work and inspection and approval by Rural Development staff. For this situation, it might be appropriate to use the Form RD 1924-6, “Construction Contract”, rather than a full AIA standard contract.

Typically, contractors will ask for monthly payments for work completed and/or materials suitably stored on site. Whatever the payment schedule will be, it should be described in the contract and agreed to beforehand in a Pre-Construction Conference (PCC). Before approving a pay request, either the project architect or Agency representative (and preferably both) will inspect to verify that the work has been performed and that the pay request appropriately reflects the completed work. Retainage as set forth in the contract is held back on the total amount requested, until the project is completed. To protect the government’s security position, require the contractor to provide the Agency with an executed Forms RD 1924-9 “Certificate of Contractor’s Release” or RD 1924-10, “Release by Claimants”, following each payment executed by all persons who furnished materials or labor on the property. These forms should likewise be discussed at the PCC.

The Agency may track the payments and funds to determine that adequate money exists in the account for remaining work. Form RD 402-2 , “Statement of Deposits and Withdrawals”, or a similar system will be used to track construction funds. An Excel spreadsheet could be used as well. Form RD 402-2 or similar document would be completed in accordance with the FMI for Form RD 402-2. If no new RD funding is involved then RD should assure that an acceptable “third party” financing entity tracking system is being implemented.

If no new Rural Development funds are being provided, the same conditions set out above for pay requests/inspections may be followed, but are not required. As a minimum, the Agency will review and approve all pay requests and change orders. Inspections and tracking of all contract funds for rehabilitation of an individual property with no new Rural Development funds is not required, but may be performed by the Agency on a “time available” basis.

**I) Final Inspection / Payment – RD Instruction 1924-A, §1924.6(a)(12), §§1924.9(d) and (e) and §1924.13(e)(1) and (2) and 7 CFR 1924.6(a)(12); 1924.9(d) and (e); 1924.13(e)(1) & (2).**

Final inspection and payment procedures are the same whether Agency funds or third party funds are used in financing the rehabilitation.

In making final payment to the contractor for the work, the Agency representative needs to verify that the work has been completed. Typically, the project architect performs a “substantial completion” inspection and creates a punchlist, or list of what minor items need to be completed. The Agency representative will attend the final inspection, when the contractor has completed all items on the punchlist.

All costs outside the contract (soft costs) must be dealt with at the final inspection. Prior to approving the final payment on a contract, the contractor must provide a signed copy of Forms RD 1924-9, and 1924-10, (or Agency standForm RD) from all persons who furnished materials or labor in connection with the contract.

Often times, a final change order is provided to reconcile the final costs for the project along with the request for final payment. Prior to making final payment, verify that the owner received the warranties for any equipment replaced as a part of the rehabilitation and all contractor release certifications were provided.

**J) Cost Certification – RD Instruction 1924-A, §§1924.13(e)(1)(iv) and (v)**

Per 7 CFR section 3560.72(d), a cost certification is required in all cases where there is an identity of interest as defined in 7 CFR 1924.4(i) between the contractor and applicant or any persons providing goods or services to the property (including the management company). The State Director may also require a cost certification for cases where he/she determines it appropriate. If the rehabilitation is funded by a Section 538 guaranteed loan, use the Section 538 Program cost certification requirements. However if there is an IOI contractor the certified and audited costs will be presented in the format contained on Form RD 1924-13, “Estimate and Certificate of Actual Costs”.

For rehabilitation work without Agency funding and if cost certification is not required by the other funding entities, cost certification would still be required by the Agency, but as noted for rehabilitation funded with Section 538 permanent financing only, the cost certification does not need to follow the Form RD 1924-13 format as long as the costs are audited and certified. (For example, the cost certification created for a tax credit property would suffice.)

**K) Warranty – RD Instruction 1924-A, §1924.4(p), 1924.12, and §1924.13(a)**

Warranty requirements are the same under 7 CFR part 1924, subpart A whether Rural Development funds or third party funds are used in financing the rehabilitation.

As with new construction, the contract for the rehabilitation shall require a full one year warranty on the work. Copies of all warranties for equipment that was replaced (heating and air-conditioning equipment, kitchen appliances, etc.) shall be provided to the owner prior to final payment. Also with new construction, if problems occur that are the result of poor workmanship or poor quality materials (as opposed to normal “wear and tear”), the contractor should be contacted to respond to warranty issues. If he does not respond in a timely manner, the project architect (if one is involved in the project) should contact the contractor to work toward a resolution. If no project architect was involved in the rehabilitation, the owner or management company should attempt a resolution. If no resolution results, in extreme cases, the contractor could be suspended or debarred from performing future work with the Federal government based on a refusal to honor warranty work.

For monitoring purposes, enter the 11 month warranty inspection in MFIS under Supervisory Activity.

### **Reference Guide**

Attachment B, *Repair vs. Rehabilitation Reference Guide*, is provided as a reference for field staff and program participants to summarize the requirements of this Unnumbered Letter. This may be helpful in understanding the different requirements for repair work (which is funded on an annual basis by the reserve Account) and rehabilitation work (which is funded as part of the underwriting and handled through a separate account). Also, differences between rehabilitation funded by the Agency or funded by third party lenders are identified.

### **Conclusion**

A Procedure Notice that will incorporate this guidance into one of the 3560 handbooks will follow this UL. Handbook procedures regarding rehabilitation of units will be revised over time. At this time, all rehabilitation work performed that is deemed necessary in accordance with 7 CFR part 3560 will need to follow these guidelines.

Any suggestions, comments, or questions on the current guidelines should be directed to Meghan Walsh, Architect with the Program Support Staff at [meghan.walsh@wdc.usda.gov](mailto:meghan.walsh@wdc.usda.gov), or 202-205-9590, or directed to Carlton Jarratt, Senior Loan Specialist with the Multi-Family Housing Preservation and Direct Loan Program (MPDL) at [carlton.jarratt@wdc.usda.gov](mailto:carlton.jarratt@wdc.usda.gov), or 804-287-1524.

**(Attachment A)**

**REFERENCES TO REHABILITATION IN  
7 CFR PART 3560 AND HANDBOOKS**

Listed below is a comprehensive list of references to rehabilitation found in 7 CFR part 3560, HB-1-3560, HB-2-3560 and HB-3-3560. These references include information on rehabilitation, sometimes as part of a transfer and sometimes in order to revitalize a property.

*7 CFR part 3560*

- 3560.11 – A definition of “Rehabilitation” for use in 3560 is included in the definitions section.  
3560.11 and 3560.252(d)(2) Under Rental Assistance new construction units are defined to include units provided in conjunction with substantial rehabilitation.
- 3560.52 - The Agency uses appropriated funds to finance the construction, rehabilitation of program properties, or purchase and rehabilitation of MFH and related facilities to serve eligible persons in rural areas.  
3560.53(b)- Eligible use of funds includes rehabilitation of buildings.  
3560.58(b)- The Agency will consider the purchase and rehabilitation for an existing structure located in the central business area of a rural community.  
3560.63(d)(2)- The Agency may recognize developer’s fee paid from “soft dollars” (not loan funds) available through other sources on rehabilitation up to 15% of the total development costs.
- 3560.63(f) – Sets maximum debt limit for new construction or rehabilitation loans.
- 3560.70(b)(2) – Rehabilitation of existing RRH manufactured housing units is included as an eligible property.
- 3560.105(f)(1)(ii) – Requires builder's risk insurance for new construction or rehabilitation.
- 3560.159(c) – Uniform Relocation Act applies for tenants displaced by rehabilitation.  
3560.202(e)- Fund from rehabilitation loans will not be counted towards reducing rents.
- 3560.303(b)(1) – Professional service contract expenses as part of a rehabilitation (for design and inspection) are an eligible expense.
- 3560.406(d)(5) – For transfers, immediate, long term and rehabilitation needs will be identified by a Capital Needs Assessment.  
3560.406(d)(14)- A limited profit Rural Rental Housing transferee’s initial investment and return on investment will remain the same provided to transferor less the transferee contributes additional funds for rehabilitation and the Agency agrees to the higher initial investment.
- 3560.455(b)(3)(iv) – Loan reamortization may be used for rehabilitation in conjunction with a subsequent loan.
- 3560.752(b)(2)(ii) – Describes “Prospective Value” for appraisal after rehabilitation is completed.

*HB-1-3560, MFH Loan Origination Handbook*

- Ch. 1, paragraph 1.5 - Section 515 loans can be used to build, acquire and rehabilitate, or improve dwellings in rural areas.
- Ch. 1, paragraph 1.10B - Sites and dwellings developed or rehabilitated with Section 515 or Section 514/516 funds must meet the construction standards described or referenced in RD Instructions 1924-A and 1924-C.
- Ch. 2, paragraph 2.4A - The Agency does make initial loans for the purchase and rehabilitation of existing properties when it is in the Agency's best interest.
- Ch. 3, paragraph 3.13A- The Agency must conduct due diligence for hazardous substances for applications to rehabilitate existing structures.
- Ch. 3, Exhibit 3-2- Applicable federal accessibility regulations for rehabilitations.
- Ch. 3, paragraph 3.19- A subsequent loan for rehabilitation may not include expenses incurred for the temporary relocation of tenants.
- Ch. 4, Exhibit 4-3 – Rehabilitation listed as an eligible loan purpose.
- Ch. 4, paragraph 4.16.D.4 – For a borrower to be considered eligible to receive rehabilitation or equity funds, the project to be funded must either be in compliance, or be brought into compliance with applicable civil rights laws or physical accessibility standards with the receipt of loan funds.
- Ch 4, paragraph 19.A.1- Developer's fee for rehabilitation can be up to 15 percent of the total development cost.
- Ch. 4, Attachment 4-B rehabilitation of existing buildings not previously financed by the Agency is an eligible loan purpose.
- Ch. 5, paragraph 5.11.C – Subsequent loans for repair and rehabilitation may be amortized over 50 years or the remaining economic life of the project, whichever is less.
- Ch. 6, Exhibit 6-3- The developer's profit for rehabilitation should be in contents of a Memorandum of Understanding (MOU) with state financing agencies.
- Ch. 6, Attachment 6-B- Developer's fee limit for rehabilitation listed in sample MOU.
- Ch. 7, paragraph 7.9.B and Attachment 7-A – Multi-layered financing, involving multiple financing sources, has become the norm in the building and rehabilitation of affordable housing.
  
- Ch. 10, paragraph 10.2.A – A subsequent loan might be appropriate to complete needed repairs and rehabilitation work.
- Ch. 10, paragraph 10.2.A – Subsequent loans for repair and rehabilitation do not compete for funding and borrowers can apply for a subsequent loan at any time. The processing of subsequent loans for repair or rehabilitation typically begins when the Agency and borrower identify the need for improvements.
- Ch. 10, paragraph 10.3.C – Lists eligibility for Repair and Rehabilitation subsequent loan funds.
- Ch. 10, paragraph 10.3.B- The annual funding notice to the states specifies the funds available for rehabilitation.
- Ch. 10, paragraph 10.4 – All improvements, repairs and modifications made as part of a subsequent loan must be in accordance with RD Instructions 1924-A and 1924-C.

Ch 10, paragraphs 10.9- Loans for rehabilitation are funded from a separate allocation and do not compete for funding with new construction. Lists what borrower must do to apply for a rehabilitation loan.

- Ch. 10, paragraph 10.10.A – While subsequent loans to repair or rehabilitate existing units are processed in accordance with loan priorities established by the National Office, Loan Originators should set submission deadlines based upon the timing of the subsequent loan request. However, any deadlines must allow the applicant reasonable time to gather and prepare the necessary documentation, which is generally at least 30 days.

Ch. 10, paragraph 10.11.D.1- For repairs or rehabilitation a unit by unit inspection should be scheduled as part of the loan underwriting process.

Ch. 10, paragraph 10.12.B- The required restrictive use language for rehabilitation projects must be appended to the mortgage.

Ch. 10, paragraph 10.13- subsequent loans made for major rehabilitation may require temporary relocation of tenants.

#### *HB-2-3560, MFH Asset Management Handbook*

- Ch. 1, paragraph 1.5 - Section 515 loans can be used to build, acquire and rehabilitate, or improve dwellings in rural areas.
- Ch. 1, paragraph 1.10B - Sites and dwellings developed or rehabilitated with Section 515 or Section 514/516 funds must meet the construction standards described or referenced in RD Instructions 1924-A and 1924-C.
- Ch. 2, paragraph 2.4A - The Agency does make initial loans for the purchase and rehabilitation of existing properties when it is in the Agency's best interest.
- Ch. 3, paragraph 3.5 – Accessibility review of property required for a rehabilitation loan.
- Ch. 3, Attachment 3-E - Professional service contract expenses as part of a rehabilitation (for design and inspection) are an eligible project expense.
- Ch. 4, paragraph 4.31- Quarterly reports are required at the completion of rehabilitation.
- Ch. 4, Attachment 4-A, paragraph 5- Professional service contract expenses are part of rehabilitation and are an eligible project expense.
- Ch. 5, paragraph 5.3.C - A project constructed after 3/13/91 must meet Fair Housing Act Accessibility Guideline requirements after rehabilitation.
- Ch. 6, paragraph 6.32.B - Lease may be terminated due to a required rehabilitation.
- Ch. 8, paragraph 8.8.B.- Rental Assistance may be suspended during rehabilitation.
- Ch. 9, paragraph 9.17.B.- The Agency should review the situation 180 days after disaster to assess rehabilitation.

#### *HB-3-3560, MFH Project Servicing Handbook*

- Ch. 1, paragraph 1.5 - Section 515 loans can be used to build, acquire and rehabilitate, or improve dwellings in rural areas.
- Ch. 1, paragraph 1.10B - Sites and dwellings developed or rehabilitated with Section 515 or Section 514/516 funds must meet the construction standards described or referenced in RD Instructions 1924-A and 1924-C.
- Ch. 2, paragraph 2.4.A. - The Agency does make initial loans for the purchase and rehabilitation of existing properties when it is in the Agency's best interest.

- Ch. 6, paragraph 6.6.A. – Requires unit-by-unit inspection to determine whether rehabilitation may resolve problem.
- Ch. 6, Exhibit 6-3 – Project obsolescence would include cost of rehabilitation as a factor. Rehabilitation must comply with building codes. Consider expected useful life after rehabilitation.
- Ch. 6, paragraph 6.6.C – Size of rehabilitation loan may have an impact on Project Obsolescence.
- Ch. 7, Exhibit 7-1 – Identify additional physical condition requirements when a rehabilitation is involved with a Transfer with Rural Development funds or Third Party funds.  
Ch. 7, paragraph 7.1- Transfers offer opportunity to improve the quality of housing through rehabilitation.
- Ch. 7, paragraph 7.7.A. – The Loan Servicer should be particularly diligent in analyzing the budget and proposed rents when the transferee will also receive a subsequent loan or other third party financing or there are significant repairs or rehabilitation plans.  
All project rehabilitation costs must be reflected in project basic rents which may not exceed comparable market rents.
- Ch. 7, paragraph 7.7.C.- If rehabilitation will be performed basic rents should not increase until after completion of construction and inspection by the Agency.
- Ch. 7, paragraph 7.9A– The transferee contributes equity for payment of hard costs of construction (repair or rehabilitation) and Rural Development agrees to recognize a higher initial investment as described in Paragraph 7.9 B.
- Ch. 7, exhibit 7.3- Example of how to calculate the return to owner based on rehabilitation.
- Ch. 7, paragraph 7.13- Revitalization effective processing strategy includes establishing the scope of rehabilitation.
- Ch. 7, paragraph 7.20.C.- Borrower should consult with state preservation office for the transfer historical property which includes rehabilitation facade.
- Ch. 7, paragraph 7.20.D- MFH should do a design review when rehabilitation affects the design of the property.
- Ch. 7, paragraph 7.22 - The CNA includes an evaluation of any accessibility needs [7 CFR 3560.406(d)(9)] and must identify all immediate and long term repair and rehabilitation needs, see [7 CFR 3560.406(d)(5)].
- Ch. 7, paragraph 7.22.A - For transactions that include third-party funded rehabilitation (for example, transactions involving the acquisition of tax credits), the scope of work requires the CNA provider to use the proposed (and Rural Development -approved) third-party funded rehabilitation scope and develop a 20-year Replacement Reserve schedule that assumes that the third-party funded rehabilitation will occur as planned. Because the rehabilitation will not be funded from the reserve, Rural Development does not require the CNA to include the rehabilitation and does not require the CNA provider to review the rehabilitation costs or scope.
- Ch. 7, paragraph 7.22.B - After receipt of the draft CNA, the Loan Servicer will make an on-site inspection of each vacant unit and 10 percent of the remaining units in the project being transferred. When substantial rehabilitation issues are involved, additional units may be inspected.
- Ch. 7 paragraph 7.22.C - For Rural Development funded repairs, the detailed repair and rehabilitation plans and costs will be based on the CNA.

Ch. 7, paragraph 7.23.C- The agency will consider rehabilitation in evaluating the feasibility of a proposed transfer.

- Ch.7, paragraph 7.25 - The subsequent loan and its impact are accurately reflected in the transferee's budget and repair and rehabilitation plans.
- Ch. 7, exhibit 7-5, Monitoring rehabilitation work is part of basic steps for implementing transfers.
- Ch. 7, paragraph 7.33C - Rural Development will monitor all repairs and approve payments using the procedures outlined in Chapter 9 of HB-1-3560. Completing this step allows Rural Development to verify that the property will be restored to a decent, safe and sanitary condition.

Ch. 7, Attachment 7-A- Providing rehabilitation loans is listed as a servicing authority. Transfer repair agreement should include costs of relocating tenants if displaced by rehabilitation.

- Ch. 7, Attachment 7-B-2- Rehabilitation costs should be calculated in sources and uses of funds.
- Ch. 7, Attachment 7-D- Specific prospective value should be considered in appraisal if rehabilitation work is conducted.
- Ch. 12, paragraph 12.9- If rehabilitation costs are excessive, abandonment of security interest may occur if chattel property has no market value.

**REPAIR vs REHABILITATION REFERENCE GUIDE**

The following chart maybe useful for the repair or rehabilitation of MFH properties.

ITEM	REPAIRS <sup>1</sup>		REHABILITATION <sup>1</sup>	
	Only RD Funds <sup>2</sup>	Only RD Funds <sup>2</sup>	Only RD Funds <sup>2</sup>	3 <sup>rd</sup> Party Funds <sup>3</sup>
Architectural Services (7 CFR 1924.13(a))	Recommended but typically not necessary.	Required, but can be waived by National Office on case-by-case basis	Required, but can be waived by National Office on case-by-case basis	
Procurement (7 CFR 1924.13(e)(1))	Minimum 2 bids recommended if work done under one contract > \$3500.	Competitive bids required (Competitive bids negotiated with S.D. exception.) Cost cert if IOI.	Competitive bids required (Competitive bids negotiated with S.D. exception.) Cost cert if IOI.	Recommend competitive bids and cost cert if IOI.
Surety (7 CFR 1924.6(a)(3) & 1924.13(e)(1)(iii))	Required unless an exception is granted.	Surety required. (Impacts Agency loan security.)	Surety required. (Impacts Agency loan security.)	Surety required. (Impacts Agency loan security.)
Cost Estimates (7 CFR 1924.13(e)(1))	Minimum 2 bids recommended if work > \$3500. If architectural services required, use Form RD 1924-13 Cost Estimate form..	Use Form RD1924-13 Cost Estimate or similar format containing adequate detail.	Use Form RD1924-13 Cost Estimate or similar format containing adequate detail.	Cost estimates for underwriting are needed. Use Form RD 1924-13 Cost estimate form or similar acceptable document.
Contracts (7 CFR 1924.13(e)(1))	Contracts required. (Even if just acceptance of bid.)	Contract docs per 1924-A. (AIA with Agency guides are preferred and are the standard.)	Contract docs per 1924-A. (AIA with Agency guides are preferred and are the standard.)	Must be a “contract” with similar AIA standards. Agency guides required if applicable.
PreConstruction Conference (7 CFR 1924.6(a)(11)(i))	. N/A	Required. Use RDForm 1924-16.	Required. Use RDForm 1924-16.	Recommended. Form RD 1924-16 may be used or similar content.
Inspections (7 CFRs 1924.9 & 1924.13(a)(5)(v))	Agency and third-party contractor, if approved, will inspect work.	Agency will inspect work. Use Form RD 1924-12.	Agency will inspect work. Use Form RD 1924-12.	Agency and third-party contractor, if approved, can inspect work. Use Form RD 1924-12.
Change Orders (7 CFR 1924.10)	N/A	Agency approval required. Use Form RD	Agency approval required. Use Form RD	Agency approval required. Use Form RD

		1924-7.	1924-7.
Pay Requests / Payments (1924.12 & 7 CFR 1924.13(e)(1) & (2)) Section 538 UL Dated 8/16/11	Agency review not required.	Agency approval required. Use Form RD 1924-18. Get Form RD 1924-9 and Form RD 1924-10. Track funds on Form RD 402-2 or similar.	Agency review payments. Third Party to track payments by acceptable system.

Final Inspection / Payment (7 CFRs 1924.6(a) (12), 1924.9(d) & (e), & 1924.13(e)(1) & (2))	N/A	Agency inspects. Use Forms RD 1924-12, 1924-9 and 1924-10. Use 1924-7 if necessary.	Agency inspects. Use Forms RD 1924-12, 1924-9 and 1924-10. Use 1924-7 if necessary.
Cost Certification (7 CFR 1924.13(e)(1)(iv) & (v))	Required if IOI.	Required if IOI or State Director requests. Use Form RD 1924-13.	Required if IOI. Does not have to follow Form RD 1924-13.
Warranty (7 CFRs 1924.4(p), 1924.12, & 1924.13(a))	Warranty required.	Warranty required. Use Form RD 1924-19.	Warranty required. Form RD 1924-19 may be used.

**NOTES:**

1. See Unnumbered Letter for definitions of “Repairs” and “Rehabilitation”.
2. “Only Rural Development funds” would include debt deferral, subsequent loan, MPR grant, or other MPR servicing tools from Rural Development. (Not Section 538 guaranteed funds.) “3<sup>rd</sup> Party Funds” would include Section 538 GRRH funds, Low Income Housing Tax Credit Funds, Home Funds, a local bank, or any source of funds other than Rural Development.