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Department of
Agriculture

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OREGON AN NO. 1238 (1930-C)

October 7, 2002

To: Multi-Family Housing Staff
Rural Development, Oregon State

From: Lynn Schoessler
State Director

Subject: Asset Management Fee, Multi-Family Housing Nonprofit/Housing Authority Owners

Purpose/Intended Outcome: The purpose of this Administrative Notice (AN) is to implement a policy that provides a modest financial allowance to nonprofit organizations and public housing authorities so their board of directors (or board of commissioners) can make informed ownership decisions. These decisions relate primarily to overseeing the management, maintenance, and protection of the asset.

Comparison with Previous AN: There is no previous AN on this subject.

Implementation Responsibilities: Nonprofit organizations and public housing authorities are increasingly becoming owners of Rural Development properties through the prepayment and transfer process. Unlike profit motivated organizations, these organizations are not eligible for a 'return to owner' under Agency regulations and loan documents. Rural Development Instruction 1930-C, Exhibit B, XII A 6, however, allows the use of project funds for nonprofit organizational expenses. As owners of multi-family housing projects, all borrowers will incur expenses to perform basic asset management responsibilities. Rather than compensating nonprofit organizations and public housing authorities on an item-by-item basis, an annual Asset Management Fee may be approved on an annual multifamily housing operating budget.

Asset management expenses are incurred by nonprofit organizations for staff, overhead or third party contract costs for ensuring adequate participation by the board of directors, facilitating long-range planning by the board of directors, and assisting nonprofit owners in complying with loan and grant agreements and other regulatory documents or requirements. It is intended that this financial resource will assist the nonprofit organization in obtaining the necessary financial and technical assistance so that the board of directors can make reasonable and informed ownership decisions, primarily as they relate to overseeing the management, maintenance, and protection of the asset.

EXPIRATION DATE
October 31, 2003

FILING INSTRUCTIONS
Preceding RD Inst. 1930-C

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USDA, Director, Office of Civil Rights, Washington, D.C. 20250-9410

It is not intended that Borrower oversight should be duplicating activities that are the responsibility of the management agent. The asset management fee may not compensate for expenses already paid for by project funds or compensated through the management fee. It is intended that the board/owner have the training, capacity building and expert assistance as may be needed.

The following items, while not all inclusive, describe the type of activities included in the asset management fee:

- Board of Director and any staff review of capital expenditures.
- Board of Director and any staff review and approval of audited financial statements and consideration of any management comments or findings noted.
- Board of Director and any staff review and approval of proposed RHS annual operating budgets, including proposed repair and replacement outlays and accruals, insurance coverage, etc.
- Board of Director and any staff review of Long-term asset management plans.
- Directors and Officers pro-rata project share of errors and omissions insurance policy for the Board of Directors.

Therefore, nonprofit owners and public housing authorities may include as part of their operating budgets and receive from project funds on an annual basis an Asset Management Fee within the following limitations:

1. The annual Asset Management Fee may not exceed \$75 per unit per year or \$7,500 total per project, whichever is lower.
2. Whoever is hired to provide or assist with the oversight function may not have any identity of interest with the present or former management agent, or with any individual member of the board of directors of the borrower entity.
3. Project funds may only be used to compensate for actual project related expenses. An asset management fee may be approved by RHS only when the non-profit borrowers are performing and meeting their asset management responsibilities. In addition to other servicing actions, upon a 90-day written notice from Rural Housing Service, project asset management funds will be disallowed as an annual expense if there is less than satisfactory meeting of asset management responsibilities.

In preparing their proposed annual budgets, the nonprofit or public housing authority borrower may show the asset management fee on line 23 of Part 1, form RD 1930- 7. The caption Return to Owner should be changed to read " Asset Management". This allowance may be drawn only once a year at the end of the borrower's fiscal year, provided sufficient project cash on hand is available and the reserve account deposits are current. Borrowers are expected to not create deficit cash conditions by drawing these funds. Nonprofit owners and public housing authorities may include this on proposed budgets effective with fiscal years starting August 1, 2002.

The inclusion of this allowance in the project budget is not expected to cover all costs that may be incurred by a nonprofit entity or a public housing authority in meeting its ownership responsibilities. It is intended to provide some financial resources for training, gaining expertise and meeting their basic asset management responsibilities in the increasingly complex matters of owning and managing a multifamily property. Collecting an asset management fee is contemplated to be applicable for nonprofit borrowers utilizing contracted project management. Borrower-managed projects are also eligible to collect documented, pro-rata asset management expenses incurred by the nonprofit Board of Directors. No other general administrative or indirect costs may be charged to the property.