



UNITED STATES
DEPARTMENT OF
AGRICULTURE

Rural
Development

STATE OFFICE
1835 Black Lake Blvd. SW, Suite B
Olympia, WA 98512-5715
TEL: (360) 704-7730
TDD/TTY: (360) 704-7760
FAX: (360) 704-7742

Rural Business & Cooperative Service
Rural Housing Service
Rural Utilities Service

November 19, 2003

SUBJECT: Multi-Family Housing Nonprofit Asset Management Fee

TO: Area Directors
Area Specialists
Civil Rights Manager

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 of the property.

COMPARISON WITH PREVIOUS AN:

This AN replaces Washington AN 888 (1930-C) dated July 9, 2002 which expired July 31, 2003.

IMPLEMENTATION RESPONSIBILITIES:

Nonprofit organizations and public housing authorities are increasingly becoming owners of Rural Development properties through our prepayment and transfer process. While these organizations are not eligible for a return to owner under Rural Development regulations and loan documents, Rural Development Instruction 1930-C, Exhibit B, XII A 6 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 multi-family 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

EXPIRATION DATE: November 30, 2004

FILING INSTRUCTIONS:
Following RD Instruction 1930-C

and technical assistance so that the Board of Directors can make reasonable and informed decisions, primarily as they relate to overseeing the management of the property.

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, 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's review of capital expenditure.
- Board of Director's review and approval of audited financial statements and consideration of any management comments or findings noted.
- Board of Director's review and approval of proposed Rural Development annual operating budgets, including proposed repair and replacement outlays and accruals.
- Long-term asset management reviews.
- Directors and Officers 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:

- The annual Asset Management Fee may not exceed \$75.00 per unit per year or \$7,500.00 total, whichever is lower.
- 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 member of the Board of Directors of the Borrower entity. An employee of the nonprofit organization or public housing authority is not included within this restriction.
- Project funds may only be used to compensate for actual project related asset management expenses. An Asset Management Fee may be approved by Rural Development only when the nonprofit Borrowers are performing and meeting their asset management responsibilities. In addition to other servicing actions, upon a 90-day written notice from Rural Development, 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 27 of Part 1, Form RD 1930-7. The caption "Miscellaneous" should be changed to read "Asset Management". This allowance may be drawn

only once a year during 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 (i.e. line 30 on Form RD 1930-7 is not negative) by drawing these funds.

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 multi-family property. No other general administrative or indirect costs (e.g. OMB Circular A-87) may be charged to the property.

/s/

JACKIE J. GLEASON
State Director