

August 26, 2016

TO: Rural Development State Directors  
Housing Program Directors  
Multi-Family Housing

FROM: Tony Hernandez /s/ *Tony Hernandez*  
Administrator  
Housing and Community Facilities Programs

SUBJECT: Exiting Multifamily Properties Supporting Housing for Recovering Addicts

Rural Development (RD) strongly supports local organizations in their efforts to improve rural communities across America. This includes providing homes for the successful transition of individuals recovering from addiction.

The RD Multi-Family Housing (MFH) loan programs provide decent, safe and sanitary multifamily apartment developments in rural areas. At any given time, a number of MFH properties will exit the RD program through several methods: prepayment of the RD mortgage, maturity of the RD mortgage, and acceleration of the Promissory Note and ultimately foreclosure. These properties could potentially be suitable candidates to participate in a pilot program of sales transactions to non-profit organizations operating or supporting addiction treatment centers as housing for recovering addicts. The purpose of this Unnumbered Letter is to provide guidance to Servicing Officials to facilitate the sale of these properties for possible utilization as housing for recovering addicts.

#### **RESOURCE AVAILABILITY**

In each instance of property availability, Servicing Officials and the MFH Housing Program Director in the RD State Office should be accessible for consultation with interested parties and to provide further information about properties. RD makes certain information available to the public on the current status of its Direct Loan-financed MFH portfolio regarding prepayment (through information posted to the Public Information Exchange) and on maturing mortgage properties on the RD website.

**EXPIRATION DATE:**  
August 31, 2017

**FILING INSTRUCTIONS:**  
Housing Programs

Linkages can be made through subsequent identification of treatment centers, which are located on PolicyMap, an on-line resource also available on the RD website (at <https://rd-usda.policymap.com/maps>) that provides the locations of drug and alcohol treatment facilities and can be used in conjunction with locating RD-financed Section 515 properties. RD's statutory authority generally does not extend beyond termination of the RD mortgage. While any sale transaction is to be completed between the property owner and the potential purchaser, RD can still play a vital consultation role. Some properties will continue to have restrictive use conditions after leaving the RD program and purchasers need to be aware of these restrictions. In addition, properties leaving RD have valid leases in effect for current tenants which must be honored. However, neither of these conditions should eliminate a property from consideration to assist community residents in need.

## **MULTIFAMILY PROPERTIES**

### **Prepayment properties**

Many properties that are eligible to prepay the RD mortgage are required to follow the process outlined in 7 CFR 3560, Subpart N in order to reach payoff of the RD mortgage. When a Borrower notifies RD of his intent to prepay the mortgage, the Servicing Officials should advise the Borrower to discuss a potential purchase or lease (after payoff) with local non-profit organizations that may be interested in obtaining the housing for recovering addicts.

Interested non-profit organizations can obtain information regarding MFH projects that have applied to prepay their RD mortgage from the Preservation Information Exchange (PIX) web site, <https://pix.sc.egov.usda.gov/>. PIX allows interested non-profit organizations and public bodies to register to receive notification of all prepayment requests and potential sales to non-profits or public bodies. To do this, organizations must register as a non-profit or public body and set up their search criteria according to their areas of interest. Based on these criteria, PIX will send registered organizations regular listings of properties that match their search criteria. Once registered, PIX may also be used to conduct an organization's search of available properties.

RD may require the complex to adopt a restrictive use covenant (RUC) to protect the access of current tenants to adequate affordable housing. The rent will remain at the subsidized amount even though the tenant will no longer receive RA. These provisions prohibit the owner from raising rents for tenants who live in the property at the time of prepayment unless the rent increase is necessary to meet the operating cost of the project.

RD Vouchers, which provide a rent supplement, are offered to qualified tenants who are living in the property on the day of prepayment and are not available for tenants who move into the property after mortgage payoff. However, other subsidy may be available through HUD, the local housing authority, or the state housing finance agency.

## **Maturity of the RD Mortgage**

“Maturing mortgage” properties are those properties that have reached the natural maturity date of the RD mortgage and are expected to leave the RD program. If the Borrower is not interested in remaining with RD, then the property owner may be amenable to discussions with a local non-profit organization to sell or lease the property to provide housing for those in recovery. RD periodically updates a list of these “maturing mortgage” properties on the RD website and is a valuable resource for non-profit organizations interested in making connections with Borrowers who are about to leave the program. Servicing Officials have the most current portfolio information and can be a helpful source for these interested parties.

## **Note-accelerated Properties**

A third method by which properties may leave the RD program is through foreclosure. Property can be disposed of through foreclosure or voluntary conveyance, and debt settlement can occur through a compromise offer or adjustment. Servicing Officials are reminded of the liquidation provisions of 7 CFR 3560.456, and in Handbook HB-3-3560, Chapter 12.

For properties that are being accelerated out of the program, Servicing Officials should make Borrowers aware of the disposition options that may be available to them. This includes methods to facilitate a potential sale to an interested non-profit treatment organization. (Due to privacy concerns, Servicing Officials should *not* make available to the public any identification of those properties that are being accelerated.)

Borrowers in this situation should alert Servicing Officials to any purchase interest expressed to them by a non-profit organization providing treatment or counseling; RD will work to expedite the process of disposition.

## **ACTIONS BY RD**

Servicing Officials can provide information to Borrowers whose properties are in the above categories about treatment centers located within a reasonable radius of the property under consideration. Borrowers may then contact the treatment center for referral to a non-profit health or treatment organization if they wish to discuss possible sale or lease of the property for use as housing for recovering addicts after the property leaves the RD Multifamily Housing program.

Interested stakeholders and Borrowers should contact their local RD office or Servicing Official for more information on the MFH portfolio.

Additionally, non-profit organizations considering the purchase of exiting MFH properties for the purpose of transitional housing should be made aware that for properties in communities with populations of 20,000 or less, the Community Facilities (CF) program may be a possible financing tool. Projects must meet the CF eligibility criteria and align with the program’s definition of transitional housing, described in Attachment A of the Unnumbered Letter titled “Best Practices for Evaluating the Feasibility and Eligibility of Community Facilities Projects.”