August 8, 2016

TO: State Directors
Program Directors
Multi-Family Housing

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

SUBJECT: The Cost of Tenant Services in Multi-Family Housing Properties

PURPOSE

The purpose of this Unnumbered Letter (UL) is to remind Loan Specialists and Servicing Officials of the allowable and unallowable expenses that can be charged to the income of a Rural Development (RD) multi-family property financed under Section 515 Rural Development Rural Rental Housing program and Section 514 Farm Labor Housing program direct loans. Allowable and unallowable expenses are itemized in 7 CFR 3560.

This guidance is intended to specifically address whether "tenant services" is an allowable expense to be charged against project income in the operating budgets of the properties financed under these loan programs.

BACKGROUND

RD's Multi-Family Housing (MFH) program provides decent, safe, and sanitary housing rental units for very-low, low, and moderate-income households in rural areas. Regulations provide guidance regarding the types of expenses that can be charged to a project's operating account.

MFH program requirements in 7 CFR 3560.303(b) provide a listing of allowable and unallowable expenses that may be charged to project operating budgets. The regulation is silent with respect to the expense of the provision of tenant services. This UL reiterates the Agency's position that costs of tenant services are not an allowable project expense.

IMPLEMENTATION

In MFH's on-going efforts to preserve the portfolio, new funding sources are being introduced to the RD portfolio. These funding sources may have requirements that are different from MFH's regulations. An example of this is the provision of tenant services as an operating budget expense.

EXPIRATION DATE:
August 31, 2017

FILING INSTRUCTIONS:
Housing Programs

The provision of tenant services is not an allowable cost to be charged to a project's operating account. "Tenant services" or "tenant amenities" may consist of day-care of pre-school age children; after-school care for school-age children; or adult educational, health and wellness, or skill building classes. These services, while generally for the benefit of some tenants, are not directly attributable to project operations, and do not appear as an authorized allowable expense in §3560.102(i)(3) or §3560.303((b)(1). Project expenses are paid for through rental income; as expenses increase, rental rates must increase to meet the cost. Tenants not taking advantage of such services would pay more in rent for services they do not want. Even in situations where Rental Assistance (RA) or some other subsidy provides part of the rent payment, a rent increase unfairly burdens tenants who may not benefit from the housing subsidy.

That said, RD does encourage the provision of tenant services in MFH properties. Such services provide a benefit for some tenants, which should be provided at their cost. Alternatively, other sources of funding to pay for these services should be investigated: local community colleges, area agencies on aging, or senior supportive services groups, etc. Some State agencies also have funding available for such services or for tenant services coordinators.

Preservation of the MFH properties, and keeping housing affordable for tenants, are of the highest priority for RD. Much of this can only be accomplished if RA is available to support these efforts. More RA is needed to support these preservation efforts if additional expenses are included in property operating budgets. RDs goal is to maintain a viable and sustainable RA program so that as many MFH properties as possible continue to have the resource available. Managing costs is key to accomplishing this task.

Loan Specialists and Servicing Officials should continue to closely review proposed and actual operating budgets to ensure that property operating expenses are in compliance with 7 CFR 3560, are reasonable and necessary, and follow the guidance in HB-2-3560, Chapter 4.

If you have any questions regarding the guidance in this UL, please contact the Portfolio Management Analyst assigned to your state or the Multi-Family Portfolio Management Division at (202) 720-1604.