



Rural Development
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April 20, 2018

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TO: State Directors
Rural Development

ATTN: Program Directors
Multi-Family Housing

FROM: Curtis M. Anderson /s/ *Curtis M. Anderson*
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SUBJECT: 2015 Management Control Review for Multi-Family Housing
Section 514 On-Farm Labor Housing Loan Servicing

The purpose of this Unnumbered Letter (UL) is to address the concerns raised as a result of the Fiscal Year 2015 Management Control Review (MCR) for Section 514 On-Farm Labor Housing Loan Servicing. The MCR Team discovered several internal program weaknesses. Those weaknesses are addressed in this UL.

On-Farm Labor Housing Budgets

The results of the On-Farm Labor Housing file review revealed that many of the project servicing files did not contain Form RD 3560-7A, “*On Farm Labor Housing Project Budget*” as required by the Agency. In accordance with MFH Regulation 7 CFR 3560 Subpart M; Section 3560.630 Financial Management, it is the responsibility of the borrower to provide financial information annually, showing the operation of the housing in a non-profit manner (i.e., expenses for operations, loan installments, taxes, insurance, and upkeep are less than or equal to cash receipts from labor housing revenue). Financial information must be submitted in a format acceptable to the Agency, which is Form RD 3560-7A. Loan Servicers should be tracking the Received, Approved, and Follow-Up activities in the Multi-Family Information System (MFIS) for the Supervisory Activity “LH Annual Budget (1037).”

Lease Agreements/Employment Contracts

The review of On-Farm Labor Housing servicing files showed that the majority did not contain an executed lease agreement or an employment contract with the

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farm labor worker. In accordance with MFH Regulation 7 CFR 3560 Subpart M; Section 3560.623 (b) Housing Management and Operations, it is the responsibility of the borrower to maintain a lease or employment contract with each tenant stipulating employment with the borrower as a condition for continued occupancy. Form RD 3560-43, "*Verification of Occupancy for Domestic Farm Laborer*," should be used by the Loan Servicer to verify that the labor housing unit is being provided to the tenant as a condition of his/her employment, and to document the payment of any charges by the tenant while occupying an On-Farm Labor Housing unit financed by Rural Development. During the triennial Supervisory Visit, the Loan Servicer should ensure that a lease agreement or an employment contract is in place for each tenant. A copy should be maintained in the project's servicing file.

On-Farm Labor Housing Management Plans

On-Farm Labor Housing borrowers are not submitting Management Plans to the Agency for approval. MFH Regulation 7 CFR 3560.623, Housing Management and Operations, states that "all borrowers with On-Farm Labor Housing loans must develop and submit to the Agency a Management Plan for approval by the Agency. At a minimum, the borrower's Management Plan will describe the borrower's operations and outreach policies, how the borrower will handle resident complaints, and how repairs will be completed".

Please see Exhibit 1 of this UL, "Checklist for On-Farm Labor Housing Management Plan Requirements," which outlines the Management Plan requirements for On-Farm Labor Housing borrowers, and may be used by Loan Servicers during triennial site visits.

If you have any questions regarding this UL, please contact Barbara Chism in the Multi-Family Housing Portfolio Management Division at (202) 690-1436.

Attachment

Exhibit 1 - Checklist for On-Farm Labor Housing Management Plan Requirements

ON-FARM LABOR HOUSING MANAGEMENT PLAN CHECKLIST

The following items are required to be included in the Borrower's Management Plan, and must be reviewed once every 3 years by Rural Development:

Borrower Maintains Documentation of Eligibility

- | Yes | No | |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | Borrower continues to be engaged in agriculture or aquaculture farming operations. |
| <input type="checkbox"/> | <input type="checkbox"/> | Tenant is not an immediate relative of the Borrower. |
| <input type="checkbox"/> | <input type="checkbox"/> | Tenant is an employee of the farm Borrower or governed by an employment contract with farm Borrower. |

Borrower Maintains Documentation of Financial Status

- | | | |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | Operating Budget Form 3560-7A, Annual submission shows revenue from housing does not exceed eligible expenses associated with the housing. |
| <input type="checkbox"/> | <input type="checkbox"/> | Borrower is operating in a non-profit manner. |

Borrower Discusses These Items In The Operating Plan

- | | | |
|--------------------------|--------------------------|---|
| <input type="checkbox"/> | <input type="checkbox"/> | Is tenant being charged rent and/or utilities? |
| <input type="checkbox"/> | <input type="checkbox"/> | If, rent and/or utilities are being charged, was prior Agency approval obtained. |
| <input type="checkbox"/> | <input type="checkbox"/> | Tenant request for maintenances and/or grievances are being handled efficiently, and in accordance with the approved Management Plan. |
| <input type="checkbox"/> | <input type="checkbox"/> | If, operating on a seasonal basis, does the Management Plan list operational opening and closing dates. |
| <input type="checkbox"/> | <input type="checkbox"/> | Security Deposits, if any, are being handled in accordance with local and State laws. |
| <input type="checkbox"/> | <input type="checkbox"/> | Payment of Real Estate Taxes, if applicable, is timely. |
| <input type="checkbox"/> | <input type="checkbox"/> | Property Hazard Insurance is in force, and replacement cost is adequate. |