UNNUMBERED LETTERS ISSUED FOR THE APRIL OF 2015

Dated	Subject	Distribution
04-01-15	Credit Analysis Tool for Evaluation of Community Facilities Direct and Guaranteed Loan Applications	S/D
04-01-15	Non-Traditional Lender Approval for Participation in the Community Facilities Guaranteed Loan Program	S/D
04-17-15	Best Practices for Evaluating the Feasibility of Community Facilities Projects	S/D
04-24-15	Underwriting Update for Multi-Family Housing (MFH) Transfer and Multifamily Preservation and Revitalization (MPR) Demonstration Program Transactions	S/D
04-27-15	Temporary Authorization for Fiscal Year 2015 Single Family Housing Direct Program	S/D
04-28-15	Management of Loan Payoffs in Multi-Family Housing Properties	S/D
04-28-15	Allowable Expenses in Multi-Family Housing Properties	S/D
04-28-15	Section 9007, Rural Energy for America Program Technical Review Guidance for Fiscal Year 2015	S/D

April 1, 2015

TO: State Directors
Rural Development

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

SUBJECT: Credit Analysis Tool for Evaluation of
Community Facilities Direct and Guaranteed Loan Applications

This Unnumbered Letter discusses the utilization of a credit analysis tool as a resource for evaluating Community Facilities direct and guaranteed loan applications.

The application process for a non-profit, public body or Indian tribe, to obtain direct loan financing through Rural Development, is initiated directly by the applicant working closely with Rural Development staff. It is a time and resource intensive process for both our staff and the applicant. The planning stages for a large project can extend up to two years. The responsibility to assemble, analyze, evaluate and ultimately approve a loan application for a Community Facilities direct loan is addressed in-depth in RD Instruction 1942-A.

The Community Facilities Guaranteed Loan Program is a lender-driven program that provides financial assistance on eligible community-type projects, through a USDA loan guarantee against a percentage of loss to the commercial lender. It is through the lender that Rural Development receives an application for a loan. The lender provides an analysis of the applicant's eligibility and financial condition to support the application for the loan guarantee. RD Instruction 3575-A, §3575.53, however, places ultimate responsibility for evaluation of the loan application and the issuance of a conditional commitment for a USDA loan guarantee, with the Agency.

EXPIRATION DATE: FILING INSTRUCTIONS:
March 31, 2016 Community/Business Programs

The Community Facilities Direct and Guaranteed Loan Programs are being used to finance larger and more sophisticated community-type projects. The National Office has received numerous requests for guidance and tools to aid in the analysis and evaluation of community facilities project applications that may be used by Rural Development staff. The National Office has developed a tool to assist the staff with the analysis of the loan application through the credit analysis tool. This format was developed to evaluate each component of an application review in a logical sequence, taking into consideration its ease of use by our staff and the various end-users of the report.

The credit analysis tool can be found on the Community Facilities' SharePoint site. Look under "Shared Documents" for the CF Financial Analysis Section. Then look for the document entitled "Credit Analysis Guide" along with additional tools to assist in a loan review.

The Community Programs Director will find that the credit analysis tool will supplement the Project Summary, by providing a more in-depth look at the application with the necessary information, analysis and evaluation, being concisely provided in one document. The credit analysis tool will be especially beneficial in guiding new Loan Specialists in application review and may also serve to streamline the evaluation process for the seasoned Loan Specialists.

The National Office encourages the use of the credit analysis tool on all Community Facilities direct and guaranteed loan applications, and is requiring the completion of the credit analysis tool, or a similar in-depth analysis, on all direct and guaranteed loan applications submitted for National Office concurrence.

Additionally, Rural Development staff should familiarize themselves with the Unnumbered Letter entitled "Best Practices for Evaluating Community Facilities Projects" dated November 22, 2013. It focuses on specific evaluation criteria early in the lending relationship with the applicant. The best practices discussed in the Unnumbered Letter are an excellent tool, which should be routinely reviewed prior to an initial meeting with an applicant.

Should you have any questions concerning the use of the credit analysis tool format, please contact Karen Safer at (202) 720-0974.

April 1, 2015

TO: State Directors
Rural Development

ATTN: Community Programs Staff

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

SUBJECT: Non-Traditional Lender Approval for Participation in the Community Facilities Guaranteed Loan Program

In accordance with the administrative language contained in RD Instruction 3575-A, section 3575.27(a)(6), non-conventional lenders must be approved by the National Office.

The purpose of this unnumbered letter and attachment is to provide guidance to State Offices when requesting lender approval for participation in the Community Facility Guaranteed Loan Program.

The attached checklist is to be used as a guide when requests for lender approval are submitted to the National Office. Please note that all prior approved non-traditional lenders must demonstrate that they meet these requirements for future funding consideration.

Please review the attachment with your staff and emphasize the need to use this checklist as a guide when requesting lender approval in order to help expedite the review process. A Lender's file is to be maintained in each Rural Development State Office with copies of the Lender's documentation.

If you have any questions, please contact Shirley J. Stevenson, Loan Specialist at
(202) 205-9685.

Attachments

EXPIRATION DATE:
March 31, 2016

FILING INSTRUCTION:
Community/Business Programs

Attachment 1

COMMUNITY FACILITIES GUARANTEED LOAN PROGRAM
NON-CONVENTIONAL LENDER APPROVAL CHECKLIST

1. Identify Lender.
   a) Lender's name, address and telephone number.
   b) State where the Lender is incorporated. (if applicable)
   c) Lender's Tax Identification Number.
   d) Lender's proposed geographical area of operations.
   e) The name of an official who will serve as a contact for Rural Development regarding the Lender's Community Facilities Guaranteed loans.

2. The organizational structure of the lender to include a list of names, titles and responsibilities of the Lender's principal officers; experience of management and loan officers; and description and background of loan committee members and frequency of loan committee meetings.

3. Copy of Lender's organizational documents and any license, charter, or other evidence of authority to engage in the proposed loan making and servicing activities. If licensing by the State is not required, an attorney's opinion to this effect must be submitted.

4. Copy of Lender's most recent audited financial statement, sources of funds for proposed loans, and capital and reserves for loan losses, based on most recent annual and quarterly reports to stockholders.
   a) Have tangible balance sheet equity of at least 7% of tangible assets and sufficient funds available to disburse the guaranteed loans it proposes to approve within the first 6 months of being approved as a guaranteed lender.
   b) The Lender will re-certify biannually to this requirement.

5. Evidence of Lender's regulatory oversight. Lender must be subject to credit examination and supervision by either an appropriate agency of the United States or a State that supervises and regulates credit institutions. Only regulated lenders that are subject to both examination and supervision may participate in the Community Facilities Guaranteed Program. Examination will normally include a review of the lenders' asset quality, management practices, financial conditions, and compliance with applicable laws and regulations. Supervision gives the regulator the authority to require that the lender make changes to ensure safety and soundness. The Lender must provide a copy of their most recent credit examination, with any deficiencies identified, by the appropriate United States or State agency, and with the contact information of the examiner.

   Acceptable agencies and their web sites that in some cases identify enforcement actions as well as other activities associated with a lender, include, but are not limited to, the following:

- Federal Deposit Insurance Company – for state chartered banks that are not members of the Federal Reserve System and for insured branches of foreign banks.
  http://www.fdic.gov/bank/individual/enforcement/index.html

- Office of Comptroller of the Currency – for national banks and federally chartered branches and agencies of foreign banks.
  http://www.occ.gov/index.html

- Office of Thrift Supervision - for savings and loan or savings associations and thrift holding companies.
  http://www.ots.treas.gov/enforcement/default.cfm?catNumber=41

- Federal Reserve Board – for state-chartered banks that are members of the Federal Reserve System, bank holding companies and their non-bank subsidiaries, Edge Act and agreement corporations, and branches and agencies of foreign banking organizations operating in the United States and their parent banks.
  http://www.federalreserve.gov/boarddocs/enforcement/

- FCA – Federal agency responsible for examining and regulating the Farm Credit System
  http://www.fca.gov/FCA-Homepage.htm

- National Credit Union Administration – for credit unions
  http://www.ncua.gov/Pages/default.aspx

- State banking commissions – regulate and supervise state-charted banks. Many of them handle or refer to problems and complaints about other types of financial institutions as well. http://consumeraction.gov/banking.shtml

6. A sample of Lender's lending policies and procedures, including delegated authority and loan approval process, loan underwriting standards, risk rating system, and loan workout and collection process.
    - The contracting or assignment of servicing responsibility to another organization is prohibited.

7. Lender's proposed rates and fees, including loan origination, loan preparation, and servicing fees.
    - Such fees must not be greater that those charged by similarly local lenders for community development type projects.

8. Information regarding Lender's experience in making and servicing Community Development type loans, to include the length of time in the lending business; range and volume of lending and servicing activity; status of loan portfolio including delinquency rate, loss rate as a percentage of loan amounts, and other measures of success; and, a representative sample of such recent financing.
    a) Lenders must have a record of making at least three commercial and/or community development type loans annually for at least the most recent three years.
    b) Delinquent loans will not exceed 5% of total loans outstanding.
    c) Historical losses cannot exceed 7% of total dollars loaned, including government guaranteed loans.

9. The Lender must provide evidence of fidelity bond insurance.

10. An executed Form AD 1047, "Certification Regarding Debarment, Suspension, and Other Responsibility Matters – Primary Covered Transactions."

April 17, 2015

TO: State Directors
Rural Development

ATTN: Community Programs Directors

FROM: Tony Hernandez
Administrator
Housing and Community Facilities Programs

SUBJECT: Best Practices for Evaluating the Feasibility of Community Facilities Projects

PURPOSE/INTENDED OUTCOME:

This unnumbered letter is being issued to provide guidance on best practices for conducting a financial feasibility evaluation on Community Facilities (CF) projects. The attachments address project-specific information for assisted living facilities, childcare centers and charter schools; and, that information is to be used in conjunction with the best practices information.

IMPLEMENTATION RESPONSIBILITIES:

A financial feasibility evaluation is required on all CF projects. This Unnumbered Letter should be discussed with applicants prior to preparation of their feasibility information. A description of a financial feasibility analysis and a financial feasibility report can be found in the unnumbered letter entitled, "Guidance on Preparation of Financial Feasibility Evaluations of Community Facilities Projects." Please refer to that unnumbered letter for specific examples of when to require a financial feasibility analysis or a financial feasibility report.

EXPIRATION DATE:
April 30, 2016

FILING INSTRUCTIONS:
Community/Business Programs

BEST PRACTICES FOR EVALUATING CF PROJECTS

General Guidance

- Be very clear with the applicant, early in the application process, regarding what we are looking for in a financial feasibility report. The applicant needs to know that we may not accept the report if the information does not appear to be realistic/accurate. It is Rural Development's responsibility to advise the applicant of what we are looking for, e.g., they should not base projections on 100% occupancy, for any facility.

- The applicant's ability to cash flow will determine their repayment ability. Your analysis must be realistic and supportable. Ratio analysis performed on improper data is not acceptable. You must be comfortable with the information provided before you can do your analysis.

- Review the financial feasibility evaluation critically; **the evaluation should not be accepted at face value. Don't be afraid to question the information provided**.

- Determine if the data being used truly reflects the area to be served. Is the service area being used realistic? Potential clients may not be willing to relocate to other communities, regardless of the distance.

- Are the figures valid? Determine what resources were used to support the assumptions.

- What is the mix of payers for the project? Does the project show a significant percentage of private-pay clients in a very low income service area. Does this information fit with demographic information about the residents of this area?

- Insure that financial projections match the term of the loan being proposed and include a debt service reserve for the RD loan.

- If the applicant previously operated a facility and it ceased operating, RD needs to find out what caused the facility to stop operating, and what will be different in this proposal to ensure success.

Project Size

- Work with the applicant to determine what the "right" size would be based on the need in the service area.

- If the service area does not warrant the project size being proposed, advise the applicant to revise the proposal. Reducing the project size can make the difference in whether or not the project is successful. This applies to start-up facilities, and expansions of existing facilities.

- If the project is too small, it may not provide enough revenue to support the required level of services.

- If it is a large project, it may be better to do it in phases to ensure success.

Market Saturation

- RD staff needs to be aware of other similar projects in the area, including those financed by RD, other agencies, and private facilities.

- Are these facilities operating successfully?

- Do they have a waiting list?

- Can the proposed service area support another facility?

Management

Analysis should include an evaluation of the ability of management to successfully operate the facility. The quality of the managerial experience and success of other facilities they have managed should be the basis for this analysis, not simply the number of years of experience. Are the facilities they have managed similar to the proposed project requesting RD financing?

Consideration should also be given to the history of the applicant, whether it is a board of directors or city council. Do they have a history of successfully undertaking projects, hiring appropriate management, taking ownership in project development and operations and being actively engaged in the financial activity of the operating entity?

The applicant or its operator must have experience in developing and managing facilities of like kind and scope.

Market Study

A detailed market study should be included as part of the feasibility evaluation that discusses the location, types of other facilities, the rents charged, services provided and the occupancy at competing facilities within a 35 mile radius of the proposed project. Demographic data along with its source should be included. Our recent experience with projects that rely solely on users and the revenue they generate through fees assessed are highly subject to fluctuations in local economic conditions. RD and the applicant need to understand the local market conditions for these types of projects. A well prepared market study can provide some assurance to the Agency that the project has a good chance of success.

Local Contribution

A minimum local contribution of 20% of the total project cost is recommended for start-up facilities because of the risk these projects incur. An exception can be made for towns that own and operate these facilities and have the capacity to tax their residents for the difference between revenues collected and the cost of operations.

Operating Capital

Options that RD has at the time the loan is made to assist the facility in achieving a stable cash flow position include: (1) providing initial operating capital in the loan if the project is a start-up or an expansion; or (2) structure the loan repayment to allow deferment of principal payments for 1 to 2 years. RD prefers that the applicant cover the initial operating capital from their contribution.

CONCLUSION

Utilizing the best practices in this unnumbered letter and the attachments will enable RD staff to address potential feasibility issues early in the application process. The potential benefits of following this information are: savings to the applicant in time and money; better applicant/Agency communication, and viable loans that will provide ongoing essential community services to rural Americans.

Attachment "A" – Assisted Living
Attachment "B" – Childcare Centers
Attachment "C" – Charter Schools
Attachment "D" – Critical Access Hospitals

Attachment “A”

Assisted Living Facilities

In addition to the guidance provided below, there are specific requirements that CF-financed assisted living facilities must meet. The applicant and the preparer of their financial feasibility information must be aware of these requirements prior to completing financial projections to ensure realistic projections are being developed. The following information is taken from the Administrative Notice entitled, “Financing Assisted Living Facilities Using Community Facilities Funds,” and must be provided to applicants developing assisted living facilities. An assisted living facility is a residential facility designed, operated, and licensed to provide at least the following daily living and health care assistance to its clients and may include other components necessary to enrich the quality of life for its residents:

1. Twenty-four (24) hours a day access to medical personnel (either on-site or on call). A registered nurse or trained staff is required to be on call 24 hours a day in case of emergency, to provide medication management, and supervision of daily living activities, including making rounds and being aware of resident’s general whereabouts. The number of personnel should be directly proportional to the census level of the facility. The staff may include administrators, nurses, certified nurse assistants, personal care attendants, health/wellness directors, activity directors, food service managers, marketing staff and maintenance personnel.

2. Assistance with the residents’ activities of daily living such as bathing, dressing, taking medications, and eating. The facility may also incorporate a health and exercise program.

3. Providing at least two meals a day in a central dining area. (Assisted living facilities do not contain full-size kitchens, but often contain a kitchenette equipped with a dormitory-size refrigerator and/or microwave oven.)

4. Providing transportation to local medical facilities and businesses. This service allows for personal services to be met, with minimal decline in the independence of the resident.

5. The assisted living facility must comply with all state licensure/certification requirements.

Assisted living facilities must provide the aforementioned level of assistance to be considered eligible for Agency financing.

Financial projections for assisted living facilities must be based on no more than 90 percent occupancy. This information must be provided to applicants early in the application process to ensure that preparers of feasibility reports use no more than this level of occupancy when developing financial projections for the facility.

Applicants should submit a detailed, written **marketing plan**. They should also have a method for tracking their marketing efforts during construction.

Attachment "B"

Childcare Facilities

A realistic assessment of the service area, in regard to the actual need as well as the ability to pay for these services, will be required. Make sure that the size of the facility makes sense for a start-up or an expansion. Some examples are:

1) A start-up proposal requesting a facility with the capacity for 50 children may need to be scaled back to a capacity for 30 children.

2) An existing childcare facility, with a capacity of 30, wants to expand to a capacity of 100; an expansion of this size is typically unwarranted and could turn a successful project into a problem/delinquent project. In this situation, an expansion could be done on a scaled-down basis. The increase in capacity should be based on strong, supportable documentation.

Many facilities are operated by individuals that are good childcare providers; however they lack the ability to handle the financial management and operational aspects of the facility. This can be addressed by utilizing board members that are skilled in financial management/accounting, or a qualified management company.

Applicants should submit a detailed, written marketing plan. They should also have a method for tracking their marketing efforts.

Attachment "C"

Charter Schools

In considering financing for charter schools, special consideration should be given to a few areas that differentiate charter schools from typical grade schools that are financed under the Community Facilities program.

1. Financing – While looking at the financial projections for charter schools you may want to consider the source of the operating funds. Is it from private industry, state, or local government? What is the future look like for that funding source?

2. Enrollment – Just like a traditional school, we want to consider the source of the enrollment. Also, we want to consider if the area will be able to sustain an enrollment throughout the duration of the loan. We want to make sure that the enrollment of the proposed school will not adversely affect surrounding schools. Keep in mind that we are not in the business of creating competition in rural areas, rather we are supposed to fill a void that is in the community. Can the enrollment be sustained when you consider the demographics in the community? Is the population increasing?

3. Board of Directors – Is the board well run? How often do they meet? How do they assist the school? Are there any educators on the board?

4. Marketing – Do they have an effective marketing plan? How do they monitor the plan? How do they measure success? How has the school adjusted to enrollment decreases?

Attachment "D"

Critical Access Hospitals

Critical Access Hospitals (CAH's) face a set of challenges disparate from non-CAH hospitals, so the development of financial indicators specific to their environment is critical in performance assessment. Because these hospitals tend to have a higher risk of financial insolvency, assessing their financial performance is key to ensuring their long term financial viability.

Please read the unnumbered letter entitled "Interim Guidance for Feasibility Analysis of Health Care Facilities." This unnumbered letter provides guidance and information to assist in the financial and technical evaluations of proposals submitted by Health Care Facilities for Community Programs financing and the principles apply to all Health Care Facilities.

CAH's with a Necessary Provider Designation

A CAH that has a necessary provider designation from the State that was in effect prior to January 1, 2006, and relocates after January 1, 2006, may retain their necessary provider designation if the relocated facility meets the three criteria shown below. The CAH in its new location must:

(i) Serve at least 75 percent of the same service area that it served prior to relocation;
(ii) Provide at least 75 percent of the same services that it provided prior to relocation; and
(iii) Be staffed by 75 percent of the same staff (including medical staff, contracted staff and employees) that were on staff at the original location.

Prior to any relocation of a CAH, the CAH must send a letter of intent to the State Survey Agency (SA) and the Center for Medicare/Medicaid Services (CMS) Regional Office (RO). The CAH should send the letter in the early planning stage of its relocation and prior to spending or obligating significant funds and resources. The letter should state that the CAH plans to relocate and must attest that it will continue to be essentially the same provider, serving the same community, but at a new location. CMS will evaluate the letter of attestation and documentation provided by the CAH. CMS will advise the CAH of the results of its preliminary evaluation. **The final determination will not occur until after the CAH relocates**. Once the location is completed, the CAH must write the RO attesting that it remains essentially the same provider serving the same community in its new location and identify any information provided in its earlier attestation that does not remain the same. Once the CAH has forwarded all required documentation to CMS, a determination will be made and the CAH will be notified in a letter as to whether the CAH will retain the same provider agreement and retain its necessary provider designation.

The letter from CMS indicating the CAH will retain the same provider agreement and its necessary provider designation should be included as a requirement in the Conditional Commitment for Guarantee for Community Programs Guaranteed Loans and the Letter of Conditions for Community Facilities Direct Loans and Grants.

April 24, 2015

TO: State Directors
Rural Development

ATTN: Program Directors and Coordinators
Multi-Family Housing

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

SUBJECT: Underwriting Update for Multi-Family Housing (MFH) Transfer and Multifamily Preservation and Revitalization (MPR) Demonstration Program Transactions

This Unnumbered Letter (UL) implements a new tool for processing underwriting MFH Transfers and MPR program transactions using the tools, principles and guidelines being adopted by Rural Development (RD) for transaction underwriting analysis.

This tool is in response to RD's Lean Six Sigma business process improvement effort, which has teamed RD's National Office staff and field office staff with external stakeholders to review the transfer process and recommend actions to streamline the process. Those recommendations included improving the template for the MPR demonstration program and regular transfers. The tool is also intended to provide greater flexibility in applying Agency program requirements and the core program underwriting standards necessary to unlock potential loan transfers and encourage more effective use of the MPR demonstration program to preserve needed housing units.

Is incumbent upon RD MFH underwriting staff to scrutinize every data field in the Preliminary Assessment Tool (PAT) for accuracy, reasonableness and feasibility. To further assist RD MFH underwriting staff, the business improvement group is working on expanding the PAT with a separate tab for RD use only that will help in the underwriting of the PAT submission.

EXPIRATION DATE:
April 30, 2016

FILING INSTRUCTIONS:
Housing Programs

Implementation of the Preliminary Assessment Tool:
As part of the ongoing MFH Transfer business process improvement effort, the Multifamily Preservation and Direct Loan Division (MPDLD) staff developed a PAT to underwrite new transfers and MPR applications that is now available for use by applicants, borrowers and Agency staff. The PAT includes new underwriting guidance that will be included in revisions to HB-3-3560. MPDLD staff is currently working on those revisions. A UL providing more details on the new underwriting guidance will also be released shortly.

RD staff should begin using the PAT for transfers and MPR transaction underwriting in accordance with the instructions below. RD should also strongly encourage use of the PAT by transfer and MPR applicants - and the guidelines contained in the PAT - for the underwriting of transfer applications and transfers selected to participate in the MPR program (MPR applications). The information presented by using this tool will assist applicants and Agency staff in preliminary feasibility analyses and timely processing of applications by early identification of issues needing to be addressed during the review and approval process.

In order to eliminate confusion over the use of the PAT for transactions that are currently in process, the following principles will apply:

1. Since the PAT and its new standards were not available prior to December 16, 2014, any transactions submitted prior to that date should use the standards in the former underwriting tools (UWT).
2. For transactions submitted after December 16, 2014, if a borrower relied on the PAT guidelines to develop a transfer or MPR application they have submitted, the existing transfer or MPR application should be underwritten using the PAT guidelines.
3. For transactions submitted after December 16, 2014, if a borrower has **NOT** relied on the PAT's guidelines in a transfer or MPR application they have submitted, the transfer or MPR application should be underwritten using the guidelines as reflected in the former UWT. If such a borrower would like to use the PAT guidelines, they must resubmit the transfer or MPR application to reflect the use of the PAT principles.
4. An existing transfer or MPR application may be modified if the applicant submits: a) a completed PAT, b) new documents necessary to reflect underwriting based on the PAT standards, and c) a letter or e-mail from the applicant indicating that they want the transfer or the MPR application underwritten under the PAT. All other application documents submitted as part of the previous application will be used in the application evaluation process using the new PAT. This assumes that RD has received all other documents to form a complete application package.

Version 4.0 of the PAT is posted to the public website for applicants when developing transfer and MPR applications and for initial discussions on feasibility with the RD field staff responsible for application intake. **NOTE:** The PAT is not a substitute for the applicant's required submission of full and complete transfer and MPR applications as specified in the respective

program handbooks and/or the Notice of Funding Availability requirements. Applicants and borrowers should be directed to the following public links to obtain a copy of the latest PAT:
http://www.rd.usda.gov/programs-services/multi-family-housing-direct-loans
http://www.rd.usda.gov/programs-services/housing-preservation-revitalization-demonstration-loans-grants.

Agency staff can also use the MFH Main Index on the RD internal SharePoint for additional internal guidance and reference information.

As a reminder, even after we are finished incorporating the latest comments received, we will continue to accept comments on the underwriting tool and make revisions to the PAT as deemed necessary to provide additional clarification and corrections.

April 27, 2015

TO: State Directors
Rural Development

ATTENTION: Program Directors
Single Family Housing

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

SUBJECT: Temporary Authorization for Fiscal Year 2015
Single Family Housing Direct Program

PURPOSE:

This memorandum extends the temporary authorization to use new loan proceeds in lieu of processing a new rates and terms assumption when an applicant is purchasing an existing borrower's property.

This temporary authorization is effective as of the date of this memorandum and expires on September 30, 2015.

BACKGROUND:

Along with the temporary authorizations granted on March 10, 2015, this temporary authorization, which has been granted in the past, will help reduce loan application processing time and promote full and prompt utilization of direct loan funds.

IMPLEMENTATION RESPONSIBILITIES:

A transaction that would typically be processed as new rates and terms assumption as prescribed in Handbook-1-3550 should be processed as an initial loan for the remainder of this fiscal year.

EXPIRATION DATE:
September 30, 2015

FILING INSTRUCTIONS:
Housing Programs

For any questions regarding this memorandum, please contact Scott Nista at 804-287-1532, or by email at scott.nista@wdc.usda.gov.

Electronically sent to State Directors and Program Directors on April 27, 2015 at 1:55 p.m.by the Single Family Housing Direct Loan Division. The State Director will also send to other appropriate parties.

April 28, 2015

TO: State Directors
Multi-Family Housing Program Directors

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

SUBJECT: Management of Loan Payoffs in Multi-Family Housing Properties

This Unnumbered Letter (UL) clarifies and provides more specific direction on several issues. This UL supersedes the UL issued on January 16, 2015.

The UL includes a new "*Borrower Notification Letter*," a sample "*Tenant Notification Letter,*" and an "*Addendum to Lease or Rental Agreement,*" for Borrowers to use in certain situations.

Rural Development (RD) Multi-Family Housing (MFH) Direct Loan programs began in the 1970s, and many loans are now coming to their natural maturity date. In addition, some Borrowers have loans that appear to be paid ahead of the Promissory Note's scheduled maturity date. The intent of this UL is to provide additional guidance to Agency staff, owners and managers of Section 515 and Sections 514/516 properties reaching their maturity date naturally or through "Paid Ahead" status, and to discuss possible efforts to retain properties in the RD portfolio.

Below are the steps that Servicing Offices need to take to review any accounts that are within 25 months of naturally maturing:

1. <u>Review Loan Status</u>

The National Office will periodically update the Multi-Family Information SharePoint site with a link to the "List of MFH Projects – Remaining Terms". This posting will be a list of those properties with loans currently scheduled to pay off ahead of their regular payment/amortization schedule, and/or those that will be reaching their natural maturity date. Upon issuance of this

EXPIRATION DATE
April 30, 2016

FILING INSTRUCTIONS
Housing Programs

UL, Agency staff should review this list and identify any properties that may have 25 or fewer months remaining before the loan may be expected to be paid in full. The list can be found at: https://rd.sc.egov.usda.gov/teamrd/hcfp/mfh/MultiHousing%20Family%20Information/Forms/AllItems.aspx. State Office and field office staff may also review the RC 545 Report, “Analysis of Delinquent Loan Receivable Accounts All Projects AMAS,” to determine if the unpaid balance/installment is fewer than 25 installments.

Please note that the list does *not* account for time periods associated with loans held in suspense, or for processing delays that may have been incurred on foreclosure. These types of loans require individual attention. Servicing Officials should review this list at least annually and take appropriate action with regard to such Borrowers.

Loan status may consist of A) loans in Paid Ahead status due to the application of extra and regular payments which may result in a last payment date prior to the loan maturity date in the Promissory Note; or B) Final Payoff status of loans that have reached their natural maturity date.

A. Paid Ahead Status

I. Extra payments Application

Offices may encounter instances in which a Borrower’s account reflects a last payment on the loan due prior to the maturity date as a result of “extra payments” being applied. Circumstances which may have created this situation include:

- Proceeds from partial sale of property secured by Rural Development per 7 CFR §3560.54(a)(11)(ii).
- Remission to the Agency of any fees collected in excess of operating expenses to the loan account as an extra loan payment under 7 CFR §3560.53(e)(2).
- Application of surplus funds to reduce the debt service on the Borrower’s loans per 7 CFR §3560.306 (d)(2).

II. Regular Payment Application

There are instances in which annual installment Borrowers submit their payments on a monthly payment schedule (seen typically in Off-Farm Labor Housing accounts), and/or other instances where application of a regular monthly installment results in a “Paid Ahead” schedule.

<u>In no case will the Agency accept a final payment from Borrowers in Paid Ahead status if it would result in a prepayment of the mortgage prior to the maturity date in the Note.</u> Borrowers seeking to prepay their loan(s) are governed by 7 CFR §3560.653(a).

If a payment is received that may pay off the indebtedness in advance of the Promissory Note maturity date (i.e., prepayment), the National Finance and Accounting Operations Center (NFAOC) will follow-up with the RD State Office for approval documentation. If NFAOC does not receive an approval or it is denied, NFAOC will refund the cash back to the Borrower. Some Borrowers have loan accounts under the Predetermined Amortization Schedule System (PASS). If a PASS account is paid in full with a regular payment, NFAOC will contact the State Office for appropriate disposition.

B. Final Payoff Status

I. Promissory Note Naturally Maturing

These are accounts that have reached their natural maturity based on the maturity date in the Promissory Note and the loan's amortization schedule. For a payment to be final, it must include repayment of all outstanding obligations to the Agency.

2. <u>Notify Borrowers of Options</u>

Servicing Officials should notify Borrowers with 25 or fewer months remaining until the loan maturity date utilizing Attachment 2,"*Borrower Notification*" and provide the following:

- Current account information: expected date of loan payoff/mortgage maturity;
- Tenant notification requirements, including Attachment 3: "*Tenant Notification*";
- Advise that the end of the RD mortgage will result in the end of Rental Assistance (RA) and interest credit subsidy; and,
- Procedures to follow in requesting a Reamortization and provide RD Form 3560-15, "Reamortization Request".

<u>All requests to reamortize must be initiated by the Borrower through Form 3560-15. Requests determined acceptable by the Servicing Office will be submitted to the National Office utilizing Attachment 4, *Request for Exception to Avoid Loan Maturity*.</u>

Borrowers in Paid Ahead or Final Payment status with loans maturing prior to calendar year (CY) 2019 should be strongly encouraged to immediately request a reamortization of the existing loan balance to a date up to 20 years beyond the original Promissory Note date. This is a "Re-Am Lite" and is explained further in this UL. In exchange for this action, RA and interest credit will remain available to the property.

Borrowers in Paid Ahead or Final Payment status with loans maturing prior to CY 2019, who decline to request an extended reamortization and have more than 6 months remaining until the loan maturity date, should be strongly encouraged to submit an application to request debt deferral under the Multi-Family Preservation and Restructuring (MPR) program. Such applications will be given additional points under the Notice of Solicitation of Applications (NOSA) scoring system.

Borrowers in Paid Ahead or Final Payment status with loans maturing prior to CY 2019, who decline to request an extended reamortization, decline to submit an application under MPR, and who have at least 12 months remaining until the loan maturity date, should be strongly encouraged to submit a request to prepay the loan, if eligible, in accordance with 7 CFR 3560, Subpart N. Tenants in properties that prepay the RD mortgage in accordance with statutory and regulatory requirements are eligible for the offer of an RD Voucher.

At a minimum, Borrowers in Paid Ahead status who have not formally requested to prepay the RD mortgage must be advised that under statutory and regulatory requirements, no early prepayment can be accepted. In order to match loan payoff with the Note maturity date, the Borrower should request a loan reamortization at least up to the Promissory Note maturity date. This is not an adverse action by the Agency; rather, the action ensures that the loan terms comply with the original Promissory Note maturity date. If the Borrower declines to reamortize the remaining balance to the original Promissory Note date, then the Borrower must be advised that the final payment, if submitted, cannot be accepted or processed until the maturity date is reached. Form 3560-29, Notice of Payment Due, (Project Worksheets) requesting RA will be handled on a case by case basis. Servicing Officials will contact the National Office for additional guidance in processing RA for the period until the loan maturity date is reached

Borrowers who decline all reamortization or debt deferral offers should be provided with Attachment 5, Addendum to Lease or Rental Agreement. The addendum should be used in situations where a Borrower has fewer than 12 months remaining on the RD loan. The addendum alerts tenants to the impact of termination of program participation and the ability to transfer RA to another RD property.

3. Processing a “Re-am Lite”

For Borrowers with loans maturing prior to CY2019, a “Re-am Lite” is intended to speed processing of the reamortization request to retain as many properties as possible coming up on imminent loan maturity. This streamlined process requires a request from the Borrower, review and recommendation by the State Office, and National Office approval of an exception request to current MFH regulations.

The Borrower shall submit Form RD 3560-15, “*Reamortization Request*” to their Agency Servicing Official. Upon receipt of the *Request*, the Servicing Official’s review should determine the suitability of the property in accordance with HB 3 3560, CH 6, and whether it should remain in the program. If determined suitable, the State Office must submit to the National Office, Attachment 4, *Request for Exception to Avoid Loan Maturity*. This is a request for an exception to §3560.455(b) concerning conditions and required documentation for approving a loan reamortization. This exception applies only to properties where the loan is expected to mature before CY 2019. All other reamortization requests should be processed in accordance with HB-3-3560, Chapter 11.

For this special reamortization category:

- No appraisal will be required;
- Servicing Officials should process up to a 20-year term;
- No change in current year budget or current year rents is required.

However, when the proposed budget is submitted for the following year, the Borrower will submit an adjusted budget, addressing implications of the reamortization. This could require a rent decrease. Additionally, if the change in annual debt service is more than 50 percent, the Borrower may be required to obtain a capital needs assessment at that time to identify long-term capital needs of the property and the Reserve Account may be re-sized, if warranted.

If the term is extended past the original mortgage, a new mortgage will need to be prepared and filed. No additional Restrictive Use Provisions (RUP)s will be required for these properties.

4. Tracking Borrower and Tenant Notifications

For Borrowers whose loans are expected to mature within 25 months, Servicing Officials will provide the attached Borrower Notification (Attachment 2).

The Borrower Notification letter includes information on the current status of the Borrower's loan account, offers options for the Borrower to remain in the RD program including continuing to receive the benefits of RA and interest credit, and sets out specific Tenant notification requirements.

Borrowers are required to notify tenants immediately if the date of maturity is less than 12 months from the date of the tenant notice; or no later than 12 months prior to the date of maturity; and the Borrower must follow all applicable state and local laws. If the Borrower is leaving the RD program and the property has Rental Assistance, then the tenants must be advised that they may be able to transfer their RA unit to another RD property (under circumstances stated in the notification letter) for up to 4 months from the date of loan maturity.

Borrowers should utilize Attachment 3, "*Tenant Notification*". Note that in the Borrower Notification letter, the Borrower is required to provide RD with a copy of the dated Notice provided to each tenant.

Servicing Officials will be required to input the date of notification to the Borrower, and the Borrower's Notification to Tenants, on the "List of MFH Projects – Remaining Terms" file on the Multi-Family information share-point site referred to at the beginning of this UL. Having this information will enable RD to identify which Borrowers have been notified and which have properly and timely notified their tenants.

Attachment 1 summarizes the steps involved in the management of the subject loans. Questions regarding this process should be directed to the MFH Portfolio Management Analyst assigned to your State.

Attachment 1 – Flow Chart of Process
Attachment 2 – Borrower Notification letter
Attachment 3 – Sample Tenant Notification letter
Attachment 4 – Format of the *Request for Exception to Avoid Maturity*
Attachment 5 – Lease Addendum for Borrowers with less than 12 months before maturity date.

Attachment 1

FLOW CHART FOR MANAGEMENT OF LOAN PAYOFFS IN MULTI-FAMILY PROPERTIES

Track Borrower and Tenant Notifications on Sharepoint

Review status of loans

Notify Borrower of status, options, and Tenant Notification requirements:

- Reamortize to Promissory Note date;
- Reamortize for up to 20 years;
- Request debt deferral under MPR;
- Request to prepay (if eligible).

Borrowers must:

- Notify tenants *immediately* if the date of maturity is less than 12 months from the date of the tenant notice; or
- Notify no later than 12 months prior to the date of maturity; and
- Follow all applicable state and local laws.

Paid Ahead – Borrower should request to reamortize to Promissory Note date – if not, last payment will be returned; RA and interest credit will stop.

Paid Ahead or Naturally maturing before calendar 2019 – Borrower should request to reamortize for up to 20 years from Note maturity date using "Re-am lite" process. State Office will send National Office Exception Request.

If loan is at least 6 months from Maturity date or maturing prior to calendar 2019 – Borrower should apply for debt deferral under MPR.

If loan is at least 12 months from Maturity date – Borrower should request prepayment (if eligible) under regulations so tenants can get RD Vouchers.

Borrower declines all options – Note pays off at Maturity date. If in paid ahead status, RA and interest credit stop when last payment returned. Borrower may use Attachment 5 – Lease Addendum. Tenants have up to 4 months from payoff date to transfer RA to another RD property.

BORROWER NOTIFICATION LETTER

Date

[Address Block]

RE: Payment status of [Insert project name/case #]

Dear [Insert recipient]:

We are writing to notify you that a review of your loan account(s) has been completed.

Your loan(s) is/are evidenced by a Promissory Note and/or Assumption Agreement received through the Rural Housing Service, USDA. One of the following situations applies to your loan(s):

> ______ Your loan is expected to 'payoff' within the next 24 months, which is prior to the maturity date of ________, as stated in the Promissory Note and/or Assumption Agreement.
>
> ______ Your loan is expected to reach maturity on _______ as identified in the Promissory Note and/or Assumption Agreement.
>
> If your loan is expected to reach maturity prior to the date in the Promissory Note/Assumption Agreement, whether due to extra principal payments applied to the account, or the application of regular monthly installments on an annual installment note, or installments which have resulted in an "Ahead of Schedule" status, then please be advised <u>the Agency cannot accept final payment from Borrowers whose loans are in a Paid Ahead status, if it would result in a prepayment of the mortgage prior to the maturity date in the Note.</u>

The Agency is offering the following options to ensure affordable housing is retained and to avert early payoff of your loan:

1) As the Agency is unable to accept a final payment prior to the natural maturity date in the Note, the Agency is strongly encouraging Borrowers with loans in Paid Ahead status to reamortize the remaining balance on the account to the date of maturity identified in the Promissory Note/Assumption Agreement. Please complete the enclosed Form RD 3560-15, "*Reamortization Request*", and submit the form to the address below no later than 10 days from receipt of this letter.

2) The Agency is strongly encouraging Borrowers with loans in Paid Ahead status or with a maturity date prior to CY 2019, and for which a determination of continued suitability is made, to reamortize the balance remaining on the loan for up to an additional 20 year period under a streamlined reamortization process known as a "Ream Lite". This reamortization will ensure that interest credit and rental assistance subsidies, if applicable, will remain available to the property for the period of the reamortization, and there will be no negative impact to tenants or potential for displacement. Please complete the enclosed Form 3560-15, "*Reamortization Request*" and submit the form to the address below. Please indicate the maximum term for which you are requesting a reamortization (i.e. 5 years, 10 years, etc.) not to exceed 20 years. Contact the servicing office for additional information regarding the "Re-am Lite".

3) If your loan is maturing prior to CY 2019 and has more than 6 months remaining until the loan maturity date, then you are strongly encouraged to submit an application to request debt deferral under the Multi-Family Preservation and Restructuring (MPR) program. Such applications will be given additional points under the Notice of Solicitation of Applications (NOSA) scoring system.

4) If you decline any of the efforts above and have at least 12 months remaining until the loan maturity date, then you should submit a request to prepay the loan, if eligible, in accordance with 7 CFR 3560, Subpart N. Tenants in properties that prepay the RD mortgage in accordance with statutory and regulatory requirements are eligible to receive offers of an RD Voucher, which is a housing voucher to assist payment of rent.
5) If you decline any of the options identified in this letter, and you are within 12 months of paying off your indebtedness to the Agency, then you are required to immediately notify tenants of the impact of leaving the RD program, as once the loan is paid in full, the project no longer benefits from interest credit subsidies or rental assistance (if applicable), and tenants may be displaced. Additionally, tenants will not be eligible for the Agency's RD Voucher Program, which is only available for tenants in properties that prepay in accordance with 7 C.F.R. part 3560, Subpart N.

Tenant notifications must occur:

1) <u>Immediately,</u> if the date of maturity is less than 12 months from this notice; or
2) No later than 12 months prior to the date of maturity; and,
3) In accordance with all applicable state and local laws.

At a minimum, notices to tenants must include:

- Expected date of mortgage maturity;
- Information that the end of the RD mortgage will result in the end of Rental Assistance (RA) subsidy, if applicable;
- Information regarding any potential rent increase that may be instituted after the loan is paid off;
- Tenants receiving RA should be informed that they may be able to transfer their RA to another RD property to which they move after payoff of the mortgage. Tenants have up to 4 months after mortgage payoff to use the RA, as per 7 CFR 3560.259(c);
- Location and contact information about other RD properties in the county or locality. A current list is attached. Other property and contact information can be found at: http://rdmfhrentals.sc.egov.usda.gov/RDMFHRentals/select_state.jsp?home=YES
- Information about other housing subsidies that may be available through federal, state, or local resources, including contact information for such agencies.
- Attachment 5 to this letter, "*Addendum to Lease or Rental Agreement*".

Attachment 3, *Sample Tenant Notification Letter*, is available for your use. Upon providing the required notification to tenants, please provide a copy of the dated letter sent to each tenant to your Servicing Office. In addition, a copy of the Notification is to be posted in the common areas of the property and a copy provided to tenants moving into the property after the date of posting.

RD staff is available to assist you in explaining mortgage payoff implications to your tenants or providing information to help them make informed decisions. Please feel free to contact me should you have any questions or need further information, [*Insert staff name and contact information*]

Sincerely,

[Insert staff name and title]

cc: [insert Area Office Servicing Specialist information]

Enclosures

TENANT NOTIFICATION

OWNER LETTER TO TENANTS – NOTIFICATION OF MORTGAGE PAYOFF

To: The Tenants of ____

Subject: Notice of Rural Development Loan Payoff

Your apartment was developed with assistance from a loan provided by the U.S. Department of Agriculture (USDA), Rural Development, an Agency of the U.S. Government. This loan is expected to be paid off on ____________________. When the loan is fully paid, Rural Development will no longer oversee the apartment's management, leases, and rents. The Rental Assistance (RA) subsidy will no longer be available, and as a result, rents at the apartment could go up and those tenants receiving RA, if provided, will no longer receive reduced rents.–

{Owner to provide additional information here on the rent increases, including timing and new rents}

If you are currently receiving Section 8 assistance or other subsidy to help with paying for all or part of your rent, such assistance should continue. Only Rental Assistance provided by Rural Development will no longer be available at this property after the loan has been paid off.

FOR PROPERTIES WHERE THE OWNER HAS DECLINED TO REMAIN IN THE RD PROGRAM:

Attached to this letter is an "*Addendum of Lease or Rental Agreement*". This Addendum will acknowledge that ______*(Project Name)*_____ obtained financing to provide affordable housing from the U.S. Department of Agriculture, Rural Development, and that the owner's obligation and participation in the Section 515/Section 514 Multifamily Housing program will cease on the date cited above. Commencing effective _*(1st day after payoff)*____, the amount you pay toward rent will change per the schedule indicated above, for the remainder of your initial one-year lease term. RA, if applicable, will not be available to subsidize your rent, and you will be responsible for full payment of the rent. Per the Addendum, you will have the right to terminate the Lease by written notice within the established timeframe.

If you are receiving RA at the time of loan payoff and choose to move to another Rural Development financed property, you are entitled to transfer that RA to the new property. You will have up to four (4) months after the loan is paid off to move into another Rural Development financed property to be eligible to transfer the RA. There are some situations in which you cannot transfer the RA. For example, if you are going to a property that is already 100 percent subsidized with Rural Development RA or HUD Section 8; or, if the housing is not financed by Rural Development. Included with this letter is a listing of other Rural Development properties located nearby to your community. You can access additional information about other Rural

Development properties by going to:
http://rdmfhrentals.sc.egov.usda.gov/RDMFHRentals/select_state.jsp?home=NO

FOR PROPERTIES IN WHICH THE OWNER HAS SUBMITTED A PREPAYMENT REQUEST IN ACCORDANCE WITH 7 CFR 3560, Subpart N.

If you are a tenant of this property at the time the loan is paid off through prepayment (as processed and approved by Rural Development), you may be eligible for a Rural Development housing Voucher (RD Voucher). This voucher will pay the difference between the comparable market rent for your current apartment and the amount of tenant contribution you are now making towards rent. This RD Voucher may be used in any apartment property.

______ ***Your current property owner is willing to accept the RD Voucher, and you can remain in your current apartment;***

______ ***Your current property owner is <u>not</u> willing to accept the RD Voucher. You can remain in your current apartment, but you cannot use the RD Voucher to help pay your rent at your current property. If you wish to use the RD Voucher, you would have to move to another apartment at a different property that accepts the RD Voucher.***

To qualify for the Rural Development Voucher program, you must:

1. Be a tenant of the property at the time the loan is paid off;
2. Have an income level at or below 80 percent of the area median income; and
3. Be a U.S. citizen, a U.S. non-citizen national or a qualified alien.

Upon payoff of the loan, you will receive a letter offering you an RD Voucher. This will indicate the amount of the Voucher for which you may qualify, and will list the required documents that must be submitted in order to obtain the RD Voucher. The offer of a Voucher is good for up to ten (10) months after the loan is paid off, should you not want to make a decision immediately. Additional contact information will be included in the letter to guide you through the process. More information about the RD Voucher program and your eligibility will be sent to you as the payoff date approaches.

Information about housing subsidies that may be available from other federal, state, or local resources, including contact information for such agencies is included with this letter.

If you have any questions about this letter or the information in it, please feel free to contact the property manager at:

____
____
____

Or, you may also contact the Rural Development staff at:

____

____

____

Sincerely,

Attachments:
Addendum to Lease or Rental Agreement
Listing of Rural Development-Financed properties
Listing of Housing Authorities and other Agencies that may be able to assist with rental subsidies

TO: Tony Hernandez
Administrator

FROM: (State Director)
State Director
Rural Development State Office

SUBJECT: *Request for Exception to Avoid Loan Maturity*

In accordance with the Unnumbered Letter "Management of Loan Payoffs in Multi-Family Properties" dated ________________, 2015, and, in accordance with 7 CFR 3560.8, this is a request for an exception to the requirements of 7 CFR 3560.455(b).

In order to avert loss of the affordable housing in rural communities through loan payoffs due to maturation of the Rural Development mortgage, an exception is requested to process a reamortization of the outstanding loan balance for the loan account listed below. The reamortization will be for an additional _*(term as identified in Borrower's Request to Reamortize not to exceed 20 years)*_ at the *(<u>same rate or new rate</u>*).

[Insert Borrower Name/Project Name]

[Insert Loan Information; indicate if a change in rent level or CNA will be required and the rates/terms that were agreed upon.]

[Insert Requesting Office Information]

Addendum to Lease or Rental Agreement

Addendum to Lease or Rental Agreement

This is an Addendum to the lease or rental agreement dated ___________________________ between __*(Project Name)*_______ (Landlord) and _________________________________ (Tenant(s)) regarding property located at_________________ (the Premises").

1. This addendum is incorporated as part of the Rental Agreement and/or Lease between Landlord and Tenant.

2. Tenant acknowledges and accepts that Landlord obtained financing and participated in the Section 515 or Section 514 Multi-Family Housing Program administered by the Rural Housing Service of the United States Department of Agriculture, and that Landlord's obligation and participation in the Section 515 or Section 514 program will cease on _______________, the scheduled date of payment in full of the project mortgage note. On that date, all Rural Housing Service supervision and financial assistance, including Rental Assistance rent subsidy, will end ***<u>and the USDA lease shall be non-renewable.</u>***

3. If Tenant receives the benefit of Rental Assistance, Tenant may be able to transfer RA to another RD property and continue receiving the benefit at that property. The Landlord included this information in the Tenant Notification notice dated ___(*insert date of Notice*)__. The Tenant has up to four months after the date of RD loan payoff to use the RA.

3. Commencing effective ______*(first day after payoff of note)*___ Tenant's rent shall be $__(Borrower established Market Rent)_____________ per month for the remainder of the ***<u>initial one-year</u>*** lease term. Rental Assistance will not be available to continue subsidizing tenant's rent and tenant will be responsible for full payment of the rent at that time.

4. Landlord may institute other lease requirements after payment in full of the Department of Agriculture debt.

5. From ___________________ until the end of the ***<u>initial one year</u>*** term of this lease, Tenant may terminate this lease by giving Landlord written notice at least ____# of days (not to exceed twenty 20 (___) days before Tenant's next rent payment is due; provided that if both Tenant and Landlord agree to a mutual termination of this lease, then advance notice of termination is not required.

6. Landlord shall provide a reminder notification of the increase at least 60 days prior to the effective date of this Addendum.

_________________________________ _______________________________

Borrower Tenant

April 28, 2015

TO: State Directors
Program Directors
Multi-Family Housing

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

SUBJECT: Allowable Expenses 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. The Rural Housing Service has determined that, due to the current budgetary climate concerning the availability of Rental Assistance (RA), it would not be prudent to allow this cost to be charged to a project's operating budget.

EXPIRATION DATE:
April 30, 2016

FILING INSTRUCTIONS:
Housing Programs

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.

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 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. RD's 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.

April 28, 2015

TO: State Directors, Rural Development

ATTN: Business Programs Directors
State Energy Coordinators

SUBJECT: Section 9007, Rural Energy for America Program
Technical Review Guidance for Fiscal Year 2015

The purpose of this Unnumbered Letter (UL) is to provide guidance for processing technical reviews for the Rural Energy for America Program, Renewable Energy Systems and Energy Efficiency Improvements loan and grant applications for fiscal year 2015.

Loan, grant, and combination applications for projects using the following technologies will be reviewed for technical merit and scored by the State Office. However, the Energy Division staff and the National Renewable Energy Laboratory (NREL) will be available to provide technical reviews on projects where the State determines further technical expertise is needed to complete the technical review or the technology is new with limited data available.

- Wind
- Solar
- Biomass (ethanol, biodiesel, and solid fuel production)
- Biomass boilers which use feedstock(s) that have a proven history in the boiler, and total project costs less than $200,000
- Geothermal (direct use)
- Energy efficiency projects
- Small hydroelectric

State Offices will also perform the technical review of projects using a hybrid of technologies that are all assigned in this UL for review by the State. If one or more of the technologies require alternative reviews, the National Office will review the technical reports and make any necessary arrangements as needed.

Loan, grant, and combination applications for projects using the following technologies, or any of those listed above which exceed a state office's technical ability, will be submitted through the Regional Energy Coordinator to the National Office for technical review.

EXPIRATION DATE
April 30, 2016

FILING INSTRUCTIONS
Community/Business Programs

- Geothermal electric generation
- Hydrogen
- Ocean energy
- Anaerobic digesters
- Renewable biomass projects not included above

A complete copy of the application must be forwarded for these reviews. Submit the applications to the Regional Energy Coordinators. The National Office will conduct the reviews internally or direct reviews to the appropriate technical resource, be it NREL, Environmental Protection Agency AgSTAR, or other qualified technical resource, as needed. Emailing PDF files of the application materials is acceptable. When submitting written information to the National Office for review please use the mailing address listed below:

Technology Branch
Energy Division
Rural Business-Cooperative Service
U.S. Department of Agriculture
1400 Independence Avenue SW.
Washington, DC 20250 - Mail Stop 3225

Materials and requests shall be directed to the attention of the following designated contacts as directed by your Regional Energy Coordinator:

James Campbell	Fred Petok
(202) 720-0410	(202) 690-0784
James.Campell@wdc.usda.gov	frederick.petok@wdc.usda.gov

If you have questions, please contact Fred Petok, Energy Division, at (202) 690-0784.

/s/ ***LILLIAN E. SALERNO***

LILLIAN E. SALERNO
Administrator
Rural Business-Cooperative Service