

Rural Development Multifamily Housing Fiscal Year 2024 Maturing Mortgage Properties

Application for a Section 521 Stand Alone Rental Assistance (SARA) Contract

TO: Property Owner

FROM: Angilla Denton
Deputy Administrator, Multifamily Housing Program, USDA Rural Development

SUBJECT: Notice Announcing Fiscal Year 2024 Stand Alone Rental Assistance (SARA) Contracts

The Consolidated Appropriations Act of 2024 provided USDA Rural Development (the Agency) the authority to accept applications from Section 514 and Section 515 borrowers that are reaching natural mortgage maturity to enter into stand-alone Section 521 Rental Assistance (RA) contracts upon final payment of their Section 515 loans. Previously, when an owner of a USDA-financed property paid off a Multifamily Housing (MFH) Section 514 and/or 515 direct loan, the property was no longer eligible to receive RA. Decoupling the Section 521 Rental Assistance allows owners with maturing mortgages to apply to continue receiving long-term RA from USDA Rural Development following direct loan payoff in exchange for an agreement to preserve and operate the properties as affordable housing. Agency monitoring will be more limited, but oversight will continue to ensure that income-qualified tenants are residing in decent, safe, and sanitary affordable housing.

The Agency has authority to decouple up to 1,000 affordable housing units for FY2024. Rental Assistance contracts executed under this authority will be referred to as Stand Alone RA (SARA). Application for a SARA contract is voluntary. If an owner chooses to pay off their loan(s) at maturity and does not participate, the tenants will be offered RD vouchers.

Our records identify you as a borrower with a loan(s) that will mature in FY2024. Please review the information about SARA provided in Attachment 1 of this Notice. There are several features that make a SARA contract attractive, including the implementation of Fair Market Rents, the ability to receive 100% RA, and up to a 20-year contract term.

If you want to apply for a SARA contract, the eligibility criteria and application requirements are provided in Attachment 2 of this Notice. Applicants must meet the eligibility criteria and submit a complete application to be considered for a SARA contract. The Agency expects to be able to provide a SARA contract to all qualified applicants in FY24.

The Agency requires submission of the items listed in Attachment 2 of this Notice by September 16, 2024. If applicants are submitting requests for multiple projects, a separate application package must be submitted for each project.

The Agency appreciates your consideration of the opportunity to apply for a SARA contract. We believe it provides an excellent opportunity to preserve affordable housing opportunities in rural communities.

We recognize that you are likely to have questions, particularly since this is the first announcement of SARA availability. A dedicated email address has been established at SM.RD.Decoupling@usda.gov. You may also contact Mike Resnik, Asset Management Division, Director at 202.430.3114.

Attachment 1: Fiscal Year 2024 Section 521 Stand Alone Rental Assistance (SARA) Contract Information and Eligibility

The United States Department of Agriculture announces new authority, provided in the Consolidated Appropriations Act of 2024, to decouple Rural Housing Service (RHS) (hereinafter the “Agency”) rental assistance (RA) from direct loans for maturing properties. Previously, when an Agency-financed Multifamily Housing (MFH) Section 514/515 mortgage matured, the property was no longer eligible to receive RA. With the new decoupling authority, owners can apply to continue receiving long-term Stand Alone Rental Assistance (SARA) if they agree to continue operating their property as affordable housing after making their final Section 514/515 loan payment(s), during the term of the SARA contract.

SARA has emerged as an important strategy to preserve affordable housing for tenants while supporting rehabilitation and preservation of the Agency portfolio with outside financing. The Agency may provide SARA contracts to cover up to 1,000 units during FY24.

Borrowers with an Agency loan maturing between March 9, 2024, and September 30, 2024, may apply for a SARA contract with a minimum term of 10 years and a maximum term of 20 years. If the borrower has more than one loan on the property, all Agency loans must have a maturity date prior to September 30, 2024. The decoupling authority is not available to owners/borrowers who submitted a final loan payment that has been processed by the Agency. Additionally, SARA contracts are not available to borrowers through the prepayment process or in conjunction with other Agency servicing actions.

Participation in SARA is voluntary. The provision of decoupling authority to the Agency does not prevent borrowers with a maturing mortgage from paying their loan in full. If a borrower is not interested in applying for a SARA contract, the Section 521 Rental Assistance will end when the Agency receives and processes the final payment at loan maturity, and existing tenants residing at the property will be offered RD vouchers.

Under the Decoupling authority, the Agency has developed requirements for participation and an application process for borrowers with direct loans maturing in FY24. To be considered for a SARA contract, borrowers must submit an application in accordance with the requirements provided in Attachment 2 of this Notice. A Federal Register notice will not be published for FY24.

The Agency will review submitted applications and determine eligibility. Applications deemed eligible will receive a conditional commitment from the Agency to provide SARA. The Agency and the property owner will execute a SARA contract.

If the application is deemed ineligible, the applicant will be notified of any applicable appeal rights under 7 CFR part 11.

Any questions regarding this notice should be directed to the Agency at SM.RD.Decoupling@usda.gov.

A. General Requirements

1. Applicability. This Notice sets forth requirements, policies, and procedures for SARA, a project-based tenant rent subsidy contract, to serve eligible very-low and low-income households. Properties eligible for SARA must be participating in one of the following programs authorized by

Title V of the Housing Act of 1949 and reaching loan maturity for all direct loans between March 9, 2024 and September 30, 2024:

- a. Section 515 Rural Rental Housing, which includes congregate housing, group homes, and Rural Cooperative Housing.
- b. Sections 514 Farm Labor Housing loans.

2. Civil Rights.

- a. In accordance with the Fair Housing Act, as amended, and Section 504 of the Rehabilitation Act of 1973, all actions taken by recipients of SARA will be conducted without regard to race, color, religion, sex, familial status, national origin, age, or disability. These actions include any actions in the sale, rental, or advertising of the dwellings, in the provision of brokerage services, or in residential real estate transactions involving Agency assistance. It is unlawful for a recipient of federal financial assistance:
 - i. To refuse to make reasonable accommodations in rules, policies, practices, or services that would provide a person with a disability an opportunity to use or continue to use a dwelling unit and all public and common use areas; or
 - ii. To refuse to provide a reasonable accommodation and modification at the property owner's expense that would not cause an undue financial or administrative burden.
- b. Owners with SARA contracts must take reasonable steps to ensure that Limited English Proficiency (LEP) persons receive the language assistance necessary to afford them meaningful access to USDA programs and activities, free of charge. Failure to ensure that LEP persons can effectively participate in or benefit from federally assisted programs and activities may violate Title VI of the Civil Rights Act of 1964, 42 U.S.C. 2000d, and Title VI regulations against national origin discrimination. USDA has issued guidance to clarify the responsibilities of recipients and subrecipients who receive financial assistance from USDA and to assist them in fulfilling their responsibilities to LEP persons under Title VI of the Civil Rights Act, as amended, and implementing regulations.
- c. Owners that fail to comply with the requirements of federal civil rights requirements are subject to sanctions authorized by law. The following are the major civil rights laws affecting multifamily housing programs:
 - i. Equal Credit Opportunity Act (ECOA).
 - ii. Title VI of the Civil Rights Act of 1964.
 - iii. Title VIII of the Civil Rights Act of 1968.
 - iv. Section 504 of the Rehabilitation Act of 1973.
 - v. Age Discrimination Act of 1975.

3. Environmental review requirements. SARA is considered a "routine financial action" and, as such, is classified as a categorical exclusion pursuant to 1970.53(a).

4. Restrictive Use Agreements. The Agency will not impose a Restrictive Use Agreement. Tenants will be protected under the terms of the SARA contract. The SARA contract will require the owner to operate the project as decent, safe, sanitary, and affordable housing for a period outlined in the SARA contract.

5. Compliance with other federal requirements. The Agency is responsible for ensuring that the application for SARA complies with all applicable Federal requirements, including the following specific requirements:

- a. National flood insurance. The National Flood Insurance Act of 1968, as amended by the Flood Disaster Protection Act of 1973; the National Flood Insurance Reform Act of 1994; and 7 CFR part 1806, subpart B, or any successor regulation.
 - b. Clean Air Act and Water Pollution Control Act Requirements. For any contract, all applicable standards, orders, or requirements issued under section 306 of the Clean Air Act; section 508 of the Clean Water Act, Executive Order 11738, and 40 CFR Chapter 1.
 - c. Historic preservation requirements. The provisions of 7 CFR part 1901, subpart F or any successor regulation.
 - d. Lead-based paint requirements. The applicable provisions of 24 CFR part 35, subparts A through B, D, and R, as published by the U.S. Department of Housing and Urban Development.
6. Reviews and appeals. Adverse Agency decisions may be appealed in accordance with 7 CFR part 11.

B. Project Eligibility. The Agency has identified criteria for a property to be considered eligible to participate in the Decoupling Authority and to receive SARA. Internal Agency records, information submitted by the applicant, and information obtained from third parties may be used to assess project eligibility.

1. Maturing Mortgage Property. The project must have a Section 514 or 515 loan with maturity dates between 3/9/24 and 9/30/24. For a single project with more than one Section 514 or 515 loan, at least one loan must have a maturity date between 3/9/24 and 9/30/24 and no loans may have a maturity date after 9/30/24.
2. Plan II Rental Assistance. In addition to the mortgage maturity requirements in B (1.) of this section, the property must have active Plan II RA at the time of mortgage maturity. There is no requirement for a minimum number of RA units at the property at the time of loan maturity.
3. Financial condition. At the time of application, the property may not be in a delinquent loan status on Agency debt, unless the delinquency was required by the Agency as part of a servicing action that held the final payment in abeyance or involved a loan re-amortization.
4. Physical condition. The Agency must determine that the property is in an acceptable physical condition. A property will be determined to be in acceptable physical condition if it receives a score of 1, 2 or 3 on the Agency physical inspection. The applicant must certify that no material changes in physical condition have occurred at the property since the time of inspection. If the property does not meet the requirements for acceptable physical condition, the Agency may reject the application or place conditions on its approval. If an inspection has not been conducted during the past 12 months, the Agency will complete an inspection as part of the eligibility determination. The lack of an inspection does not prevent an owner from applying for participation, however an inspection must be completed before the Agency can make its final decision. The Agency may also accept an inspection from another state or federal funding agency completed within the past 12 months.
5. Health, Safety and Accessibility. As part of the required Agency physical inspection, the Agency will determine if there are any outstanding health, safety and/or accessibility findings or violations at the property. Outstanding findings or violations must be resolved prior to execution of the SARA.

6. Project compliance record. The Agency will assess the project's compliance with previous agency requirements, including compliance with Civil Rights laws. If the Agency has issued any deficiency findings or compliance violations under 3560.354 for the project during the two years prior to application, and the Agency determines that corrective action has not been taken to resolve the deficiencies or violations, the property is not eligible for SARA.
7. Market conditions and occupancy rates. The average physical vacancy rate for the 12 months preceding this Notice's application submission date can be no more than 15 percent. If the average physical vacancy rate exceeds that limit, the applicant must provide current market data (defined as no more than 6 months old at time of application) that demonstrates there is a need for the project. This data should include waiting lists and a housing shortage confirmed by local housing agencies and realtors. If the Agency determines that the current market data indicates adequate demand to support reasonable occupancy rates, the Agency will waive the standard occupancy rate requirement.

C. Applicant/Owner Eligibility. Owner eligibility for a SARA contract will be determined based on several factors, including previous compliance with Agency requirements, documentation of eligible ownership type, and previous capacity and successful experience owning MFH and/or other federally subsidized affordable housing.

1. Fair Housing Act and Civil Rights Compliance. Owner applicants must certify to comply with all Fair Housing Act and Civil Rights requirements. Any outstanding Fair Housing Act or civil rights findings must be resolved to Agency satisfaction prior to execution of a SARA contract, provided that all applicable legal processes have been satisfied. If the Agency determines that the property does not meet Fair Housing Act compliance standards, it will notify the owner of the determination and any necessary prescribed actions for remediation. Fair Housing Act or civil rights matters that arise after SARA contract execution will be addressed in accordance with applicable RD authorities.
2. Applicant/Organizational eligibility.
 - a. For the purpose of this Notice, "Applicant" includes the applying entity (e.g., ABC LLP) and the entity's principals (e.g., general partners, managing members, officers, or directors). In the case of a single asset entity, the Agency will rely solely on the qualifications of the natural person(s) managing/controlling the entity (whether directly or indirectly through other entities) to establish the applicant's eligibility.
 - b. Eligible applicants under the Decoupling Authority and SARA include 1) individuals, partnerships or limited partnerships, consumer cooperatives, trusts, State or local public agencies, corporations, limited liability companies, non-profit organizations, Indian tribes, associations, or other entities authorized by the Agency that 2) were, at the time of initial applicant selection, an RD MFH Direct Loan Borrower.
3. Applicant experience.
 - a. Applicants must have substantial, verifiable, and favorable MFH project compliance as required by the MFH Direct Loan program regulations specified in 7 CFR part 3560.
 - i. All applicants must meet the respective (Section 515 or 514 Off-FLH) statutory and regulatory requirements for initial owner eligibility and contract participation in 7 CFR 3560.55 and/or 7 CFR 3560.555. Initial eligibility will be determined as of the date of the application filing deadline. The Agency reserves the right to discontinue processing any application due to material changes in

the applicant's status occurring at any time after the initial eligibility determination.

- ii. Applicants must demonstrate the ability to maintain, manage, and operate the housing for its intended purpose and in accordance with all Agency requirements. The application review will include an evaluation of any current outstanding MFH project deficiencies. An applicant must identify a Management Agent with at least two years of experience and satisfactory performance in directing and overseeing the management of similar federally assisted MFH properties. Any outstanding violations or extended open operational findings associated with the project must be resolved prior to SARA contract execution.
- b. Applicants are subject to the applicable requirements of the Office of Management and Budget (OMB) approved USDA Suspension and Debarment, and Drug-Free Workplace Certifications as prescribed under Title 2 CFR parts 417 and 421.
- c. Applicants must not be currently debarred, suspended, or delinquent on any Federal debt, as referenced in 7 CFR 3560.55.

D. SARA Requirements. This section highlights key requirements under the Decoupling Authority and the SARA contract. This list is intended to provide owners with general requirements that will apply within the SARA contract. Detailed requirements will be specified in the conditional commitment and the SARA contract. Prior to execution of the SARA contract, the owner may choose to withdraw the application and make a final loan payment, if the owner does not accept the terms of the contract.

1. Rent-Setting and Rental Assistance.

- a. Applicability. The Decoupling Authority established standards for setting rents for SARA that differ from the rent-setting process and standards applicable to properties with a current Section 514/515 loan.
- b. Establishing rents. The Decoupling Authority establishes a new process of setting rents for SARA.
 - i. For SARA contracts, rents shall be based on current Fair Market Rents (FMRs) as established by the Department of Housing and Urban Development pursuant to 24 CFR 888 Subpart A, 42 U.S.C. 1437f and 3535d, to determine the maximum initial rent.
 - ii. For a property with a SARA, rents for the units covered under the SARA will be based on FMRs. If a project has a partial HAP contract, there may be a HUD rent for those units covered by the HUD contract.
- c. Rent changes. Following initial rent-setting, rents will be adjusted annually by the Operating Cost Adjustment Factor (OCAF) pursuant to 24 CFR 888 Subpart B, as published by HUD.
- d. Rental Assistance Allocation. Projects determined eligible for SARA will be offered rental assistance to cover 100% of the units not covered by other project-based rental assistance. Owners must accept or reject any additional RA units offered by the Agency prior to executing the SARA contract, but must, at a minimum, maintain the number of RA units available at the property at the time of SARA application. Additional rental assistance will not be made available after the SARA contract is executed.
- e. Unused Rental Assistance. To facilitate access to capital for rehabilitation, preservation, and long-term project viability, under the terms of the SARA contract, rental assistance units will remain with the property through the duration of the contract. However, the Agency reserves the right to cancel a SARA contract for noncompliance with Agency requirements.

- f. Term of SARA Contract. A SARA contract has a minimum term of 10 years and maximum term of 20 years and is subject to annual appropriations. The SARA contract cannot begin before the last natural loan maturity date on the project. The owner may request a term of between 10 and 20 years.
 - g. Transferability of SARA Contract. A SARA contract is transferrable to a qualified new owner, subject to Agency approval. To approve the transfer, the Agency must determine that such a transfer would further the provision of low-income housing and be in the best interest of residents and the Federal Government. In addition, the current owner must complete 12 months of the initial SARA contract or until the transferability guidelines have been established and published, whichever is later, before the Agency will consider transfer to a new owner. In the transfer of a SARA contract, the Agency will require the new owner to assume all the obligations under the contract and meet the requirements of 7 CFR 3560.55 and 7 CFR 3560.555.
 - h. Rental subsidies from non-Agency sources. If an eligible tenant has a housing voucher from the Agency or from another government source, the tenant must be allowed to use that voucher at the property. The rental assistance allocation (i.e. number of units assigned to the property under the SARA) will not be impacted or removed during the term of the SARA contract. The owner will not, however, receive rental assistance payments for a unit where other assistance is otherwise provided.
- 2. Occupancy Requirements. This section contains key owner and tenant requirements and Agency responsibilities related to occupancy. Occupancy requirements are generally consistent with the requirements of 7 CFR 3560, unless otherwise stated in the Notice or SARA contract.
 - a. Civil Rights requirements. All occupancy policies must meet applicable Civil Rights requirements, as stated in 7 CFR 3560.2.
 - b. Tenant eligibility requirements.
 - i. A tenant eligible for occupancy must:
 - I. Qualify as a very low-, low-, or moderate-income household, pursuant to 7 CFR 3560 subpart D; or
 - II. Be eligible under the requirements established to qualify for housing benefits provided by sources other than the Agency, such as U.S. Department of Housing and Urban Development (HUD) Section 8 assistance or Low-Income Housing Tax Credit (LIHTC), when a tenant receives such housing benefits.
 - ii. In addition to the eligibility requirements above, elderly housing and congregate housing or group homes must follow the occupancy requirements found in 7 CFR 3560.152(c).
 - iii. Upon execution of the SARA contract, existing tenants with an Agency-approved ineligible tenant waiver may continue to reside in the unit as long as the conditions of the waiver are met.
 - iv. Moderate-income households are eligible to reside in the property, but they are not eligible to receive SARA.
 - c. Tenant certification and verification. Tenants and owners must execute an Agency-approved tenant certification form establishing the tenant's eligibility prior to initial occupancy consistent with 7 CFR 3560.152.
 - d. Calculation of household income and assets.
 - i. Annual income will be calculated in accordance with 24 CFR 5.609(a) and (b).
 - ii. Adjusted income will be calculated in accordance with 24 CFR 5.611.
 - e. Tenant selection.

- i. Application for occupancy. Owners must use tenant application forms that collect sufficient information to properly determine household eligibility and to enable the Agency to monitor compliance with the Fair Housing Act, section 504 of the Rehabilitation Act of 1973, and Title VI of the Civil Rights Act of 1964 during compliance reviews, consistent with the requirements of 7 CFR 3560.154.
 - ii. Letter of Priority Entitlement (LOPE) and displaced applicants. Eligible applicants that meet any of the following conditions must be given priority over other applicants in their same income category.
 - I. The applicant has a LOPE issued in accordance with §3560.660(c).
 - II. The applicant was displaced from Agency-financed housing but was not issued a LOPE.
 - III. The applicant was displaced in a Federally declared disaster area.
- f. Assignment of rental units and occupancy policies. Owners must comply with the requirements of 7 CFR 3560.155.
- g. Lease requirements. Owners must use an Agency approved lease or a HUD model lease consistent with the requirements in 7 CFR 3560.156.
- h. Occupancy rules. Owners must maintain occupancy rules that are consistent with applicable Federal, state, and local laws, as well as Agency requirements, consistent with 7 CFR 3560.157.
- i. Changes in tenant eligibility. Tenants must continue to meet eligibility requirements to remain eligible for occupancy consistent with 7 CFR 3560.158.
- j. Termination of Occupancy. Owners, in accordance with lease agreements, may terminate or refuse to renew a tenant's lease in accordance with 7 CFR 3560.159.
- k. Tenant Grievances. The requirements found in 7 CFR 3560.160 apply.

3. Tenant Rights.

- a. Tenant Notifications. The Agency will provide notifications to tenants regarding the SARA contract. Owners must also meet any tenant notification requirements outlined in the SARA contract. The purpose of the notifications is to ensure that tenants are aware that the property will remain as affordable housing and inform the tenants of their rent contributions and tenant rights.
- b. Eligibility of a Letter of Priority Entitlement (LOPE). Tenants are eligible for a LOPE in the following circumstances:
 - i. If occupancy is terminated due to conditions beyond the control of the tenant, such as required repair/rehab of the building or a natural disaster.
 - ii. In the event of a cancellation of the SARA contract.
- c. Violence Against Women Reauthorization Act of 2013 Applicability. SARA is considered a "covered housing program" under the Violence Against Women Reauthorization (VAWA) Act of 2013 and any amendments thereto. Tenants will continue to have the protections available under VAWA.
- d. RD Vouchers. In addition to the protections offered under a SARA contract, tenants at properties with a maturing mortgage will be offered RD vouchers at the time of final loan payment. The tenant may choose to use the RD voucher at the existing property, move to a different property, or opt to receive rental assistance at the existing property under the SARA contract. Tenants who opt to continue receiving rental assistance under the SARA contract will not receive a voucher.

4. Owner and Management Responsibilities.

- a. Management Agent. Owners hold final responsibility for housing project management and must ensure that operations comply with the terms of the SARA contract and all

applicable local, state, and Federal laws and ordinances. Borrowers must obtain Agency approval of the management agent proposed to manage a housing project prior to the execution of the SARA. A change in management during the term of the SARA contract must be approved by the Agency.

- b. Management plan. Property owners must develop and maintain a management plan for the project. The management plan must establish the systems and procedures necessary to ensure that housing project operations comply with Agency requirements. The management plan must be approved by the Agency prior to the execution of the SARA contract.
- c. Affirmative Fair Housing Marketing Plan. A project with a SARA contract must have an Agency-approved Affirmative Fair Housing Marketing Plan consistent with the requirements of 24 CFR part 200, subpart M, in accordance with 24 CFR Part 200 Subpart M.
- d. Physical maintenance and condition of housing project. Owners are responsible for the physical maintenance and long-term preservation of the housing project.
 - i. Agency standards. To participate in SARA, the owner must provide evidence that the project meets the minimum threshold requirements of “decent, safe, and sanitary” housing as evidenced by score of 1, 2, or 3 on an Agency physical inspection utilizing the Mortgage Bankers Association Standard Inspection Form and 7 CFR 3560.103(a)(3) which specify the performance standards for meeting acceptable physical condition.
 - ii. Third-party inspections. Inspection documentation from a third-party, such as a government funder, lender, or code-enforcement agency, may be accepted at the Agency’s discretion. Third-party inspection reports must have been completed within the prior 12 months to be considered acceptable by the Agency.
 - iii. Health, safety, and accessibility. To be eligible for SARA, the Agency-approved property inspection must show that the units substantially meet health, safety, and accessibility standards, as defined in 7 CFR 3560, prior to project selection. If there are any outstanding findings, they will be identified in a conditional commitment and must be resolved prior to execution of the SARA contract.
 - iv. Physical inspection violations. Physical inspection violations will be documented. via an Agency-accepted inspection, a copy of which will be provided to the owner along with a detailed description of all violations and associated findings. All findings will require immediate corrective action to be taken by the owner within a reasonable timeframe. Health and safety findings will require immediate corrective action in no more than ten days from the date of notification.
 - v. Ongoing physical inspection schedule. The Agency will develop a physical inspection schedule based on the condition of the property. Annual inspections will be required for any project with outstanding health and safety violations or failure to meet the standards for acceptable physical condition during the previous inspection. A triennial inspection will be required for projects in acceptable physical condition, including those projects that have secured third party debt with conditions and procedures that match or exceed the Agency’s requirements (e.g., HUD, AHP, LIHTC, HFA, or other state/federal funding programs). For projects subject to third party inspections, the Agency may accept such third party inspections in lieu of an Agency inspection.
- e. Insurance and taxes. The project must maintain commercially available property and liability insurance to protect the project from financial loss. In the event of casualty, to

the extent insurance proceeds permit, the owner must promptly restore, reconstruct, and/or repair any damaged or destroyed project property.

5. Project Financial Management

- a. Financial records. The owner must cooperate with any reasonable RD request for project financial and operating information, including but not limited to project financial statements, operating data, and rehabilitation work.
- b. Project budgets. The owner must provide an initial budget with FMRs prior to SARA contract execution to allow the Agency to review and determine the initial financial feasibility of the project. Budget submissions will not be required in future years if the owner continues to receive FMRs. Operating Cost Adjustment Factors (OCAF) will be utilized on an annual basis to adjust the FMR.
- c. Mid-year change in rents. The Agency will not allow mid-year changes to rent levels. Owners will be required to follow the OCAF schedule for increasing rents on an annual basis.
- d. Replacement Reserve account requirements. The Agency will set reserve account requirements based on the physical condition of the property as determined by the inspection and the owner's plan for recapitalization and rehabilitation of the property. Withdrawals from the reserve account do not require agency approval.

Given the age of the properties reaching maturity in the MFH portfolio, the Agency believes that most properties receiving a SARA contract will require substantial rehabilitation to provide decent, safe, and sanitary housing for the term of the contract. There are several scenarios that may occur, including:

- i. Rehabilitation plan is in place and funding is secured. The owner has developed a plan for substantial rehabilitation of the property and funding commitments are secured in an amount adequate to complete the plan. Rehabilitation will be completed shortly after execution of the SARA contract and improvements are expected to address the physical needs of the property for the term of the contract. In these cases, the Agency will generally defer to the reserve account requirements of the third-party lender or funder.
- ii. Rehabilitation plan is in place, but funding is not secured. The owner has developed a plan for substantial rehabilitation of the property, but funding commitments have not been secured. In these cases, the Agency will establish an annual per unit amount to be deposited to the reserve account until the rehabilitation plan is funded. The amount will be based on FMRs, the results of the property inspection, and near-term repair and replacement needs. The required annual reserve deposit amount will be included in the SARA contract and will be increased annually based on the OCAF. When funds have been obtained for the rehabilitation plan and the work has been completed, the SARA RA contract can be amended to defer to the reserve account requirements of the third-party lender or funder.
- iii. Rehabilitation plan is not in place. The current physical condition is acceptable, but rehabilitation is required to address the needs of the property for the term of the SARA contract. The owner has not developed a rehabilitation plan or secured funding commitments. In these cases, the Agency will establish an annual per unit amount to be deposited to the reserve account. The required annual reserve deposit amount will be included in the SARA contract and will be increased annually based on the OCAF. The property will be subject to annual inspections and the reserve account deposits may need to be adjusted by the owner to remain in compliance with physical condition standards if the

inspection shows that immediate repairs are needed. If the owner develops a rehabilitation plan, funding commitments are secured, and work has been completed, the SARA contract can be amended to defer to the reserve account requirements of the third-party lender or funder.

- e. Operating reserve account requirements. The owner shall establish and maintain a project operating reserve account in an interest-bearing account. Withdrawals from the operating reserve do not require RD approval. A minimum balance of \$1,000 per unit must be established at the time of SARA contract execution and must be maintained in this account for the term of the contract. The project operating reserve is separate from the replacement reserve account. The operating reserve must be used for the benefit of the project, including to provide working capital, to cover unexpected operating or capital expenses, to bridge periods of financial instability, to cover budget deficiencies arising from time to time because of delinquent receivables or other contingencies, or for other similar purposes determined by the owner as beneficial to preserve the financial or physical stability of the Project. RD will monitor the balance in the operating reserve when reviewing the Project Owner's annual financial statements or other suitable documentation as determined by the Agency. An operating reserve required by a third-party source of financing (e.g., a lender or a LIHTC investor) that meets or exceeds \$1,000 per unit satisfies the requirements of this section and the owner is not required to maintain a distinct operating reserve for this purpose.
 - f. Owner Distributions. Owners will not be subject to any limitation on distributions, contingent on satisfaction of SARA contract requirements, including maintenance of the acceptable physical condition of the property and the operating reserve requirement. RD may impose restrictions on distributions of surplus cash on a given project as a potential remedy if RD determines the owner is in violation of the SARA. All projects that are determined to be in noncompliance by the Agency, through inspection or reliable source, e.g. city, county, etc, with physical condition standards will have distributions restricted until such a time as the project is brought back into compliance, as determined by the Agency.
6. Agency SARA Contract Oversight
- a. Agency monitoring. Agency monitoring activities are designed to assess owner and tenant compliance with Agency requirements to ensure housing projects are managed in accordance with the goals and objectives of the SARA contract.
 - b. Physical inspections. Inspections will be completed based on the physical condition and reserve requirements of the property as provided in Section D.4.d of this Attachment.
 - i. If the property has received third-party financing, Rural Development may accept the other lender's inspection in lieu of completing its own inspection. Inspections completed by HUD, housing authorities and other similar agencies may also be accepted.
 - c. Tenant file reviews. Tenant files will be reviewed every three years. The reviews will focus on the tenant certifications to included income verifications and appropriate adjustments to income. Additional tenant file document reviews include unit move-in inspections. Reviews may be conducted remotely or on-site at the discretion of the Agency.
 - d. Unauthorized assistance. Unauthorized assistance occurs when the Agency determines that an owner or tenant was ineligible for, or improperly used, assistance received from the Agency.
 - i. The Agency may seek repayment of any unauthorized assistance provided to an owner or tenant, plus the cost of collection, regardless of whether the

unauthorized assistance was due to errors by the Agency, the owner, or the tenant.

- ii. The Agency will use all available means to identify unauthorized assistance.
 - iii. Owners have the primary responsibility for identifying repayment of unauthorized assistance received by tenants.
 - iv. The Agency will notify owners, in writing, when a determination has been made that unauthorized assistance was received by the owner. Owners will notify tenants, in writing, when a determination is made that unauthorized assistance was received by the tenant and will simultaneously send the Agency of copy of the written notice to the tenant.
 - v. The Agency will seek repayment of all unauthorized assistance received by an owner or tenant, plus the cost of collection, to the fullest extent permitted by law.
- e. Management reviews. Management reviews will be conducted on a three-year schedule. The Agency will review waiting lists, applications, assignment of rental assistance, compliance related to the requirements of the Violence Against Women Act, Affirmative Fair Housing Marketing Plans (AFHMP), and future rehabilitation planned for the property. Reviews may be conducted remotely or on-site at the discretion of the Agency.
- f. Compliance reviews. Civil rights compliance reviews will be conducted in conjunction with the Management Review (above) using the RD 400-8 PowerApps process. Civil rights compliance reviews can be completed on-site or remotely.
- g. Occupancy waivers. Occupancy waivers will not be granted by the Agency. The property will be required to rent to very low-, low-, and moderate-income tenants, except that existing tenants that are over-income at the time of execution of the SARA contract will not be required to vacate the property. Note that only very-low and low-income tenants are eligible to receive RA under the SARA contract, but moderate-income tenants may also reside in the project.
- h. Late fees. Tenant certifications need to be submitted to the Agency by the 10th of the month for any certification that has an effective date of the 2nd of the month through the 1st of the next month. For example, any tenant certification with an effective date of January 2nd through February 1st needs to be submitted to the Agency by February 10th. Tenant certifications submitted after this timeframe are considered late. The Agency may charge a late fee for late submissions. The Agency may waive late fees for circumstances beyond an owner's control.
- i. Special owner circumstances. The Agency will address projects affected by special circumstances such as property liquidation, abandonment, deceased owner, bankruptcy, or insolvency on a case-by-case basis. The Agency will make servicing decisions in the best interest of the Federal Government and tenants, seeking to maintain the SARA contract, when possible.
- j. SARA contract default. The Agency will notify the owner if they are in default on the contract. The Agency can consider the contract in default under, but not limited to, the following condition(s): hazardous physical condition of the property, fair housing violations, operating reserve not funded adequately, or failure to pay property taxes resulting in tax forfeiture. If the owner is not able to implement satisfactory corrective actions to cure the default, the Agency may cancel the SARA contract.
- k. Enforcement provisions and penalties. The Agency will use its available authorities, including criminal and civil sanctions and civil monetary penalties, to address the actions of any owner, agent, employee, or manager that fails to comply with the terms of the SARA contract or misuses funds when the property is not maintained consistent with the requirements of the SARA contract.

Attachment 2: Fiscal Year 2024 Section 521 Stand Alone Rental Assistance (SARA) Application Requirements

This attachment describes the process to apply for a Stand Alone Rental Assistance (SARA) contract and the required application items. The agency requires submission of a complete application on or before Monday, September 16, 2024, at 5 PM ET. If an applicant is submitting requests for multiple projects, a separate application package must be submitted for each project. The Agency expects to be able to provide a SARA contract to all qualified applicants in FY24.

A. General Requirements

To initiate the application process, an applicant must send an email message, no later than 5:00pm ET on August 30, 2024, to SM.RD.Decoupling@usda.gov to express interest in applying for a SARA contract. All email messages must contain the following information:

1. Subject line: FY24 SARA Contract Interest
2. Body of e-mail: Borrower Name, Borrower Contact Information (Phone Number and email address), Project Name and State

Within three business days of receipt, the Agency will provide written acknowledgment of your interest in applying for a SARA contract, along with detailed instructions for the secured submission of all required application documentation.

The Agency reserves the right to discontinue the processing of any application due to material changes in the applicant's status occurring any time after the initial eligibility determination.

B. Application Requirements

The application must contain the following items to be considered complete:

1. Executive Summary. A signed and dated Executive Summary that must include the following:
 - a. Brief description of the project and its history. Include the owner's name, project name, project location, number of units, number of Rental Assistance (RA) or Operating Assistance (OA) units and unit mix (1-bd, 2-bd, etc.). For Farm Labor Housing (FLH) projects, address whether the project operates year-round or on a seasonal basis. Provide the year the property was built and the original sources of funding. Describe any significant rehabilitation, its completion date, and sources of funding for the rehabilitation. Provide any other information that you may want to disclose regarding the project and its history.
 - b. Description of the current ownership structure, including an organizational chart, and plans for ownership under the SARA Contract.
 - c. Description of the applicant's experience operating affordable rental housing or farm labor housing.
 - d. Description of how the property is currently managed and plans for management under the SARA contract. Provide information about the experience of the management agent proposed to manage the property under the SARA contract in managing affordable rental housing or farm labor housing.
 - e. Provide any other information you want to disclose regarding your future plans for the property if it is approved for a SARA contract.

2. Project eligibility information. The Agency will review the following information to complete the project eligibility review. While most of the project eligibility information is not submitted by the applicant, the Agency is disclosing the items being reviewed from Agency records and systems to ensure a fair and transparent process. Applicants should note that items 2d, 2f, and 2g may require an applicant to submit information. If the applicant has supplemental information to support eligibility on any of the other project eligibility requirements, it may be submitted as part of the application.
- a. Date(s) of maturing mortgage(s). The Agency will determine if the project has a Section 514 or 515 loan with a maturity date between 3/9/24 and 9/30/24. For a single project with more than one Section 514 or 515 loan, at least one loan must have a maturity date between 3/9/24 and 9/30/24 and no loans may have a maturity date after 9/30/24, in order to be determined eligible.
 - b. Plan II Rental Assistance. The Agency will determine if the property has an active Plan II RA agreement at the time of mortgage maturity. There is no requirement for a minimum number of RA units at the property at the time of loan maturity.
 - c. Financial condition. The Agency will determine if the property was in a delinquent loan status on Agency debt at the time of application. If so, the Agency will determine if the delinquency was part of a servicing action, including avoiding final payment of an Agency loan to allow for a loan re-amortization or participation in SARA. If so, the property will not be considered in a delinquent loan status.
 - d. Physical condition. The Agency will determine if an Agency physical inspection has been conducted within the past 12 months. If an inspection has not been conducted during the past 12 months, the Agency will complete an inspection as part of the SARA application review process. The lack of an inspection does not prevent an applicant from applying for a SARA contract, but an inspection must be completed before the Agency can make an application decision. The Agency may also accept an inspection from another state or federal funding agency completed within the year in lieu of an Agency inspection. If the applicant has an inspection from another state or federal funding agency, the Agency requests that it be submitted as part of the application.
 - e. Health, safety, and accessibility. The Agency will determine if there are any outstanding health, safety and/or accessibility findings or violations at the property. If there are outstanding findings or violations, the owner must resolve them prior to execution of the SARA contract.
 - f. Owner compliance record. The Agency will assess the owner's compliance with previous agency requirements, including compliance with Civil Rights laws. If the Agency has issued any deficiency findings or compliance violations under 7 CFR 3560.354 for the project during the two years prior to application, and the Agency determines that corrective action has not been taken to resolve the deficiencies or violations, the owner of the property will not be eligible to receive a SARA contract.
 - g. Market conditions and occupancy rates. The Agency will determine the average physical vacancy rate for the property for the 12 months preceding the application submission date. To be eligible, the average physical vacancy rate for the 12 months preceding this Notice's application submission deadline can be no more than 15 percent. If the average physical vacancy rate exceeds that limit, the applicant must provide current market data (defined as no more than 6 months old at time of application) that demonstrates there is a need for the project evidenced by waiting lists and a housing shortage confirmed by local housing agencies and realtors and accepted by the Agency. If the Agency determines that the current market data indicates adequate demand to support

reasonable occupancy rates, the Agency will waive the standard occupancy rate requirement.

3. Required forms and certifications.

- a. Form RD 3560-1, "Application for Partial Release, Subordination, or Consent," can be obtained at:
<https://forms.sc.egov.usda.gov/efcommon/eFileServices/eForms/RD3560-1.PDF>.
- b. Standard Form 424, "Application for Federal Assistance," can be obtained at:
https://apply07.grants.gov/apply/forms/readonly/SF424_2_1-V2.1.pdf
- c. Form RD 400-4, "Assurance Agreement," can be found at:
https://www.rd.usda.gov/sites/default/files/UEP_RD_Form_400-4.pdf or
<http://forms.sc.egov.usda.gov/efcommon/eFileServices/eForms/RD400-4.PDF>
- d. RD Instruction 1940-Q, Exhibit A-1, "Certification for contracts, grants and loans," can be found at: <https://www.rd.usda.gov/files/1940q.pdf>.
- e. Form RD 1910-11, "Applicant Certification, Federal Collection Policies for Consumer or Commercial Debts" can be found at:
<https://forms.sc.egov.usda.gov/efcommon/eFileServices/eForms/RD1910-11.PDF>.
- f. A statement affirming that the applicant will comply with all Fair Housing Act and Civil Rights requirement and agree that any outstanding Fair Housing Act or civil rights compliance complaints arising prior to execution of the SARA contract must be resolved to the Agency's satisfaction, provided that all applicable legal processes have been satisfied.

4. Applicant financial and organizational information

- a. Financial statements for each entity within the ownership structure with the following paragraph certified by the applicant's designated and legally authorized signer:
"I/we certify the above is a true and accurate reflection of our financial condition as of the date stated herein. This statement is given for the purpose of inducing the United States of America to make a determination of eligibility of the applicant for a SARA contract as requested in the application of which this statement is a part."
- b. Submit a current (within 6 months of this Notice's application submission due date) credit report for both the entity and the actual individual principals, partners and members within the applicant entity, including any sub-entities who are responsible for controlling the ownership and operations of the entity. If any of the principals in the applicant entity are not natural persons (e.g., corporations, other limited liability companies, trusts), separate commercial credit reports must be submitted on those organizations as well. Individual personal consumer credit reports are not required if a combination report is being provided. Only credit reports provided by accredited major credit bureaus will be accepted (Experian, Equifax or TransUnion). If the credit report(s) is not submitted by the application deadline, the application will be considered incomplete and will not be considered for funding.
- c. Letter from IRS indicating the applicant's tax identification number.
- d. Individual applicants and the principals of organizational applicants must provide to their attorney acceptable evidence of U.S. citizenship and/or qualified alien status. Acceptable evidence of U.S. citizenship may include a valid U.S. birth certificate, a valid U.S. Passport, a valid U.S. Certificate of Naturalization, or other acceptable evidence of U.S. citizenship proposed by the applicant and determined by the Agency. Acceptable evidence of qualified alien status may include valid documentation issued by the U.S. Citizenship and Immigration Services (USCIS), or other acceptable documentation of qualified alien status proposed by the applicant and determined by the Agency.

Attorney Certification. The applicant's attorney must review all applicable evidence to verify U.S. citizenship and/or qualified alien status, must certify that the Agency's U.S. citizenship and/or qualified alien status eligibility requirements are met by all applicants, and must submit the certification for Agency review.

- e. Documentation verifying the applicant is registered in the System for Award Management (SAM) and the applicant's Unique Entity Identifier (UEI) number (unless exempt under 2 CFR 25.110(b), (c), or (d)).
- f. For applicants that are limited liability corporations, an operating agreement and evidence of organization under state/local/tribal law.
- g. For applicants that are limited partnerships, current and fully executed limited partnership agreement and certificates of limited partners.
- h. For applicants that are nonprofit organizations:
 - i. Tax-exempt ruling from the IRS designating them as a 501(c)(3) or 501(c)(4) organization.
 - ii. Purpose statement, including the provision of low-income housing.
 - iii. Evidence of organization under state and local law or Tribal law, and a copy of the applicant's charter, Articles of Incorporation, and By-laws.
 - iv. List of Board of Directors including names, occupations, phone numbers, and addresses.
 - v. If a member or subsidiary of another organization, the organization's name, address, and nature of business.
- i. For all entity applicants, a Certificate of Good Standing.

5. Additional information

- a. As described in section 2d. of this Attachment, a property inspection from another state or federal funding agency conducted within the past 12 months, if available.
- b. If the property does not meet the requirements outlined in the market conditions and occupancy rates in section 2g. of this Attachment, the applicant must provide current market data (defined as no more than 6 months old at time of application) that demonstrates there is a need for the project. Data should include waiting lists and a housing shortage confirmed by local housing agencies and realtors.
- c. Rehabilitation plan for the property, including whether funding commitments have been secured. Include a narrative describing which category you believe applies to the property for which you are seeking a SARA contract:
 - i. Rehabilitation plan is in place and funding is secured. The owner has developed a plan for substantial rehabilitation of the property and funding commitments are secured in an amount adequate to complete the plan. Rehabilitation will be completed shortly after execution of the SARA contract and improvements are expected to address the physical needs of the property for the term of the contract.
 - ii. Rehabilitation plan is in place, but funding is not secured. The owner has developed a plan for rehabilitation of the property, but funding commitments have not been secured.
 - iii. Rehabilitation plan is not in place. The current physical condition is acceptable, but rehabilitation is required to address the needs of the property for the term of the SARA contract. The owner has not developed a rehabilitation plan or secured funding commitments.
- d. Request for additional units of RA under the SARA contract. If applicable, specify the number of additional units of RA requested under the SARA contract. An applicant may, but is not required to, request additional units so that the property has 100% RA.

- e. Requested term of SARA contract. Provide the requested term of the SARA contract (minimum term of 10 years, maximum term of 20 years).