Welcome

Attendees:
• You are joined with computer Audio by default
• **You can change to Phone if needed:** Check this button
• You can submit comments via the Questions/Chat section
• If you prefer to provide comments verbally, you can be unmuted by the moderator, please raise your hand and then wait to speak when prompted by name.
Listening Session Goals

• Highlight Agency goals for reducing transfer process complexity and improving efficiency

• Identify priority transaction types for reduced application submission requirements

• Discuss other non-transfer options that may be appropriate depending on owner and project circumstances

• Highlight next steps—stakeholder feedback and implementation of revised transfer processing requirements
Pilot Goal: Improve MFH Transfer Process

- Develop a pilot program with revised transfer application requirements for properties that meet certain requirements (i.e., create “simple transfer” options):
  - Reduce undue burdens and eliminate unnecessary paperwork
  - Differentiate transfer submission requirements based on the type of transaction—move away from a “one size fits all” approach
  - Eliminate certain third-party reports to reduce upfront costs
  - Recognize timing challenges with obtaining rehab/preservation financing and provide more flexibility
Pilot Goal: Improve MFH Transfer Process

- Implement efficient pilot program transfer processing and assess pilot program outcomes
  - Additional MFH staff will be deployed to assist with pilot program processing, increasing staff capacity and reducing processing backlogs
  - Outcomes will be tracked and findings used to make handbook and regulatory changes to improve overall transfer processing

- Overall goal: Increase rehabilitation and preservation activity in the MFH portfolio
Proposed Simple Transfer Types

• Simple Transfer with an Expedited Ownership Change Required
• Simple Transfer with Rehabilitation
• Simple Transfer with Future Rehabilitation/Recapitalization Plan (Two-Step Transfer)

• Note: These are proposed areas of priority, not final determinations.
Proposed Pilot Program Features

• The Field Operations Division (FOD) servicing specialist will be the first point of contact for a customer interested in the pilot program
  • FOD will assess if the property MAY be eligible for a simple transfer based on information from the customer/in the file and will refer the customer to the appropriate team
• Standard transfers should continue to go to the Production and Preservation Division (P2) Processing and Report Review Branch 1 or 2, based on geography
• Modified Attachment 7-B-1 checklist will be used for the pilot
• Simple transfers are for limited situations that meet the guidance—most transfers will still be standard transfers handled by P2
Simple Transfer with an Expedited Ownership Change Required

- Most streamlined transfer process.
- For circumstances where the Agency determines that an expedited ownership change is in the best interest of the Government, property and tenants.
Simple Transfer with an Expedited Ownership Change Required

- Property Circumstances:
  - Property is in reasonable or good condition. Conditions exist that require an expedited transfer, such as: deceased borrower or general partner, hardship, insolvency, receivership, imminent loan maturity, etc. AND
  - New owner assumes the existing RD debt and no new debt is added. AND
  - New owner (non-profit or for-profit) will provide a plan for the long-term viability of the property, which may include recapitalization/rehab or resetting of reserves. Agency must determine that the proposed viability plan is reasonable.
Simple Transfer with an Expedited Ownership Change Required

• Proposed Modifications to Standard Transfer Requirements:
  • No Capital Needs Assessment (CNA) required
  • No appraisal required
  • No new debt may be added
  • The loan(s) will be reamortized at new rates and same terms (unless the existing rate would be lower).
  • No equity payout can be included as part of the transaction. If agreed to by both parties, equity may be paid outside of the transaction.
  • The project must meet minimum reserve account requirements as determined by the agency. The agency may require a CNA post-transfer to reset annual reserve deposits.
Simple Transfer with Rehabilitation

- Intended for properties that require rehabilitation and/or resetting of the annual deposit to the reserve account.
- Similar situation to properties that request a CNA for reserve resizing but will also include a transfer.
Simple Transfer with Rehabilitation

• Property Circumstances:
  • Based on a CNA, rehabilitation is needed that cannot be funded by the current reserve account. OR
  • Property is in good/very good condition with current minimal rehabilitation needed but reserve balances are inadequate and must be reset to adequately address future rehabilitation needs. AND
  • Property is or will be fully subsidized post-transfer OR rent increases can remain reasonable without a term extension. AND
  • New owner assumes the existing RD debt and no new amortizing debt is added.
Simple Transfer with Rehabilitation

- Proposed Modifications to Standard Transfer Requirements:
  - No appraisal is required
  - The agency may approve a junior lien for deferred financing only. At a minimum, deferred financing must be coterminous with the agency’s loan(s). The agency may determine a maximum per unit limit on rehabilitation that can be approved.
  - The loan(s) will be reamortized at new rates and same terms (unless the existing rate would be lower). A term extension may be allowed in cases where it is required by the deferred lender to preserve affordability for a longer period.
  - No equity payout can be included as part of the transaction. If agreed to by both parties, equity may be paid outside of the transaction.
  - Agency staff will use the CNA to evaluate the proposed rehabilitation and resize reserves.
Simple Transfer with Future Rehabilitation/Recapitalization Plan (Two-Step Transfer)

- Intended to provide flexibility to nonprofits to complete an acquisition of a preservation-worthy property even if resources for rehabilitation of the property are not available at the time of the transfer.
- An appraisal and CNA are required as part of the transfer application.
- Similar to “two-step transfer” option that was offered in previous Unnumbered Letter.
Simple Transfer with Future Rehabilitation/Recapitalization Plan (Two-Step Transfer)

- Property Circumstances:
  - Based on a CNA, rehabilitation is needed that cannot be fully funded by the current reserve account or resetting of the existing reserve deposits. AND
  - The new nonprofit owner will pursue a strategy to rehabilitate/recapitalize the property with agency and/or third-party funds within the next two years. The agency must determine that the recapitalization plan is reasonable and the property can function successfully until rehabilitation/recapitalization is complete.
Simple Transfer with Future Rehabilitation/Recapitalization Plan (Two-Step Transfer)

- Proposed Modifications to Standard Transfer Requirements:
  - Only available to a nonprofit buyer.
  - Agency will waive the necessary reserve requirement adjustment under 7 CFR 3560.406(d)(5). The new nonprofit owner must address the rehabilitation needs identified in the CNA over a period not to exceed two years after the closing of the transfer. RD must approve the nonprofit’s proposed rehabilitation plan prior to approval of the transfer.
  - RD will monitor implementation of the approved plan. The nonprofit owner may propose changes to the approved plan; however, RD must authorize in writing any changes before they are implemented.
Requirements for All Pilot Program Transfers

• Health, safety and accessibility issues must be addressed at the time of transfer.
• Properties must be rated “Performing” in the Agency’s risk rating tool unless an exception is granted.
• Eligibility for the pilot program is at the discretion of the Agency.
Section 515 Transfer Technical Assistance Providers

• Are you a nonprofit interested in acquiring/preserving a Section 515 property? Are you an owner interested in selling to a nonprofit? RD has awarded funds to nonprofit TA providers to assist other nonprofits, public housing agencies, and tribal housing agencies through the transfer process.

• Six TA awards were recently made that provide TA coverage for all states

• For more information about the program and to find the provider that covers your state:

  • Multi-Family Housing Non-Profit Transfer Technical Assistance Grants | Rural Development (usda.gov)
Overview of Non-Transfer Options
Non-Transfer Options

• In some circumstances, the owner may want to consider other options outside of a transfer:
  • Organization change instead of transfer (7 CFR 3560.405, Handbook-3-3560 Chap 5)—general partner substitution is most common
  • Application for loan prepayment
  • Obtain servicing CNA to reset reserves or obtain third-party rehab funding without transfer
  • If property is self-managed and owner no longer wants to manage consider hiring third-party professional management
  • Servicing options (e.g., servicing work-out plan) may be appropriate
Non-Transfer Options

- Ownership changes (Chapter 5)
  - Organization change has fewer requirements than a transfer
  - Completed as a servicing action—contact servicing specialist for more information
- Prepayment (if eligible)
  - Eligibility for prepayment varies, but all loans made on or after Dec 15, 1989, are not eligible for prepayment
  - Existence of RD or third-party restrictive use provisions (including RUCs extended to mortgage maturity upon owner accepting damages from Agency) affects ability to prepay
  - Contact mfhportfoliomanagement@usda.gov for more info
Non-Transfer Options

• Address physical condition issues
  • Owner can obtain servicing CNA
    • Can be used to request adjustment to annual reserve deposits
    • CNA can be paid from project funds
  • Multi-Family Preservation and Revitalization program funding (available in an FY23 NOSA)
  • Request subordination or junior lien if owner obtains third party funding for rehab
Non-Transfer Options

- Improve Project Viability
  - Servicing work out plan
  - Reamortization
  - Operational improvements by owner/manager
    - Property management—change needed?
    - Marketing—affecting occupancy rates?
    - Rent levels—are they appropriate?
Agency Servicing Options for Troubled Properties

- Troubled Asset Team to address most at-risk properties
- Failing properties
  - Monetary and non-monetary default
  - Voluntary liquidation/compromise offer
  - Acceleration and pay-off
  - Foreclosure

Important: Transfer (simple or standard) is not a viable solution for a failing property.
Proposed Pilot Program Next Steps

• Agency is in the process of drafting the pilot program requirements.
• Stakeholders are encouraged to provide feedback on the proposed program during this call or via email to stephanie.vergin@usda.gov
• Pilot program requirements and effective date will be announced in the Federal Register and in a notice via GovDelivery.
• Upon announcement, owners may contact their servicing specialist to discuss options. To find contact information for servicing specialists: Go to website below and click on file under Multi-Family Housing 514 & 515 Property Assignments and Find Columns “Assigned To” and “Assigned To Email”

• USDA Service Center Agencies Online Services
Q&A

• You can submit comments via the Questions/Chat section

• If you prefer to provide comments verbally, you can be unmuted by the moderator, please raise your hand and then wait to speak when prompted by name.
Questions?

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