

Financing Plans and Conversion Plans

HUD's purpose in reviewing Financing Plans (for conversions under the First Component) or Conversion Plans (for conversions under the Second Component) is to ensure the long-term physical and financial viability of the Covered Project.

Below are all the required components of a complete Financing Plan or Conversion Plan as articulated in the RAD Notice (H-2019-09/PIH-2019-23), Attachments 1A, 2A, and 4A, which may be updated from time to time through published revisions to the RAD Notice. In addition to these submission requirements, HUD reserves the right to collect any other information necessary to determine compliance with federal requirements, including Section 3 or other requirements that may be established or that may be updated from time to time.

Attachment 1A – Financing Plan Requirements and Feasibility Benchmarks

Attachment 1A – Financing Plan Requirements and Feasibility Benchmarks for Public Housing Conversions

A Financing Plan will not be reviewed until all required documentation is submitted. HUD will complete an initial review for document completeness within five business days of submission. Once HUD has determined that all required documents have been received, HUD will review the documents submitted.

HUD's purpose in reviewing Financing Plans is to ensure the long-term physical and financial viability of the Covered Project. If a Financing Plan fails one or more feasibility benchmarks, the HUD reviewer may still accept the Financing Plan if HUD determines that, taken as a whole, the Financing Plan is consistent with the long-term physical and financial viability of the property and/or the PHA can adequately support, through historical data or other means, the presented figures. HUD reserves the right to reject any Financing Plan if the information provided is not complete, accurate, or in compliance with the submission requirements listed below. HUD will not accept the Financing Plan if the project does not meet environmental review requirements, as described below.

Below are all the required components of a complete Financing Plan and the requirements of each component. Please note that for RAD conversions that will utilize FHA mortgage insurance, the submission requirements and feasibility benchmarks are primarily found in the MAP Guide as revised by Mortgagee Letter 2012-20. The end of this Attachment lists the submissions that must be made separate and apart from the FHA-insured loan application and uploaded to the RAD Resource Desk.

HUD reserves the right to streamline any or all of these requirements for classes of project, e.g., no debt-transactions, small projects, or transactions using CNI grants.⁷⁷

- A. Type of conversion.** Identify whether the Covered Project will convert to PBV or PBRA assistance.
- i. For PBV conversions, identify the PHA that will administer the PBV HAP Contract.
 - ii. For PBRA conversions, where the PHA did not receive a good cause exemption for Choice-Mobility, upload a fully executed Choice-Mobility Letter of Agreement signed by the PHA converting units and the PHA that has agreed to administer the vouchers in order to comply with the Choice-Mobility requirement.

B. Capital Needs Assessment (CNA). See section 1.4(A)(1).

⁷⁷ See <https://www.hud.gov/sites/documents/RAD-CHOICEPROTOCOL.PDF> for RAD/CNI Protocols.

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C. Scope of Work for Rehabilitation or New Construction. The scope of work must:

1. Identify and address all repairs required in the CNA (including all items identified in the CNA as not functioning at the time of the site visit) or provide a written justification why those items are not included. Briefly discuss any differences between the conclusions / recommendations of the CNA provider; the levels of immediate rehabilitation needs; and the PHA's choices for replacement components.
2. Include quantities and costs. Rehabilitation or new construction estimates must be based upon reasonable market estimates of actual costs, confirmed either by cost estimating completed by the architect/engineer (who is typically distinct from the contractor that conducted the CNA), or through actual competitive bids for major rehabilitation or construction items, in compliance with HUD requirements.
3. Include a summary of environmental issues known at that time, and a discussion of any planned environmental remediation (including post-closing Operations & Maintenance plans). If the property was constructed before 1978, identify the need for interim controls of lead-based paint hazards based on a risk assessment or re-evaluation and discuss planned lead hazard control activities in accordance with LSHR 24 CFR 35. O&M plans covering properties that continue to have lead painted surfaces, even if enclosed or encapsulated, must include training and certifying property maintenance personnel who disturb paint in accordance with the EPA's Renovation, Repair and Painting Rule (40 CFR 745, Subpart E), training and certifying property maintenance personnel who abate the paint in accordance with the EPA's Lead Abatement Rule (40 CFR 745, Subpart L or Q), and training and certifying the employer of the property maintenance personnel to become a certified lead renovation firm or certified lead abatement firm, as applicable.
4. Include a summary of accessibility features that are required pursuant to the Fair Housing Act and implementing regulations at 24 CFR Part 100, Section 504 of the Rehabilitation Act of 1973 and implementing regulations at 24 CFR Part 8, and Titles II and III of the Americans with Disabilities Act and implementing regulations at 28 CFR Parts 35 and 36, respectively. Please see the instructions for the CNA e-Tool and the RAD Fair Housing, Civil Rights, and Relocation Notice for a complete list of accessibility requirements and resources.
5. Include a description of how all utility consuming components that are past estimated useful life at the time of the RAD application (or that are not functioning at the time of the CNA inspection) will be replaced with the most financially efficient alternative (taking into account initial cost and utility savings), as documented in the CNA.
6. Include a reasonable timeline for completion of all rehabilitation items acceptable to HUD, depending on the scope of rehabilitation funded.

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D. Environmental Review. HUD cannot approve an applicant’s Financing Plan submission unless and until the required environmental review has been completed for the applicant’s proposed conversion project and found to meet environmental review requirements. The following describes the submission and approval steps for securing a completed environmental review.

A RAD transaction will either be reviewed under 24 CFR Part 50 (“Part 50 Reviews”) or 24 CFR Part 58 (“Part 58 Reviews”). Part 50 applies when HUD conducts the environmental review, and Part 58 applies when a Responsible Entity (RE) conducts the environmental review. The following table shows which review protocol a transaction will follow, along with who will conduct the review:

Description	Type of Environmental Review	Reviewer
PBRA Non-FHA	Part 50	RAD Transaction Manager
PBRA FHA Non-Risk Share ⁷⁸	Part 50	FHA Production
PBRA FHA Risk-Share	Part 50	Transaction Manager
PBV FHA Non-Risk Share	Part 50	FHA Production
PBV Non-FHA	Part 58	Responsible Entity (RE)
PBV FHA Risk-Share	Part 58	State Housing Finance Agency or Responsible Entity, as applicable ⁷⁹

Under limited circumstances, per 24 CFR 58.11(c), an Awardee with a non-FHA PBV transaction may request HUD to undertake the environmental review under Part 50 if a suitable RE cannot be found or if the local government was not a direct recipient of the funds and refuses to accept responsibility or when HUD determines the local government does not have capacity to act as an RE.⁸⁰ This request must be made in writing and submitted to HUD no later than at the time of the Financing Plan submission.

For multi-phase developments, the environmental documents submitted with the Financing Plan during the first phase must be submitted for the entire site (i.e. all of the phases of the

⁷⁸ Section 542(c) of the Housing and Community Development Act of 1992 enables HUD and State and local housing finance agencies (HFAs) to provide new risk-sharing arrangements to help those agencies provide more insurance and credit for multifamily loans known as the FHA Risk Sharing Program.

⁷⁹ Housing Finance Agencies can act as the Responsible Entity for Housing’s Risk Share Programs if the HFA is a regular part of the state government or if the HFA is a state instrumentality that has been approved by the governor. If the HFA does not meet either criteria, it must request another department of the state to act as Responsible Entity. An instrumentality of a city or county government cannot act as a Responsible Entity for the Risk Share Program. Please contact HUD if you have any questions about whether an HFA can act as the Responsible Entity.

⁸⁰ These circumstances are considered on a case-by-case basis only. Please work with your Transaction Manager to determine suitability.

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multi-phase development) and the environmental review conducted during the first phase will cover the entire site.

Requests to transfer assistance from the Converting Project to a new location are subject to environmental review.

For transactions receiving funding from other HUD programs (i.e. HOME, CDBG, non-RAD PBV), HUD encourages all parties to complete one review for all programs, even if these programs' environmental reviews are conducted under a different review protocol (Part 50, Part 58). In cases where two Part 58 programs are combined, HUD encourages applicants to work with the Responsible Entity to see if environmental reviews can be combined. However, this is solely the Responsible Entity's determination. In cases where a Part 50 program and a Part 58 program are combined, HUD may determine that it will perform one Part 50 environmental review for both programs under 24 CFR 58.11 if performing an additional Part 58 environmental review is not feasible in the time allotted. HUD must ensure that the Part 50 review considers the full scope of all activities and funding associated with all programs. When one review is used for both programs, the Approving Officials for both programs must certify the review.

For all Part 50 reviews, the applicant must submit reports and documentation to HUD in accordance with 24 CFR Part 50, as discussed in Chapter 9 of the MAP Guide, except as follows:⁸¹

1. For PBRA conversions (or where HUD has determined to conduct the PBV environmental review under Part 50) without FHA insurance and without any rehabilitation, construction, or demolition,⁸² HUD conducted a tiered review of program-wide and site-specific compliance. HUD has made program-wide compliance determinations for most of the applicable environmental laws and authorities, and will complete a site-specific compliance review of the following:
 - A. Coastal protection pursuant to the Coastal Barrier Resources Act, as amended by the Coastal Barrier Improvement Act of 1990 (16 U.S.C. 3501);
 - B. Flood insurance and floodplain management pursuant to the Flood Disaster Protection Act of 1973, the National Flood Insurance Reform Act of 1994 (42

⁸¹ The MAP Guide is available at http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/guidebooks/hsg-GB4430. Additional guidance on environmental review requirements is available on the HUD Environmental Review website, at <https://www.hudexchange.info/environmental-review/>.

⁸² This is further defined as those transactions that do not anticipate any reasonably foreseeable repairs or other physical activities beyond maintenance, as defined in HUD Notice CPD 2016-02.

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U.S.C. 4001-4128 and 42 U.S.C. 5154a), Executive Order 11988, particularly section 2(a), and 24 C.F.R. Part 55;

C. Contamination pursuant to 24 C.F.R. 50.3(i) (HUD Standard).

Additionally, while Historic Preservation (National Historic Preservation Act of 1966, particularly sections 106 & 110; 36 CFR Part 800) is not included in the tiered review, for conversions that entail no physical activities or only activities that are limited to maintenance as defined in HUD Notice CPD-16-02, HUD has no further obligations under Section 106. HUD is not required to contact SHPO, THPO, and/or other interested parties or the public.⁸³

PHAs will be required to submit documentation to facilitate HUD’s site-specific review.

2. For all non-FHA PBRA conversions (or where HUD has determined to conduct the PBV environmental review under Part 50) that do not meet the requirements under paragraph 1 above, the awardee will follow the guidelines in Chapter 9 of the MAP guide. Awardees will upload all applicable documentation directly into HEROS at the time of Financing Plan submission. The following exceptions to the MAP Guide apply:
 - In lieu of a Phase I Environmental Site Assessment (ESA) in accordance with ASTM E 1527-13 (or the most recent edition)⁸⁴, except for conversions involving substantial rehabilitation or new construction activities, Awardees may submit a more limited report on potential sources of contamination. Where a Phase I ESA is not required (i.e., projects without any associated substantial rehabilitation⁸⁵ or new construction), the Awardees can submit a “transaction screen” in accordance with ASTM E 1528-14 (or the most recent edition) . A transaction screen will identify potential environmental concerns based on questionnaires, owner/occupant inquiry, site visit, government records inquiry and historical sources inquiry. The transaction screen must be prepared by a qualified professional, in accordance with 24 CFR 50.3(i)(4).

⁸³ This Determination is detailed in the “Determination of ‘No Potential to Cause Effects’ under Section 106 of the National Historic Preservation Act for Rental Assistance Demonstration (RAD) Projects Limited to Maintenance Activities and Carried Out Under 24 CFR Part 50. See <https://www.hudexchange.info/resource/3865/no-potential-to-cause-effects-to-historic-properties-memos/>.

⁸⁴ The Transaction Screen does not meet the standard for “All Appropriate Inquiries” for CERCLA liability protection, as noted in ASTM E 1528-14 Section 4.2.1.

⁸⁵ Substantial rehabilitation is any rehabilitation that does not meet the conditions in 24 CFR § 50.20(a)(2) for exclusion from review under the National Environmental Policy Act. Applications to RAD for conversion assistance involving substantial rehabilitation or new construction will always require a Phase I ESA in accordance with ASTM E 1527-13.

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As the definition of preparer in ASTM E 1528-14 does not meet this requirement, the professional must have either (a) a science degree and at least one year of practical environmental assessment experience in the field, or (b) three years of practical environmental assessment experience in the field performing site assessments for site contamination. If any potential environmental concerns are identified, an ASTM Phase I ESA in accordance with ASTM E 1527-13 (or the most recent edition) must be provided.

- Awardees may submit a Phase I ESA that is up to 5 years old upon submission; however, it must be updated by a Transaction Screen that is up to 1 year old upon submission.

When HUD conducts the environmental review under Part 50, PHAs (or their vendors) must submit environmental reports and documentation⁸⁶ for HUD review into the HUD Environmental Review Online System (HEROS), where HUD will complete its review.

HUD staff will review the submissions and may require additional information in order to complete their review. HUD's review will result in a determination, which may stipulate the rejection of the site for this demonstration or may require the completion of mitigation measures. The RCC will include any conditions required to carry out any and all mitigation measures as may result from the environmental review. Any conditions or mitigation that cannot be satisfied before Closing will survive Closing.

When a Responsible Entity (RE) completes an environmental review under Part 58, the Financing Plan must include either Form 7015.16 or a letter with the Responsible Entity's (RE's) finding of exempt activity in order to consider the environmental review to be complete. The RE should use HUD recommended formats to document the environmental review record.⁸⁷ The PHA should submit an environmental report to the RE, in such form as prescribed by the RE, to enable the RE to complete their analysis. Once the review is completed, the PHA must submit *either*:

- Form HUD-7015.15, Request for Release of Funds (RROF), to their local PIH field staff.⁸⁸ After the PIH Field Director approves the RROF, the Director sends a completed HUD Form 7015.16 to the PHA, approving the release of funds. The PHA must submit proof of the completed Form 7015.16 (either a

⁸⁶ PHAs and providers should take care to respond to all applicable laws and authorities and MAP-specific requirements when providing documentation for environmental review. For all maps, please clearly indicate where the project site is located. Information about HEROS and how to register can be found at <https://www.hudexchange.info/programs/environmental-review/housing/#heros>.

⁸⁷ HUD recommended formats are available at <https://www.hudexchange.info/resource/3139/part-58-environmental-review-cest-format/> and <https://www.hudexchange.info/resource/3140/part-58-environmental-assessment-form/>.

⁸⁸ Form HUD-7015.15 is available at <https://www.hudexchange.info/resource/2338/hud-form-701515-request-release-funds-certification/>.

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copy of the paper form or a screenshot of the completed screen in HEROS) to HUD; or

- If form HUD-7015.15 is not required because the project converts to Exempt under 24 CFR § 58.34(a)(12), the PHA must submit the RE's finding of exempt activity with their RAD Financing Plan. A finding of exempt activity is a statement of the result of the RE's environmental review, and is required even when form HUD-7015.15 is not required. A letter from the RE indicating that the project converts to Exempt under 24 CFR § 58.34(a)(12) is sufficient.

Additionally, except for properties without any rehabilitation, construction, or demolition,⁸⁹ the PHA must submit either a) a statement declaring that the RE examined radon or b) where the RE had not examined radon as part of its review, either a Radon Report consistent with the requirements of the Section 9.5.C of the MAP Guide (or successor provision) for HUD to review or a statement that the property is exempt from submission of a Radon Report per the MAP Guide.

E. RAD Fair Housing, Accessibility and Relocation Checklist. Prior to submission of the Financing Plan, all PHAs shall have completed and submitted the RAD Fair Housing, Civil Rights, and Relocation Checklist provided by HUD. The Checklist shall include a certification that the relocation plan complies with all applicable HUD requirements, including the URA as well as Section 504 of the Rehabilitation Act of 1973 and its implementing regulations (24 CFR §8).⁹⁰ The cost of the relocation must be fully funded in the Development Budget. The Financing Plan submission shall include a copy of HUD's approval of the Checklist or a statement that approval is still outstanding. In the event of any changes in the plans described in the Checklist, the PHA shall submit an update to the Checklist.

F. Development Budget (Sources and Uses of Funds). The Development Budget must:

1. Include a reasonable, balanced and comprehensive presentation of sources and uses of funds, entered into the Transaction Log on the RAD Resource Desk, and which is in accordance with all applicable HUD requirements.
2. Include a construction contingency of 10% for rehabilitation or as otherwise allowed by a LIHTC allocating agency for new construction. Note that HUD may require a higher contingency on a case-by-case basis.
3. Demonstrate that existing loans or debt will be paid off at the closing or supported through NOI. For projects covered under an EPC, the PHA must provide a draft

⁸⁹ This is further defined as those transactions that do not anticipate any reasonably foreseeable repairs or other physical activities beyond maintenance, as defined in HUD Notice CPD 2016-02.

⁹⁰ For additional information see the RAD Fair Housing, Civil Rights, and Relocation Notice (Notice H 2016-17; PIH 2016-17).

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- amended EPC approval letter from the PIH Energy Center specifying the minimum amount of debt that will need to be addressed in the conversion.
4. Demonstrate that any Identity of Interest (IOI) loans or advances will be converted to unsecured Surplus Cash Notes (IOI loans may not be paid off from the proceeds of new financing), unless otherwise approved by HUD.
 5. Include narrative that discusses any aspects of the planned rehabilitation that may result in an initial operating deficit during the rehabilitation and how that deficit will be funded, including any operating deficit escrow or similar fund.
 6. Include a Subsidy Layering Review (SLR) if one has been performed by another agency. If no SLR has been performed, HUD will complete a SLR, in accordance with section 102(d) of the HUD Reform Act, whenever multiple federal sources are proposed, when public housing funds are used (see Section 1.5.A.), or when an MTW agency is using MTW funds to set their initial contract rents (see Sections 1.6.B.5. and 1.7.A.5.). A separate SLR will not be conducted by HUD if there is non-RAD PBV or another HUD subsidy at the time of conversion; the SLR performed as part of the RAD conversion will satisfy the requirements under section 102(d) of the HUD Reform Act. The purpose of the subsidy layering review is to ensure that assistance made available by HUD for a specific housing project will not be more than is necessary to make the assisted activity feasible after taking into account assistance from other government sources. The subsidy layering review performed for conversions to either PBV or PBRA will ensure that costs are reasonable and cash flow is not excessive. Given unique circumstances that occur in RAD conversion, other guidance with respect to PBV or PBRA subsidy layering reviews do not apply to financing of Covered Projects at the time of conversion.⁹¹

G. Development Team. Include the following information:

1. Identification of all participants, including the PHA, the general contractor, the legal entity that will own the project, the proposed management agent, and all “principals” of those entities. The submission must disclose any identity of interest between any of the parties. Where fees normally determined by market negotiations (such as general contractor overhead and profit) are being paid among identity of interest parties, HUD may limit such fees to amounts comparable to the market, commonly seen in RAD transactions, commonly permitted in other HUD programs, or permitted by the applicable State’s low income housing tax credit qualified allocation plan.
2. Evidence of recent successful experience with similar rehabilitation or construction projects. For properties requiring substantial rehabilitation or new construction, the Project Owner is required to engage a general contractor, unless recent and

⁹¹ Accordingly, Notice PIH 2013-11 or successor notice shall not apply.

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comparable experience managing rehabilitation can be demonstrated or if the development team is using the FHA-insured Section 223(f) program or a repair program approved by HUD. If multiple funding sources will be used for the Covered Project, the development team must demonstrate that it has experience with at least three transactions with multiple sources of financing.

3. For PBRA conversions, evidence that all principals have Previous Participation Certification in the Active Partners Performance System (APPS) (formerly the Form 2530) and are not be debarred, suspended, or subject to a Limited Denial of Participation.⁹²

H. Proposed Financing. For each proposed loan, equity contribution, or grant, the PHA must include a:⁹³

1. Recent lender, investor or grant engagement letter, dated no later than 60 days prior to Financing Plan submission, with key terms identified (including for each amount, repayment terms, interest rate, amortization, maturity, prepayment restrictions, and pay-in schedule) from all financing provider(s). Permanent debt financing with monthly payment amounts not conditioned on the availability of cash flow (i.e., “hard” debt) on Covered Projects must:⁹⁴
 - a. Be at a fixed rate of interest, for a fixed term, fully amortized over no more than 40 years;
 - b. Not have a balloon payment until after the earlier to occur of a) expiration of the term of the HAP Contract or b) 17 years from the date of the permanent debt financing; and
 - c. Not have a debt service coverage less than the higher of 1.11 or lender requirements.

All bridge loan or construction financing must be disclosed and approved by HUD. All cash-flow (“soft” debt) and subordinate (or secondary) financing must be disclosed and then approved by the first-mortgage lender as well as HUD in

⁹² The APPS/2530 applies to all FHA transactions and transactions in which 20% of the units in the Covered Project will be covered under a PBRA contract (PBV transactions without FHA financing are exempt). The PHA and any entities wholly owned by the PHA are not subject to 2530/APPS. For LLCs and LPs, non-PHA members and partners, respectively, with 25% or more of the ownership interests are subject to approval provided that for LIHTC transactions, limited partners or investment members are exempt. For non-profit entities, 2530s are required for Board Officers but not Board Members. Management agents are subject to 2530 unless wholly-owned.

⁹³ The RAD Resource Desk includes data entry fields that Project Owners and PHAs can use to provide all required information on each loan, equity contribution, and grants.

⁹⁴ A conversion may entail multiple hard-debt mortgages as long as, viewed together, they comply with these conditions.

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accordance with section 8.9 of the Mortgage Credit and Underwriting and Processing Requirements of the MAP Guide and any subsequent revisions or updates to the MAP Guide.

2. Brief discussion of conditions / milestones to be satisfied prior to closing;
3. Documentation that the first mortgage lender has consented to the Use Agreement and that the lien of the new first mortgage loan will be subordinate to the Use Agreement;
4. Estimation of projected closing date for all proposed financing. Discuss any known impediments to closing within the timeframe required under the Notice. Include a discussion of key milestones with estimated milestone completion dates. The terms for all seller take-back financing must also be disclosed.

I. Operating Pro Forma. The Operating Pro-Forma must:

1. Be entered into the Transaction Log of the RAD Resource Desk (stabilized cash flow)
2. In a PHA provided template, project out for the term of the initial contract.
3. Include an attached discussion of the extent of energy and water savings that are anticipated as a result of the rehabilitation or construction and the basis for those estimates. The discussion must explain to what extent anticipated savings in utility costs have been included in the pro forma operating expenses.
4. Include an attached Rent Comparability Study for projects converting to PBRA where current funding⁹⁵ is greater than 120 percent of the FMR and where the PHA believes current funding is below the market rent. The Rent Comparability Study must be prepared in accordance with Chapter 9 of HUD's Section 8 Renewal Guide. See http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh/mfhsec8
5. Be consistent with local standards for Federally-assisted housing and otherwise comply with at least the following feasibility benchmarks:
 - a. Rents shall not exceed the amounts permitted under program rules
 - b. All other sources of income must be supported with a narrative or must not exceed the average for the last three years (other income should not include interest income on the replacement reserve account, which must remain in the reserve and is not available for other purposes).
 - c. Vacancy loss shall be no less than the greater of the average over the past three years or 3 percent.
 - d. Allowance for bad debt should be not less than the greater of the average over the past three years or 2 percent.
 - e. Where the PHA indicates continuation of a Payment In Lieu of Taxes (PILOT), provide a legal opinion based upon state and local law of continuation of

⁹⁵ Current Funding, for purposes of this Attachment, is the funding determined using Attachment 1C of this Notice.

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PILOT post conversion. If the PILOT will not be continued after conversion, the PHA must provide documentation of real estate tax estimates.

- f. Insurance costs must be documented, such as quotes from an insurance agent based on actual recent premiums for similar projects.
- g. All other operating expenses shall be no less than 85 percent of the average for the last three years, unless justified.
- h. The annual replacement reserve deposit should be equal to that amount which, if deposited annually, will be sufficient to fund all capital needs, as identified in the CNA, arising during the first 20 years and otherwise not addressed upfront in either the rehabilitation or an initial deposit to the replacement reserve account. The PHA should use reasonable estimates in the inflation but in doing so the rate for escalating the increase in repair costs should not exceed the rate of interest on reserve deposits by more than 1%. HUD may consider alternative arrangements with respect to the initial deposit to the replacement reserve if risks to the Covered Project can be adequately mitigated.
- i. For non-leveraged transactions (i.e. transactions that will not be taking on any new hard debt as part of the conversion), the stabilized cash flow should not be less than \$12 per unit monthly. For leveraged transactions (i.e. transactions that will be taking on new hard debt as part of the conversion), the debt-coverage ratio should not be less than 1.11 over a ten year period using 2% growth in revenue and 3% growth in expenses.

J. Market Study. A market study will only be required at HUD's request, e.g., in cases where the project is currently experiencing a high vacancy rate, or when project plans include unit reconfiguration or inclusion of market-rate units. For projects using an FHA insured mortgage, please see the MAP Guide for instruction on when a market study is, and is not, required.

K. Approved Significant Amendment to the PHA Plan. Provide a letter from HUD approving the Significant Amendment, Five-Year Plan, Annual Plan, or MTW Plan.

L. Front-End Civil Rights Reviews. Any necessary approvals described in the RAD Fair Housing, Civil Rights, and Relocation Notice must have been secured.

M. Approval of Non-dwelling Real Property. The PHA provides information on the units, non-dwelling property and land it wishes to remove from the Declaration of Trust (DOT) or Declaration of Restrictive Covenants (DORC) and from the ACC in the RAD PIC Removal Application. Information is provided both in the removal application form and by attaching the CHAP, a site map, and a written explanation of units and property to the removal application. Based on information the PHA provides in the RAD PIC Removal Application,

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the PIH Field Office will review the removal application and approve any non-dwelling real property that can be released from public housing use restrictions (DOT or DORC), under RAD authority, as part of a RAD transaction, provided it is encumbered under a RAD Use Agreement. The following non-dwelling real property can be included:

1. Buildings that contain units to be converted under RAD, including:
 - units designated as “non-dwelling units” in IMS/PIC (laundry facilities, storage, management offices);
 - community and common space;
 - units that are not public housing, but are part of a mixed-income community amongst mixed-finance public housing units and are documented in IMS/PIC as “non-ACC” units;⁹⁶ and
 - underlying land at those buildings;
2. Necessary appurtenances for the RAD units (e.g., parking lots, playgrounds);
3. Non-dwelling structures (e.g., sheds, community buildings) that will be demolished as part of the conversion, provided such demolition is included in the approved RAD RCC;
4. Free standing non-dwelling buildings or other non-dwelling real property that will be used primarily to “support” the RAD units (e.g., project-specific community centers, maintenance building, management office building), provided such property is contiguous, adjacent or in close proximity to the RAD dwelling units parcel, and the PHA evidences the property will support the RAD units through either direct supportive services for residents or direct administrative and/or management support for RAD units. Such property may also serve other residents or projects of the PHA provided the property primarily serves and supports the RAD units; and
5. Vacant land and other real property necessary to support the RAD units (e.g., landscaping, community gardens, or reasonable green-space that is required for zoning).

⁹⁶ The DORC on a mixed-finance public housing project covers both land and improvements constituting that project. Since public housing units may “float”, the property description and unit count in IMS/PIC covers both public housing and non-public housing units. Therefore, when HUD approves public housing units to be released from DORC and removed from IMS/PIC based on a RAD conversion, HUD automatically approves the release of the other non-public housing units from DORC.

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HUD, in its sole discretion, will determine whether property proposed for release falls into any of the categories above and can therefore be removed from the DOT or DORC at closing.

In order for HUD to release the DOT or DORC from any public housing property⁹⁷ not referenced above, a PHA must submit a request in accordance with the applicable requirements of other HUD programs and federal authorities, such as disposition under Section 18 of the Act or PHA retention of the property under 2 CFR Part 200.

- N. Approved Amendment to Attachment A of the MTW Agreement.** For MTW agencies that have not completed this step as part of a previously completed conversion, the PHA must provide an executed amendment to Attachment A of their MTW Agreement with language provided by the PHA’s MTW coordinator.
- O. Affirmative Fair Housing Marketing Plan (AFHMP).** For PBRA conversions, evidence that a completed AFHMP (HUD 935.2A) has been submitted for approval to the local Multifamily Regional Center. If a PHA is converting more than one project to PBRA, a separate AFHMP must be submitted for each project. Typically, the management agent or the entity responsible for marketing (if different) is responsible for completing and submitting the AFHMP. If a Project Owner plans to adopt any local or residency preference(s), the Project Owner must submit its Tenant Selection Plan along with the AFHMP (see HUD Handbook 4350.3, page 4-4). The purpose of affirmative marketing is to ensure that individuals of similar income levels in the same housing market area have a like range of housing choices available to them regardless of their race, color, national origin, religion, sex, disability, or familial status. The Project Owner may not market or lease any unit not occupied by a household exercising its right to remain in or return to the Covered Project prior to approval of the AFHMP. Market or leasing includes the solicitation, distribution, or acceptance of applications or development of a waiting list.
- P. Estimate of public housing funds available for HAP subsidy.** The PHA shall provide an estimate of the public housing subsidy that will be used to support payments under the HAP Contract in accordance with [Section 1.13.B.5](#). HUD will provide tools for PHAs to make such estimates.

⁹⁷ Note that “public housing property” includes all real property that has been acquired, developed, modernized, maintained or operated with assistance under Section 9 of the Act or other previous forms of public housing assistance and may include property that is not recorded in IMS/PIC and/or is not encumbered by a valid DOT.

Attachment 1A – Financing Plan Requirements and Feasibility Benchmarks

- Q. Transfer of Assistance.** For all conversions involving a transfer of assistance to a new site, the PHA must have secured HUD approval of the site (Covered Project). The PHA must also identify proposed plans for the pre-conversion public housing site (Converting Project), including how the PHA proposes to treat the DOT at the effective date of the HAP contract in compliance with [Section 1.4.A.12](#).
- R. Resident Comments.** Provide date(s) of the resident meeting (or meetings, where applicable) held following the issuance of the CHAP and a record of the responses (written or oral, or in subsequent actions) to resident comments on the proposed conversion and scope of work that were received in connection with such meetings.
- S. Title Report.** Submit a complete title report including information on whether the Converting Project is currently subject to a DOT or DORC and any other liens, encroachments, easements or other encumbrances on the property.

Financing Plan Requirements for Transactions Utilizing FHA-Insurance

For RAD conversions that will utilize FHA mortgage insurance, the submission requirements and feasibility benchmarks are primarily found in the MAP Guide as revised by Mortgagee Letter 2012-20. In addition to submissions made in an FHA insured loan Application for Firm Commitment, PHAs must also upload the following items to the RAD Resource Desk. (Unless otherwise indicated, the PHA must submit all of the items listed in the cited paragraph):

- A. Type of Conversion
- E. Fair Housing, Accessibility and Relocation Checklist or Update
- F. Development Budget (Sources and Uses of Funds).
 - Lender Narrative
 - Sources and Uses submitted with the FHA Application must be entered into the Transaction Log on the RAD Resource Desk.
 - For projects covered under an EPC, the PHA must provide a draft amended EPC approval letter from the PIH Energy Center specifying the minimum amount of debt that will need to be addressed in the conversion.
 - Subparagraph 5. Subsidy Layering Review, if completed by an HFA (tax credits) or by another agency. If no SLR is been performed, HUD will complete a SLR whenever multiple federal sources are proposed, when public housing funds are used ([see Section 1.5.A.](#)), or when an MTW agency is using MTW funds to set their initial contract rents ([see Section 1.6.B.5.](#) and [1.7.A.5.](#)).
- H. Proposed Financing
- I. Operating Pro Forma.
- J. Market Study
- K. Approved Significant Amendment to the PHA Plan.

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- L. Front End Civil Rights Reviews (if applicable)
- M. Approval of Non-dwelling Real Property
- N. Approved Amendment to Attachment A of the MTW Agreement (if applicable)
- P. Estimate of public housing funds available for HAP subsidy
- Q. Transfer of Assistance
- R. Resident Comments
- S. Title Report

Attachment 2A: Conversion Plan Requirements and Feasibility Benchmarks for Mod Rehab Conversions

A Conversion Plan will not be reviewed until all required documentation is submitted electronically to the RAD Resource Desk at www.radresource.net. HUD will complete an initial review for document completeness within five business days of submission and will notify the Project Owner of deficiencies. Once HUD has determined that all required documents appear to have been received, HUD will review the submission.

HUD's purpose in reviewing Conversion Plan is to ensure the long-term physical and financial viability of the Covered Project. If a Conversion Plan fails one or more feasibility benchmarks, the HUD reviewer may still accept the Financing Plan if HUD determines that, taken as a whole, the Financing Plan is consistent with the long-term physical and financial viability of the project and/or the owner can adequately support, through historical data or other means, the presented figures. HUD reserves the right to reject any Conversion Plan if the information provided is not complete, accurate, or in compliance with the submission requirements listed below. HUD will not accept the Conversion Plan if the Covered Project does not meet environmental review requirements, as described below.

Below are all the required components of a complete Conversion Plan and the requirements of each component.¹³⁰ Please note that for RAD conversions that will utilize FHA mortgage insurance, the submission requirements and feasibility benchmarks are primarily found in the FHA Multifamily Accelerating (MAP) Guide, as revised by Mortgagee Letter 2012-20. Owners must upload their Conversion Plan as outlined below, following submission of the FHA insured loan application for Firm Commitment.

HUD reserves the right to streamline any or all of these requirements for classes of project, e.g., no debt-transactions or small projects.

- A. Conversion Overview.** A narrative summary of the Covered Project and the Project Owner's conversion goals. Include details such as a description of the physical Project, the number of proposed units of each bedroom type, project history, identification of immediate capital needs of the Project, identification of other properties to be held within the same ownership entity, anticipated financing that will be obtained to meet the capital needs, anticipated relocation, and circumstances such as new construction, Transfer of Assistance, scattered site, and reconfiguration of units.

¹³⁰ Additional guidance in preparing the Financing Plan is available in The Mod Rehab Processing Guide located at http://www.radresource.net/2c_library.cfm.

- B. HQS or REAC Inspections.** Submit the project’s most recent Housing Quality Standards (HQS) or Real Estate Assessment Center (REAC) score as evidence that the project meets this minimum threshold requirement.
- C. Mod Rehab Contract.** Submit a copy of the fully executed original and current Mod Rehab Contract(s), including all exhibits.
- D. Statement of Compliance with Fair Housing and Civil Rights.** The Project Owner must submit a written statement certifying that it will comply with the requirements identified in section 2.3.1.B of this Notice.
- E. Type of conversion.** Identify whether the Covered Project will convert to PBV or PBRA assistance. For PBV conversions, identify the PHA that will administer the PBV HAP Contract.
- F. Choice- Mobility Letter of Agreement.** For PBRA conversions, include a fully executed Choice- Mobility Letter of Agreement signed by the owner converting units and the PHA that has agreed to administer the vouchers in order to comply with the Choice- Mobility requirement or a request for a good-cause exemption for Choice-Mobility.
- G. Resident Notification.** The Project Owner must provide proof of written notification informing residents of the intent to participate in RAD. Include a PDF attachment of all **comments received from residents** as described in Section 2.8.3. Owners must provide a certification that they have held the required meetings with residents and have provided residents with a reasonable time period to submit comments on the conversion. The Project Owner must also provide a description of how the residents’ comments will be addressed in their plan for conversion.
- H. Capital Needs Assessment (CNA).** A CNA is required in order to identify the short-term and long-term capital needs of the property, which will factor into the Scope of Work and both the Initial and Annual Deposits to the Replacement Reserve. See Paragraph 2.4.A. for additional information on CNA requirements.
- I. Initial Contract Rent Setting.**
1. For PBV conversions, submit evidence that the Project Owner’s proposed rents are in accordance with the PHA’s rent setting. See [Section 2.5.F.](#) for additional information on Initial Contract Rent Setting for PBV.
 2. For PBRA conversions, submit a Rent Comparability Study, including the Owner’s RCS Cover Letter. The rents cannot exceed the limits set forth in Section 2.6.C.

J. Scope of Work. The Conversion Plan must include a Scope of Work that accompanies the CNA. The Scope of Work must:

1. Identify and address all repairs identified in the CNA as critical or immediate, (including all items identified in the CNA as not functioning at the time of the site visit) or provide a written justification why those items are not included. Briefly discuss any differences between the proposed Work and the conclusions and recommendations of the CNA provider; additional scope items not identified in the CNA; and the Project Owner’s choices for replacement components.
2. Identify replacement quantities and costs. Rehabilitation cost estimates must be based upon reasonable market estimates of actual costs, confirmed either by cost estimating completed by the architect/engineer, or through actual competitive bids for major rehabilitation or construction items, in compliance with HUD requirements.
3. Include a summary of environmental issues and corresponding remediation activities known at that time, and a summary of accessibility features that are required pursuant to applicable accessibility standards and other accessibility requirements. Other accessibility requirements include, but are not limited to, physical features that need to be provided as reasonable accommodations for qualified persons with disabilities.
4. Include a reasonable timeline for completion of all rehabilitation items acceptable to HUD, from the date of Conversion Closing and any financing, depending on the scope of rehabilitation needed.

For Conversions using FHA financing or equity sources of financing, submit a copy of the Scope of Work included with the FHA Application for Firm Commitment, or submitted to the lender, equity provider (including LIHTC, historic tax credit or Opportunity Zone equity providers), LIHTC allocating agency or comparable funding source.

K. Environmental Review. HUD cannot approve an applicant’s Conversion Plan unless and until the required environmental review has been completed for the applicant’s proposed conversion Project and found to meet environmental review requirements. The following describes the submission and approval steps for securing a completed environmental review.

A RAD transaction will either be reviewed under 24 CFR Part 50 (“Part 50 Reviews”) or 24 CFR Part 58 (“Part 58 Reviews”). Part 50 applies when HUD conducts the environmental review, and Part 58 applies when an RE conducts the environmental review. The following table shows which review protocol a transaction will follow, along with who will conduct the review:

Attachment 2A: Conversion Plan Requirements and Feasibility Benchmarks

Description	Type of Environmental Review	Reviewer
PBRA Non-FHA	Part 50	RAD Transaction Manager
PBRA FHA Non-Risk Share ¹³¹	Part 50	FHA Production
PBRA FHA Risk-Share	Part 50	Transaction Manager
PBV FHA Non-Risk Share	Part 50	FHA Production
PBV Non-FHA	Part 58	Responsible Entity
PBV FHA Risk-Share	Part 58	State Housing Finance Agency or Responsible Entity, as applicable ¹³²

Under limited circumstances, per 24 CFR 58.11(c), an Awardee with a non-FHA PBV transaction may request HUD to undertake the environmental review under Part 50 if a suitable RE cannot be found or if the local government was not a direct recipient of the funds and refuses to accept responsibility or when HUD determines the local government does not have capacity to act as an RE.¹³³ This request must be made in writing and submitted to HUD no later than at the time of the Conversion Plan submission.

For multi-phase developments, the environmental documents submitted with the Conversion Plan during the first phase must be submitted for the entire site (i.e. all of the phases of the multi-phase development) and the environmental review conducted during the first phase will cover the entire site.

Requests to transfer assistance from the Converting Project to a new location are subject to environmental review.

For transactions receiving funding from other HUD programs (i.e. HOME, CDBG, non-RAD PBV), HUD encourages all parties to complete one review for all programs, even if these programs' environmental reviews are conducted under a different review protocol (Part 50, Part 58). In cases where two Part 58 programs are combined, HUD encourages applicants to work with the Responsible Entity to see if environmental reviews can be combined. However, this is solely the Responsible Entity's determination. In cases where a Part 50

¹³¹ Section 542(c) of the Housing and Community Development Act of 1992 enables HUD and State and local housing finance agencies (HFAs) to provide new risk-sharing arrangements to help those agencies provide more insurance and credit for multifamily loans known as the FHA Risk Sharing Program.

¹³² Housing Finance Agencies can act as the Responsible Entity for Housing's Risk Share Programs if the HFA is a regular part of the state government or if the HFA is a state instrumentality that has been approved by the governor. If the HFA does not meet either criteria, it must request another department of the state to act as Responsible Entity. An instrumentality of a city or county government cannot act as a Responsible Entity for the Risk Share Program. Please contact HUD if you have any questions about whether an HFA can act as the Responsible Entity.

¹³³ These circumstances are considered on a case-by-case basis only. Please work with your Transaction Manager to determine suitability.

program and a Part 58 program are combined, HUD may determine that it will perform one Part 50 environmental review for both programs under 24 CFR 58.11 if performing an additional Part 58 environmental review is not feasible in the time allotted. HUD must ensure that the Part 50 review considers the full scope of all activities and funding associated with all programs. When one review is used for both programs, the Approving Officials for both programs must certify the review.

For all Part 50 reviews, the applicant must submit reports and documentation to HUD in accordance with 24 CFR Part 50, as discussed in Chapter 9 of the MAP Guide, except as follows:¹³⁴

1. For PBRA conversions (or where HUD has determined to conduct the PBV environmental review under Part 50) without FHA insurance and without any rehabilitation, construction, or demolition,¹³⁵ HUD conducted a tiered review of program-wide and site-specific compliance. HUD has made program-wide compliance determinations for most of the applicable environmental laws and authorities, and will complete a site-specific compliance review of the following:
 - A. Coastal protection pursuant to the Coastal Barrier Resources Act, as amended by the Coastal Barrier Improvement Act of 1990 (16 U.S.C. 3501);
 - B. Flood insurance and floodplain management pursuant to the Flood Disaster Protection Act of 1973, the National Flood Insurance Reform Act of 1994 (42 U.S.C. 4001-4128 and 42 U.S.C. 5154a), Executive Order 11988, particularly section 2(a), and 24 C.F.R. Part 55;
 - C. Contamination pursuant to 24 C.F.R. 50.3(i) (HUD Standard).

Additionally, while Historic Preservation (National Historic Preservation Act of 1966, particularly sections 106 & 110; 36 CFR Part 800) is not included in the tiered review, for conversions that entail no physical activities or only activities that are limited to maintenance as defined in HUD Notice CPD-16-02, HUD has no further obligations under Section 106. HUD is not required to contact SHPO, THPO, and/or other interested parties or the public.¹³⁶

¹³⁴ The MAP Guide is available at http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/guidebooks/hsg-GB4430. Additional guidance on environmental review requirements is available on the HUD Environmental Review website, at <https://www.hudexchange.info/environmental-review/>.

¹³⁵ This is further defined as those transactions that do not anticipate any reasonably foreseeable repairs or other physical activities beyond maintenance, as defined in HUD Notice CPD 2016-02.

¹³⁶ This Determination is detailed in the “Determination of ‘No Potential to Cause Effects’ under Section 106 of the National Historic Preservation Act for Rental Assistance Demonstration (RAD) Projects Limited to Maintenance Activities and Carried Out Under 24 CFR Part 50. <https://www.hudexchange.info/resource/3865/no-potential-to-cause-effects-to-historic-properties-memos/>

Owners will be required to submit documentation to facilitate HUD’s site-specific review.

For Environmental Reviews under 24 CFR Part 58, PHAs and/or proposed Owners should reach out to the responsible entity.

2. For all non-FHA PBRA conversions (or where HUD has determined to conduct the PBV environmental review under Part 50) that do not meet the requirements under paragraph 1 above, the owner or vendor will follow the guidelines in Chapter 9 of the MAP guide. Owners or vendors will upload all applicable documentation directly into HEROS at the time of Conversion Plan submission. The following exceptions to the MAP Guide apply:

- In lieu of a Phase I Environmental Site Assessment (ESA) in accordance with ASTM E 1527-13 (or the most recent edition)¹³⁷, except for conversions involving substantial rehabilitation or new construction activities, Awardees may submit a more limited report on potential sources of contamination. Where a Phase I ESA is not required (i.e., projects without any associated substantial rehabilitation¹³⁸ or new construction), the Awardees can submit a “transaction screen” in accordance with ASTM E 1528-14 (or the most recent edition) . A transaction screen will identify potential environmental concerns based on questionnaires, owner/occupant inquiry, site visit, government records inquiry and historical sources inquiry. The transaction screen must be prepared by a qualified professional, in accordance with 24 CFR 50.3(i)(4). As the definition of preparer in ASTM E 1528-14 does not meet this requirement, the professional must have either (a) a science degree and at least one year of practical environmental assessment experience in the field, or (b) three years of practical environmental assessment experience in the field performing site assessments for site contamination. If any potential environmental concerns are identified, an ASTM Phase I ESA in accordance with ASTM E 1527-13 (or the most recent edition) must be provided.

¹³⁷ The Transaction Screen does not meet the standard for “All Appropriate Inquiries” for CERCLA liability protection, as noted in ASTM E 1528-14 Section 4.2.1.

¹³⁸ Substantial rehabilitation is any rehabilitation that does not meet the conditions in 24 CFR § 50.20(a)(2) for exclusion from review under the National Environmental Policy Act. Applications to RAD for conversion assistance involving substantial rehabilitation or new construction will always require a Phase I ESA in accordance with ASTM E 1527-13.

- Awardees may submit a Phase I ESA that is up to 5 years old upon submission; however, it must be updated by a Transaction Screen that is up to 1 year old upon submission.
3. For all PBRA conversions (or where HUD has determined to conduct the PBV conversion review under Part 50), PHAs are not required to follow the radon testing requirements of HN 2013-03. However, HUD strongly recommends radon testing for all projects and mitigation of any structures with elevated levels of radon (4 pCi/L or above).

When HUD conducts the environmental review under Part 50, PHAs (or their vendors) must submit environmental reports and documentation¹³⁹ for HUD review into the HUD Environmental Review Online System (HEROS), where HUD will complete its review.

HUD staff will review the submissions and may require additional information in order to complete their review. HUD's review will result in a determination, which may stipulate the rejection of the site for this demonstration or may require the completion of mitigation measures. The RAD approval will include any conditions required to carry out any and all mitigation measures as may result from the environmental review. Any conditions or mitigation that cannot be satisfied before Closing will survive Closing.

When a Responsible Entity (RE) completes an environmental review under Part 58, the Conversion Plan must include either Form 7015.16 or a letter with the Responsible Entity's (RE's) finding of exempt activity in order to consider the environmental review to be complete. The RE should use HUD recommended formats to document the environmental review record.¹⁴⁰ The PHA should submit an environmental report to the RE, in such form as prescribed by the RE, to enable the RE to complete their analysis. Once the review is completed, the PHA must submit *either*:

- Form HUD-7015.15, Request for Release of Funds (RROF), to their local PIH field staff.¹⁴¹ After the PIH Field Director approves the RROF, the Director sends a completed HUD Form 7015.16 to the PHA, approving the release of funds. The PHA

¹³⁹ PHAs and providers should take care to respond to all applicable laws and authorities and MAP-specific requirements when providing documentation for environmental review. For all maps, please clearly indicate where the project site is located. Information about HEROS and how to register can be found at <https://www.hudexchange.info/programs/environmental-review/housing/#heros>

¹⁴⁰ HUD recommended formats are available at <https://www.hudexchange.info/resource/3139/part-58-environmental-review-cest-format/> and <https://www.hudexchange.info/resource/3140/part-58-environmental-assessment-form/>.

¹⁴¹ Form HUD-7015.15 is available at <https://www.hudexchange.info/resource/2338/hud-form-701515-request-release-funds-certification/>.

must submit proof of the completed Form 7015.16 (either a copy of the paper form or a screenshot of the completed screen in HEROS) to HUD; or

- If form HUD-7015.15 is not required because the project converts to Exempt under 24 CFR § 58.34(a)(12), the PHA must submit the RE's finding of exempt activity with their RAD Conversion Plan. A finding of exempt activity is a statement of the result of the RE's environmental review, and is required even when form HUD-7015.15 is not required. A letter from the RE indicating that the project converts to Exempt under 24 CFR § 58.34(a)(12) is sufficient.

L. Accessibility and Relocation Plan Checklist. All Project Owners shall complete and submit the Accessibility and Relocation Plan Checklist provided by HUD on the RAD Resource Desk. The checklist shall include a certification that anticipated relocation activities comply with all applicable HUD requirements, including the URA as well as applicable accessibility standards, including, but not limited to those under Section 504 of the Rehabilitation Act of 1973 and its implementing regulations (24 CFR §8). The cost of accessibility improvements and relocation must be fully funded in the Development Budget. Project Owners are encouraged to use HUD's guidance on relocation planning for persons with disabilities in HUD Handbook 1378.0, Exhibit 3-1 and the RAD Fair Housing, Civil Rights, and Relocation Notice.

M. Proposed Financing

- a. For all conversions using financing, the following must be addressed:
 1. Provide a brief discussion of conditions/milestones to be satisfied prior to closing including any known impediments to closing within the timeframe required under the Notice;
 2. Estimated closing date(s) for all proposed financing;
 3. For each proposed loan, equity contribution, or grant, the Conversion Plan must include a recent lender, investor or grant commitment letter, dated no more than 60 days prior to Conversion Plan submission, with key terms identified (including amount, repayment terms, interest rate, amortization, maturity, prepayment restrictions, and pay-in schedule) from all financing provider(s);
- b. For conversions not using FHA financing or equity sources, the following requirements must be addressed in addition to the requirements set forth in Attachment 2A, Section M.a. 1-3 above:
 1. Permanent debt financing with monthly payment amounts not conditioned on the availability of cash flow (i.e., "hard" debt) on Covered Projects must:
 8. Be at a fixed rate of interest, for a fixed term, fully amortized over no more than 40 years;

9. Not have a balloon payment until after the earlier to occur of a) expiration of the term of the HAP Contract or b) 17 years from the date of the permanent debt financing; and
10. Not have a debt service coverage less than the higher of 1.11 or lender requirements.
2. All subordinate (or secondary) financing must be disclosed and then approved by the first-mortgage lender;
3. The terms for all seller take-back financing must also be disclosed;
4. If project revenue or existing reserves will be a source of funding, submit evidence of the current account balances.

N. Development Budget (Sources and Uses of Funds). All owners must submit a Development Budget.

- c. For Conversions using FHA financing or equity sources of financing, submit a copy of the Development Budget included with the FHA Application for Firm Commitment, or submitted to the lender, equity provider (including LIHTC, historic tax credit or Opportunity Zone equity providers), LIHTC allocating agency or comparable funding source. The Project Owner must submit the FHA Application for Firm Commitment review before the RAD conversion is submitted to the Office of Recapitalization. Include a Subsidy Layering Review (SLR) if one has been performed by another agency. If no SLR is provided, HUD will complete an SLR whenever multiple federal sources are proposed.
- d. **For all other Conversions with new financing:**
 1. Include a reasonable, balanced, and comprehensive presentation of both construction period and permanent sources and uses of funds.
 2. Identify existing loans or debt that will be paid off at the closing, if applicable.
 3. Include a construction contingency of 10 percent (HUD may require a higher contingency on a case-by-case basis) if the Project Owner plans to obtain new financing simultaneous with the Conversion.
 4. Demonstrate that any Identity of Interest (IOI) loans or advances will be converted to unsecured Surplus Cash Notes (Project's cash remaining, after debt service, project operational costs and other permitted payments) unless otherwise approved by HUD.
 5. If applicable, identify the initial operating deficit during the construction period and how that deficit will be funded, such as an operating deficit escrow or similar fund.
 6. Include a Subsidy Layering Review (SLR) if one has been performed by another agency. If no SLR is provided, HUD will complete a SLR whenever multiple federal sources are proposed.

O. Proposed Development Team. The Project Owner must identify the proposed legal entity that will own the Covered Project following conversion, the proposed management agent following conversion, and the “principals” of both entities. In addition, the Project Owner shall provide the following:

1. For all conversions with a proposed change in ownership entity, the new Project Owner must provide evidence of successful experience owning and operating HUD or other multifamily housing properties. New Project Owners may be required to demonstrate that the criteria specified in [HUD Handbook 4350.1, Chapter 13, Change in Ownership: Transfer of Physical Assets](#) have been met in part or in whole.
2. For PBRA conversions with a proposed change in ownership entity or a material proposed change in ownership of the existing ownership entity, the new Project Owner must submit evidence that all new principals have a Previous Participation Certification in the Active Partners Performance System (APPS) (formerly referred to as Form HUD-2530) and are not be debarred, suspended, or subject to a Limited Denial of Participation.
3. For all conversions with a proposed change in management agent the new agent must provide evidence of successful experience managing and operating HUD or other multifamily housing properties.
4. For all conversions in which Work is proposed, the Project Owner must submit the identity of the general contractor or construction manager or a statement that the Project Owner will be managing construction directly, together with evidence of the general contractor’s, construction manager’s or Project Owner’s recent and successful experience with similar rehabilitation or construction projects.

P. Operating Pro Forma. The Operating Pro-Forma must:

1. **For all FHA transactions or Conversions using equity sources of financing:**
 - a. Provide a copy of the Operating Pro Forma that was submitted with the FHA Application for Firm Commitment or submitted to the lender, equity provider (including LIHTC, historic tax credit, or Opportunity Zone equity providers), LIHTC allocating agency, or comparable funding source.
2. **For all other Conversions:**
 - a. Provide a 20-year Operating Pro Forma in an owner-provided template.
 - b. Include columns capturing the average amount for the past three years for all line items listed in the Pro Forma. Provide explanations and/or supporting documentation for any major deviations of the historical average from the year 1 data entered on the Pro Forma.
 - c. Include an attached discussion of the extent of energy and water savings that are anticipated as a result of the rehabilitation or construction and the basis

Attachment 2A: Conversion Plan Requirements and Feasibility Benchmarks

for those estimates. The discussion must explain to what extent anticipated savings in utility costs have been included in the pro forma operating expenses.

- d. Ensure the Pro Forma complies with at least the following feasibility benchmarks unless otherwise approved by HUD:

Revenue:

- i. Rents shall not exceed the amounts permitted under program rules;
- ii. All other sources of income must not exceed the average for the last three years (other income should not include interest income on the replacement reserve account, which must remain in the reserve and is not available for other purposes);
- iii. Vacancy loss shall be no less than the greater of the average over the past three years or 3 percent;
- iv. Allowance for bad debt should be not less than the greater of the average over the past three years or 2 percent;

Expenses:

- i. All other operating expenses shall be no less than 85 percent of the average for the last three years;
- ii. The ADRR should be equal to that amount which, if deposited annually, will be sufficient to fund all capital needs, as identified in the CNA, arising during the first 20 years and otherwise not addressed upfront in either the rehabilitation or an initial deposit to the replacement reserve account. The Owner should use reasonable estimates for inflation, but in doing so, the rate for escalating the increase in repair costs should not exceed the rate of interest on reserve deposits by more than 1%. HUD may consider alternative arrangements with respect to the Initial Deposit to the Replacement Reserve (IDRR) if risks to the Covered Project can be adequately mitigated. The ADRR must be sufficient to maintain a minimum balance at the end of each year during the initial 20-year HAP Contract term in accordance with the HUD MAP Guide Appendix 5g Section VII.C.3D, Minimum Balances; and
- iii. For non-leveraged transactions, the stabilized cash flow should not be less than \$12 per unit monthly. For leveraged transactions, the debt-coverage ratio should not be less than 1.11 over a ten-year period using 2% growth in revenue and 3% growth in expenses.

- Q. Market Study.** A market study or net demand analysis may be required if the project is currently experiencing a high vacancy rate or if the Project Owner is requesting a reconfiguration of units. The Project Owner should consult with the Transaction Manager to determine if a market study is necessary before procuring one.
- R. Certification of Compliance with Site and Neighborhood Standards.** The Project Owner (for PBRA) or the PHA (for PBV) shall evaluate and include a certification that the site complies with applicable Site Selection and Neighborhood Standards (see Section 2.4.H).
- S. Affirmative Fair Housing Marketing Plan and Tenant Selection Plan.** For PBRA conversions, evidence that a completed AFHMP (Form HUD-935.2A) has been submitted for approval to the local Multifamily Regional Center. Typically, the management agent or the entity responsible for marketing (if different) is responsible for completing and submitting the AFHMP. If a Project Owner plans to adopt any preferences, the Project Owner must submit its Tenant Selection Plan along with the AFHMP (see HUD Handbook 4350.3, page 4-4) for review. Please note that in accordance with Notice H 2013-21, if a Project Owner plans to adopt any preferences that are not authorized in 24 CFR 5.655(c), it must obtain HUD approval. The AFHMP and any owner-adopted preferences may not conflict with any special condition arising from the RAD conversion or any provision in a remedial order or agreement. Each Covered Project must have a HUD-approved AFHMP prior to closing.

The purpose of affirmative marketing is to ensure that individuals of similar income levels in the same housing market area have a like range of housing choices available to them regardless of their race, color, national origin, religion, sex, disability, or familial status.

- T. Transfer of Assistance.** For all conversions involving a transfer of assistance to a new site, the PHA must have secured HUD approval of the site (Covered Project). See Section 2.4.J.
- U. Coordination with CoC.** SRO projects converting under RAD must provide a certification with their Conversion Plan that the local CoC has been consulted with regards to the RAD conversion and that it will participate in the CoC's Homeless Management Information System (HMIS) and the annual Housing Inventory Count (HIC). To the extent that project plans entail a reconfiguration of units or include a transfer of assistance, owners must also secure a support letter from the CoC.

Attachment 4A: Conversion Plan Requirements and Feasibility Benchmarks for PRAC Conversions

A Conversion Plan will not be reviewed until all required documentation is submitted electronically to the RAD Resource Desk at www.radresource.net. HUD will complete an initial review for document completeness within five business days of submission and will notify the Project Owner of deficiencies. Once HUD has determined that all required documents appear to have been received, HUD will review the submission.

HUD's purpose in reviewing the Conversion Plan is to ensure the long-term physical and financial viability of the Covered Project in providing quality, supportive housing to elderly residents. HUD reserves the right to reject any Conversion Plan if the information provided is not complete, accurate, or in compliance with the submission requirements listed below. If a Conversion Plan fails one or more feasibility benchmarks, HUD may, in its sole discretion, still accept the Conversion Plan if HUD determines that the Conversion Plan is consistent with the long-term physical and financial viability of the Covered Project, and/or the Project Owner has demonstrated through historical data or other means that the Project Owner can satisfactorily maintain and manage the Covered Project as presented in the Conversion Plan. HUD will not accept the Conversion Plan if the Covered Project does not meet environmental review requirements, as described below.

Below are all the required components of a complete Conversion Plan and the requirements of each component. Additional guidance in preparing the Conversion Plan is available in the PRAC Processing Guide located at http://www.radresource.net/mf_library.cfm.

- A. Conversion Overview.** A narrative summary of the Covered Project and the Project Owner's conversion goals. Include details such as a description of the physical Project, Project history, identification of immediate capital needs of the Project, identification of other properties to be held within the same ownership entity, anticipated financing that will be obtained to meet the capital needs, anticipated relocation, how the conversion of assistance will impact residents, and circumstances such as new construction, Transfer of Assistance, scattered site, and reconfiguration of units.

- B. Proposed Units.** The Project Owner must provide the number of units by bedroom size proposed to be covered by the HAP Contract. If a reconfiguration of units is proposed, the Project Owner must submit a narrative explanation of the proposal, including a description of the units to be removed and an explanation of why the Project can better serve assisted residents at the reduced number. Discussion of the proposed units can be included in the Conversion Overview.

- C. PRAC Contract.** Submit a copy of the fully executed current PRAC Contract including all exhibits.
- D. Statement of Compliance with Fair Housing and Civil Rights.** The Project Owner must submit a written statement certifying that it does not have any outstanding fair housing or civil right matters and that the proposed RAD conversion is consistent with any applicable remedial order or agreements, as described in section 4.3.1.B. of this Notice.
- E. Resident Notification.** The Project Owner must provide proof of written notification informing residents of the intent to participate in RAD. Include a PDF attachment of all **comments received from residents** as described in Section 4.7.3. Project Owners must provide a certification that they have held the required meetings with residents and have provided residents with a reasonable time period to submit comments on the conversion. The Project Owner must also provide a description of how the residents' comments will be addressed in their plan for conversion.
- F. Capital Needs Assessment.** A CNA is required in order to identify the short-term and long-term capital needs of the property, which will factor into the Scope of Work and both the Initial and Annual Deposits to the Replacement Reserve. See Paragraph 4.4.A. for additional information on CNA requirements.
- G. Initial Contract Rent Setting.**
1. For PBV conversions, submit evidence that the Project Owner's proposed rents are in accordance with the PHA's rent setting. See Section 4.5.G for additional information on Initial Contract Rent Setting for PBV.
 2. For PBRA conversions, the rents cannot exceed the limits set forth in Section 4.6.C
- H. Scope of Work.** The Conversion Plan must include a Scope of Work that accompanies the CNA. The Scope of Work must:
1. Identify and address all repairs identified in the CNA as critical, immediate or required within the first two years following conversion when the total of such repairs exceeds \$5,000 per unit (including all items identified in the CNA as not functioning at the time of the CNA site visit). Briefly discuss any differences between the proposed Work and the conclusions and recommendations of the CNA provider; any additional scope items not identified in the CNA; and the Project Owner's choices for replacement components.
 2. If the most recent REAC Inspection score is below 60, or the property has been referred to DEC due to physical deficiencies, the scope of work must address all physical deficiencies identified.
 3. Identify replacement quantities and costs. Rehabilitation estimates must be based on reasonable market estimates of actual costs, confirmed either by cost estimating

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completed by the architect/engineer, or through actual competitive bids for major rehabilitation or construction items, in compliance with HUD requirements.

4. Include a summary of environmental issues and corresponding remediation activities known at that time, and a summary of accessibility features that are required pursuant to applicable accessibility standards and other accessibility requirements. Other accessibility requirements include, but are not limited to, physical features that need to be provided as reasonable accommodations for qualified persons with disabilities. The scope of work should also include design features necessary for elderly housing (see Section 4.4.F) and a description of how those features will promote housing stability for an aging population.
5. Include a construction contingency of 10 percent (HUD may require a higher contingency on a case-by-case basis) if the Project Owner plans to obtain new financing simultaneous with the Conversion.
6. Include a reasonable timeline for completion of all rehabilitation items acceptable to HUD, from the date of Conversion Closing and any financing, depending on the scope of rehabilitation needed.

For Conversions using FHA financing, conventional debt, or equity sources of financing, submit a copy of the Scope of Work included with the FHA Application for Firm Commitment, or submitted to the lender, equity provider (including LIHTC, historic tax credit or Opportunity Zone equity providers), LIHTC allocating agency or comparable funding source.

- I. **Environmental Review.** HUD cannot approve an applicant's Conversion Plan submission unless and until the required environmental review has been completed for the applicant's proposed conversion project and found to meet environmental review requirements. The following describes the submission and approval steps for securing a completed environmental review.

A RAD transaction will either be reviewed under 24 CFR Part 50 ("Part 50 Reviews") or 24 CFR Part 58 ("Part 58 Reviews"). Part 50 applies when HUD conducts the environmental review, and Part 58 applies when a Responsible Entity (RE) conducts the environmental review. The following table shows which review protocol a transaction will follow, along with who will conduct the review:

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Description	Type of Environmental Review	Reviewer
PBRA Non-FHA	Part 50	RAD Transaction Manager
PBRA FHA Non-Risk Share ²⁰¹	Part 50	FHA Production
PBRA FHA Risk-Share	Part 50	Transaction Manager
PBV FHA Non-Risk Share	Part 50	FHA Production
PBV Non-FHA	Part 58	Responsible Entity
PBV FHA Risk-Share	Part 58	State Housing Finance Agency or Responsible Entity, as applicable ²⁰²

Under limited circumstances, per 24 CFR 58.11(c), an Awardee with a non-FHA PBV transaction may request HUD to undertake the environmental review under Part 50 if a suitable RE cannot be found or if the local government was not a direct recipient of the funds and refuses to accept responsibility or when HUD determines the local government does not have capacity to act as an RE.²⁰³ This request must be made in writing and submitted to HUD no later than at the time of the Conversion Plan submission.

For multi-phase developments, the environmental documents submitted with the Conversion Plan during the first phase must be submitted for the entire site (i.e. all of the phases of the multi-phase development) and the environmental review conducted during the first phase will cover the entire site.

Requests to transfer assistance from the Converting Project to a new location are subject to environmental review.

For transactions receiving funding from other HUD programs (i.e. HOME, CDBG, non-RAD PBV), HUD encourages all parties to complete and adopt one review for all programs, even if these programs’ environmental reviews are conducted under a different review protocol (Part 50, Part 58). In cases where two Part 58 programs are combined, HUD encourages applicants to work with the Responsible Entity or Entities to see if environmental reviews can be combined. However, this is solely the Responsible Entities’ determination. In cases

²⁰¹ Section 542(c) of the Housing and Community Development Act of 1992 enables HUD and State and local housing finance agencies (HFAs) to provide new risk-sharing arrangements to help those agencies provide more insurance and credit for multifamily loans known as the FHA Risk Sharing Program.

²⁰² Housing Finance Agencies can act as the Responsible Entity for Housing’s Risk Share Programs if the HFA is a regular part of the state government or if the HFA is a state instrumentality that has been approved by the governor. If the HFA does not meet either criteria, it must request another department of the state to act as Responsible Entity. An instrumentality of a city or county government cannot act as a Responsible Entity for the Risk Share Program. Please contact HUD if you have any questions about whether an HFA can act as the Responsible Entity.

²⁰³ These circumstances are considered on a case-by-case basis only. Please work with your Transaction Manager to determine suitability.

where a Part 50 program and a Part 58 program are combined, HUD may determine that it will perform one Part 50 environmental review for both programs under 24 CFR 58.11 if performing an additional Part 58 environmental review is not feasible in the time allotted. HUD must ensure that the Part 50 review considers the full scope of all activities and funding associated with all programs. When one review is used for both programs, the Approving Officials for both programs must certify the review.

For all Part 50 reviews, the applicant must submit reports and documentation to HUD in accordance with 24 CFR Part 50, as discussed in Chapter 9 of the MAP Guide, except as follows:²⁰⁴

1. For PBRA conversions (or where HUD has determined to conduct the PBV environmental review under Part 50) without FHA insurance and without any rehabilitation, construction, or demolition,²⁰⁵ HUD conducted a tiered review of program-wide and site-specific compliance. HUD has made program-wide compliance determinations for most of the applicable environmental laws and authorities, and will complete a site-specific compliance review of the following:
 - A. Coastal protection pursuant to the Coastal Barrier Resources Act, as amended by the Coastal Barrier Improvement Act of 1990 (16 U.S.C. 3501);
 - B. Flood insurance and floodplain management pursuant to the Flood Disaster Protection Act of 1973, the National Flood Insurance Reform Act of 1994 (42 U.S.C. 4001-4128 and 42 U.S.C. 5154a), Executive Order 11988, particularly section 2(a), and 24 C.F.R. Part 55;
 - C. Contamination pursuant to 24 C.F.R. 50.3(i) (HUD Standard).

Additionally, while Historic Preservation (National Historic Preservation Act of 1966, particularly sections 106 & 110; 36 CFR Part 800) is not included in the tiered review, for conversions that entail no physical activities or only activities that are limited to maintenance as defined in HUD Notice CPD-16-02, HUD has no further obligations under Section 106. HUD is not required to contact SHPO, THPO, and/or other interested parties or the public.²⁰⁶

²⁰⁴ The MAP Guide is available at

http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/guidebooks/hsg-GB4430.

Additional guidance on environmental review requirements is available on the HUD Environmental Review website, at <https://www.hudexchange.info/environmental-review/>.

²⁰⁵ This is further defined as those transactions that do not anticipate any reasonably foreseeable repairs or other physical activities beyond maintenance, as defined in HUD Notice CPD 2016-02.

²⁰⁶ This Determination is detailed in the “Determination of ‘No Potential to Cause Effects’ under Section 106 of the National Historic Preservation Act for Rental Assistance Demonstration (RAD) Projects Limited to Maintenance Activities and Carried Out Under 24 CFR Part 50. <https://www.hudexchange.info/resource/3865/no-potential-to-cause-effects-to-historic-properties-memos/>

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Project Owners will be required to submit documentation to facilitate HUD's site-specific review.

2. For all non-FHA PBRA conversions (or where HUD has determined to conduct the PBV environmental review under Part 50) that do not meet the requirements under paragraph 1 above, the Project Owner or vendor will follow the guidelines in Chapter 9 of the MAP guide. Project Owners or vendors will upload all applicable documentation directly into HEROS at the time of Conversion Plan submission. The following exceptions to the MAP Guide apply:
 - In lieu of a Phase I Environmental Site Assessment (ESA) in accordance with ASTM E 1527-13 (or the most recent edition),²⁰⁷ except for conversions involving substantial rehabilitation or new construction activities. Awardees may submit a more limited report on potential sources of contamination. Where a Phase I ESA is not required (i.e., projects without any associated substantial rehabilitation²⁰⁸ or new construction), the Awardees can submit a "transaction screen" in accordance with ASTM E 1528-14 (or the most recent edition). A transaction screen will identify potential environmental concerns based on questionnaires, owner/occupant inquiry, site visit, government records inquiry and historical sources inquiry. The transaction screen must be prepared by a qualified professional, in accordance with 24 CFR 50.3(i)(4). As the definition of preparer in ASTM E 1528-14 does not meet this requirement, the professional must have either (a) a science degree and at least one year of practical environmental assessment experience in the field, or (b) three years of practical environmental assessment experience in the field performing site assessments for site contamination. If any potential environmental concerns are identified, an ASTM Phase ESA in accordance with ASTM E 1527-13 (or the most recent edition) must be provided.
 - Awardees may submit a Phase I ESA that is up to 5 years old upon submission; however, it must be updated by a Transaction Screen that is up to 1 year old upon submission.

²⁰⁷ The Transaction Screen does not meet the standard for "All Appropriate Inquiries" for CERCLA liability protection, as noted in ASTM E 1528-14 Section 4.2.1.

²⁰⁸ Substantial rehabilitation is any rehabilitation that does not meet the conditions in 24 CFR § 50.20(a)(2) for exclusion from review under the National Environmental Policy Act. Applications to RAD for conversion assistance involving substantial rehabilitation or new construction will always require a Phase I ESA in accordance with ASTM E 1527-13.

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When HUD conducts the environmental review under Part 50, PHAs (or their vendors) must submit environmental reports and documentation²⁰⁹ for HUD review into the HUD Environmental Review Online System (HEROS), where HUD will complete its review.

HUD staff will review the submissions and may require additional information in order to complete their review. HUD's review will result in a determination, which may stipulate the rejection of the site for this demonstration or may require the completion of mitigation measures. The RAD approval will include any conditions required to carry out any and all mitigation measures as may result from the environmental review. Any conditions or mitigation that cannot be satisfied before Closing will survive Closing.

When a Responsible Entity (RE) completes an environmental review under Part 58, the Conversion Plan must include either Form 7015.16 or a letter with the Responsible Entity's (RE's) finding of exempt activity in order to consider the environmental review to be complete. The RE should use HUD recommended formats to document the environmental review record.²¹⁰ The PHA should submit an environmental report to the RE, in such form as prescribed by the RE, to enable the RE to complete their analysis. Once the review is completed, the PHA must submit *either*:

- Form HUD-7015.15, Request for Release of Funds (RROF), to their local PIH field staff.²¹¹ After the PIH Field Director approves the RROF, the Director sends a completed HUD Form 7015.16 to the PHA, approving the release of funds. The PHA must submit proof of the completed Form 7015.16 (either a copy of the paper form or a screenshot of the completed screen in HEROS) to HUD; or
- If form HUD-7015.15 is not required because the project converts to Exempt under 24 CFR § 58.34(a)(12), the PHA must submit the RE's finding of exempt activity with their RAD Conversion Plan. A finding of exempt activity is a statement of the result of the RE's environmental review and is required even when form HUD-7015.15 is not required. A letter from the RE indicating that the project converts to Exempt under 24 CFR § 58.34(a)(12) is sufficient.

²⁰⁹ PHAs and providers should take care to respond to all applicable laws and authorities and MAP-specific requirements when providing documentation for environmental review. For all maps, please clearly indicate where the project site is located. Information about HEROS and how to register can be found at

<https://www.hudexchange.info/programs/environmental-review/housing/#heros>

²¹⁰ HUD recommended formats are available at <https://www.hudexchange.info/resource/3139/part-58-environmental-review-cest-format/> and <https://www.hudexchange.info/resource/3140/part-58-environmental-assessment-form/>.

²¹¹ Form HUD-7015.15 is available at <https://www.hudexchange.info/resource/2338/hud-form-701515-request-release-funds-certification/>.

Additionally, except for properties without any rehabilitation, construction, or demolition,²¹² the PHA must submit either a) a statement declaring that the RE examined radon or b) where the RE had not examined radon as part of its review, either a Radon Report consistent with the requirements of the Section 9.5.C of the MAP Guide (or successor provision) for HUD to review or a statement that the property is exempt from submission of a Radon Report per the MAP Guide.

J. Accessibility and Relocation Plan Checklist. All Project Owners shall complete and submit the Accessibility and Relocation Plan Checklist provided by HUD on the RAD Resource Desk. The checklist shall include a certification that the relocation plan complies with all applicable HUD requirements, including the URA as well as applicable accessibility standards, including but not limited to those under Section 504 of the Rehabilitation Act of 1973 and its implementing regulations (24 CFR § 8.23). The cost of accessibility improvements and relocation must be fully funded in the Development Budget. Project Owners are encouraged to use HUD’s guidance on relocation planning for persons with disabilities in HUD Handbook 1378.0, Exhibit 3-1 and the RAD Fair Housing and Civil Rights Notice.

K. Proposed Financing

1. For all conversions using financing, the following must be addressed:
 - a. Provide a brief discussion of conditions/milestones to be satisfied prior to closing including any known impediments to closing within the timeframe required under the Notice;
 - b. Estimated closing date(s) for all proposed financing;
 - c. For each proposed loan, equity contribution, or grant, the Conversion Plan must include a recent lender, investor or grant commitment letter, dated no more than 60 days prior to Conversion Plan submission, with key terms identified (including amount, repayment terms, interest rate, amortization, maturity, prepayment restrictions, and pay-in schedule) from all financing provider(s);
2. For conversions not using FHA financing or equity sources, the following requirements must be addressed in addition to the requirements set forth in Attachment 4A, Section K.1 above:
 - a. Permanent debt financing with monthly payment amounts not conditioned on the availability of cash flow (i.e., “hard” debt) on Covered Projects must:
 - i. Be at a fixed rate of interest, for a fixed term, fully amortized over no more than 40 years;

²¹² This is further defined as those transactions that do not anticipate any reasonably foreseeable repairs or other physical activities beyond maintenance, as defined in HUD Notice CPD 2016-02.

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- ii. Not have a balloon payment until after the earlier to occur of a) expiration of the term of the HAP Contract or b) 17 years from the date of the permanent debt financing; and
- iii. Not have a debt service coverage less than the higher of 1.11 or lender requirements.
- b. All subordinate (or secondary) financing must be disclosed and then approved by the first-mortgage lender;
- c. The terms for all seller take-back financing must also be disclosed;
- d. If project revenue or existing reserves will be a source of funding, submit evidence of the current account balances.

L. Development Budget (Sources and Uses of Funds). All Project Owners must submit a Development Budget.

- 1. For Conversions using FHA financing or equity sources of financing,** submit a copy of the Development Budget included with the FHA Application for Firm Commitment, or submitted to the lender, equity provider (including LIHTC, historic tax credit or Opportunity Zone equity providers), LIHTC allocating agency or comparable funding source. The Project Owner must submit the FHA Application for Firm Commitment review before the RAD conversion is submitted to the Office of Recapitalization. Include a Subsidy Layering Review (SLR) if one has been performed by another agency. If no SLR is provided, HUD will complete an SLR whenever multiple federal sources are proposed.
- 2. For all other Conversions with new financing:**
 - a. Include a reasonable, balanced, and comprehensive presentation of both construction period and permanent sources and uses of funds, which development budget must be consistent with the development budget submitted to the lender, equity provider (including LIHTC, historic tax credit or Opportunity Zone equity providers), LIHTC allocating agency or comparable funding source.
 - b. Identify existing loans or debt that will be paid off at the closing, if applicable.
 - c. Include a binding commitment letter with respect to any new source of financing or sources of equity.
 - d. Include a construction contingency of 10 percent (HUD may require a higher contingency on a case-by-case basis) if the Project Owner plans to obtain new financing simultaneous with the Conversion.
 - e. Demonstrate that any Identity of Interest (IOI) loans or advances will be converted to unsecured Surplus Cash Notes (Project's cash remaining, after debt service, project operational costs and other permitted payments) unless otherwise approved by HUD.
 - f. If applicable, identify the initial operating deficit during the construction period and how that deficit will be funded, such as an operating deficit escrow or similar fund.

- g. Include a Subsidy Layering Review (SLR) if one has been performed by another agency. If no SLR is provided, HUD will complete a SLR whenever multiple federal sources are proposed.

M. Proposed Development Team. The Project Owner must identify the proposed legal entity that will own the Covered Project following conversion, the proposed management agent following conversion, and the “principals” of both entities. In addition, the Project Owner shall provide the following:

1. For all conversions with a proposed change in ownership entity, the new Project Owner must provide evidence of successful experience owning and operating HUD or other multifamily housing properties. New Project Owners may be required to demonstrate that the criteria specified in [HUD Handbook 4350.1, Chapter 13, Change in Ownership: Transfer of Physical Assets](#) have been met in part or in whole.
2. For PBRA conversions with a proposed change in ownership entity or a material proposed change in ownership of the existing ownership entity, the new Project Owner must submit evidence that all new principals have a Previous Participation Certification in the Active Partners Performance System (APPS) (formerly referred to as Form HUD-2530) and are not be debarred, suspended, or subject to a Limited Denial of Participation.
3. For all conversions with a proposed change in management agent the new agent must provide evidence of successful experience managing and operating HUD or other multifamily housing properties.
4. For all conversions in which Work is proposed, the Project Owner must submit the identity of the general contractor or construction manager or a statement that the Project Owner will be managing construction directly, together with evidence of the general contractor’s, construction manager’s or Project Owner’s recent and successful experience with similar rehabilitation or construction projects.

N. Operating Pro Forma. The Operating Pro-Forma must:

1. **For all FHA transactions or Conversions using equity sources of financing:**
 - a. Provide a copy of the Operating Pro Forma that was submitted with the FHA Application for Firm Commitment or submitted to the lender, equity provider (including LIHTC, historic tax credit or Opportunity Zone equity providers), LIHTC allocating agency or comparable funding source.
2. **For all other Conversions:**
 - a. Provide a 20-year Operating Pro Forma in an owner-provided template,
 - b. Include an attached discussion of the extent of energy and water savings that are anticipated as a result of the rehabilitation or construction and the basis for those estimates. The discussion must explain to what extent anticipated savings in utility costs have been included in the pro forma operating expenses.

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- c. Include columns capturing the average amount for the past three years for all line items listed in the Pro Forma. Provide explanations and/or supporting documentation for any major deviations of the historical average from the year 1 data entered on the Pro Forma.
- d. Ensure the Pro Forma complies with at least the following feasibility benchmarks unless otherwise approved by HUD:

Revenue:

- i. Rents shall not exceed the amounts permitted under program rules;
- ii. All other sources of income must not exceed the average for the last three years (other income should not include interest income on the replacement reserve account, which must remain in the reserve and is not available for other purposes);
- iii. Vacancy loss shall be no less than the greater of the average over the past three years or 3 percent;
- iv. Allowance for bad debt should be not less than the greater of the average over the past three years or 2 percent;

Expenses:

- i. All operating expenses shall be reasonable, with decreases justified and generally no less than 85 percent of the average for the last three years;
- ii. The ADRR should be equal to that amount which, if deposited annually, will be sufficient to fund all capital needs, as identified in the CNA, arising during the first 20 years and otherwise not addressed upfront in either the rehabilitation or an initial deposit to the replacement reserve account. The Project Owner should use reasonable estimates for inflation but in doing so the rate for escalating the increase in repair costs should not exceed the rate of interest on reserve deposits by more than 1%. HUD may consider alternative arrangements with respect to the Initial Deposit to the Replacement Reserve (IDRR) if risks to the Covered Project can be adequately mitigated. The ADRR must be sufficient to maintain a minimum balance at the end of each year during the initial 20-year HAP Contract term in accordance with the HUD MAP Guide Appendix 5g, Section VII.C.3D, Minimum Balances; and
- iii. For non-leveraged transactions, the stabilized cash flow should not be less than \$12 per unit monthly. For leveraged transactions, the debt-coverage ratio should not be less than 1.11 over a ten-year period using 2% growth in revenue and 3% growth in expenses.

O. Supportive Services and Design. Applicants must describe how the proposed supportive services meet the identified needs of the anticipated residents, both initially and as they age, and how the identified supportive services will be provided on a consistent, long-term basis

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to support residents. The conversion plan also must discuss how current property design features and/or modifications planned in conjunction with the conversion provide a physical living environment suitable for meeting the needs of elderly residents and facilitating prolonged independent living. Relevant building design features may include, but are not limited to, those focused on fall prevention and visitability, universal design, and electronic communication mechanisms.

P. Market Study. A market study or net demand analysis may be required if the project is currently experiencing a high vacancy rate or if the Project Owner is requesting a reconfiguration of units. The Project Owner should consult with the Transaction Manager to determine if a market study is necessary before procuring one.

Q. Certification of Compliance with Site and Neighborhood Standards. The Project Owner (for PBRA) or the PHA (for PBV) shall evaluate and include a certification that the site complies with applicable Site and Neighborhood Standards (see Section 4.4.O.).

R. Affirmative Fair Housing Marketing Plan. For PBRA conversions, evidence that a completed AFHMP (Form HUD-935.2A) has been submitted for approval to the local Multifamily Regional Center. Typically, the management agent or the entity responsible for marketing (if different) is responsible for completing and submitting the AFHMP. If a Project Owner plans to adopt any tenant admission local or residency preferences, the Project Owner must submit its Tenant Selection Plan along with the AFHMP (see HUD Handbook 4350.3, page 4-4) for review. The AFHMP may not conflict with any special condition arising from the RAD conversion or provision in a remedial order or agreement. Each Covered Project must have a HUD-approved AFHMP prior to closing.

The purpose of affirmative marketing is to ensure that individuals of similar income levels in the same housing market area have a like range of housing choices available to them regardless of their race, color, national origin, religion, sex, disability, or familial status.

S. Transfer of Assistance. For all conversions involving a transfer of assistance to a new site, the Project Owner must have secured HUD approval of the site (Covered Project). See Section 2.4.I.

T. Title Report. Submit a complete title report including information on whether the Converting Project is currently subject to any other liens, encroachments, easements or other encumbrances on the property.