



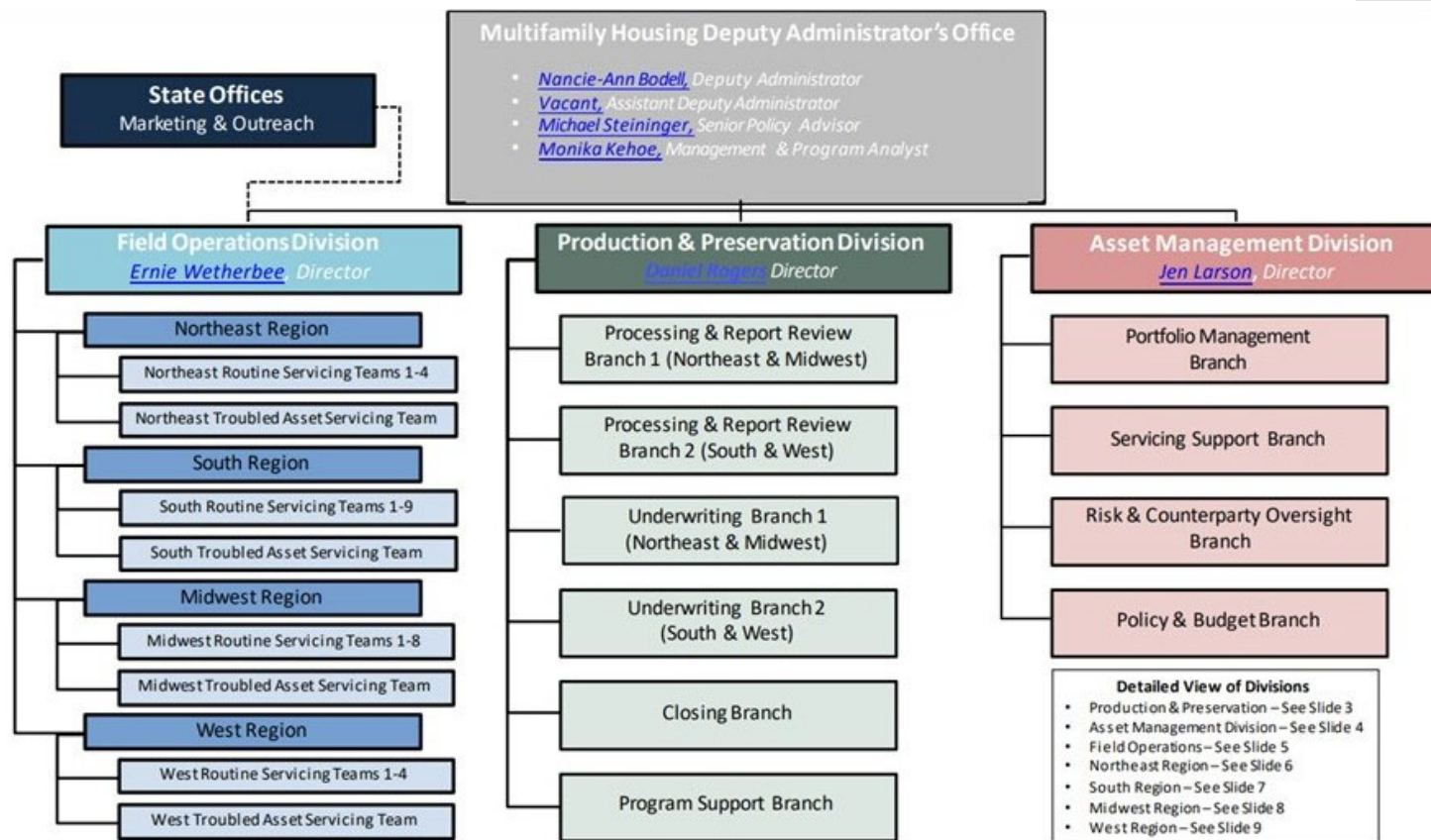
Addressing Funding Gaps in Section 515 & Farm Labor Housing (514/516) Transactions

April 6, 2022

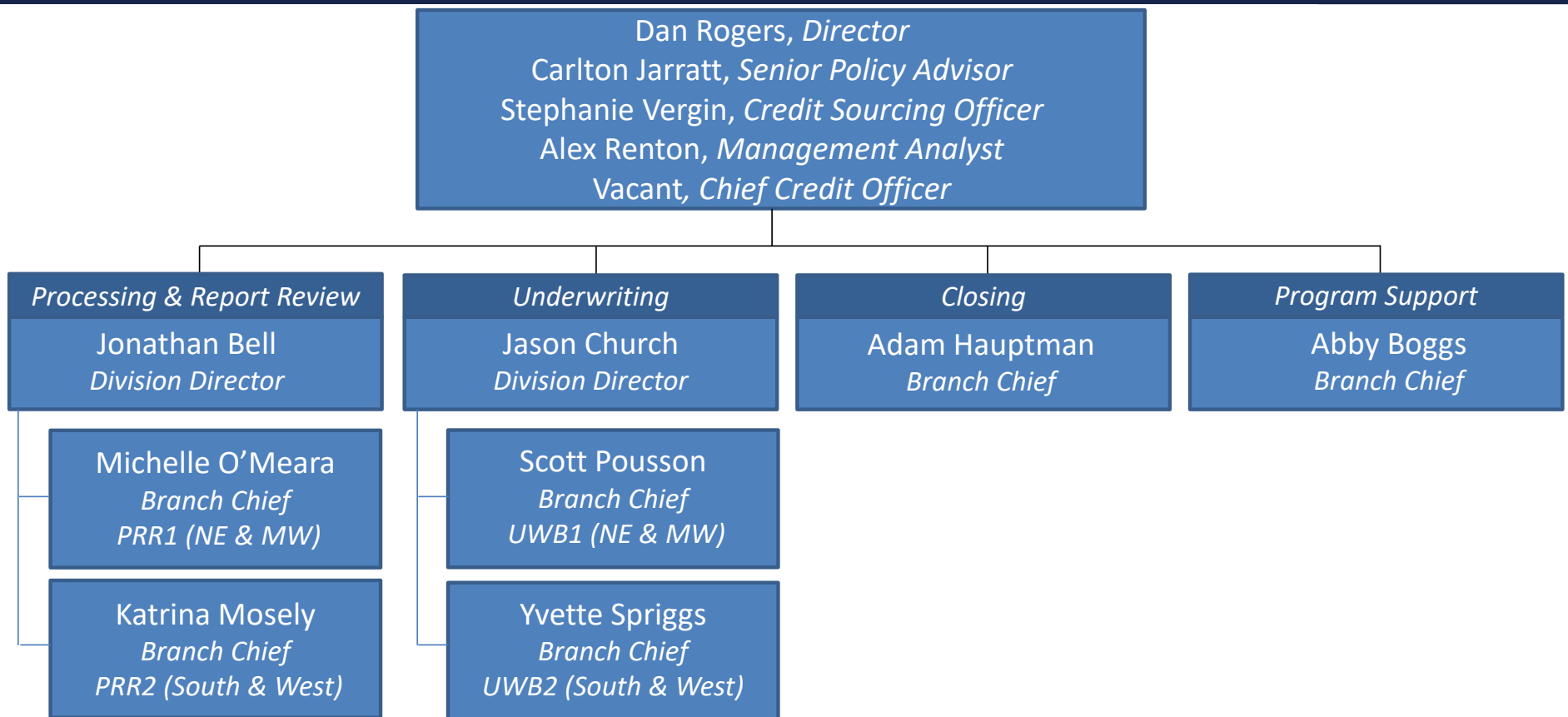
Objective: To Provide Clear Guidance on How To Address Cost Increases and Funding Gaps in RD Direct Loan Transactions

- Overview of Organizational Structure
- Overview of Applicable Programs
- Addressing Cost Increases / Processing Delays in Current Climate
 - Construction Cost Increases
 - Labor Shortages
 - Supply Chain Issues
 - Third Party Report Procurement
 - Carrying Costs Related to Schedule Delays
- Identifying Appropriate Pathways for All Three Categories of Transactions
- Overview of FLH Process Improvements in Realigned Model

Multifamily Housing Organizational Structure



Production & Preservation Leadership Team



Addressing Cost Increases in 515 and Farm Labor Housing (514/516) Transactions

Current Transaction Types	Future Transaction Types
Awarded FLH New Construction	All the “current transactions”, plus:
515 & FLH Preservation Transactions	FLH Repair Transactions
515 & FLH Transfers	515 New Construction

Multifamily Housing Direct Loan Programs:

- Section 515
- Farm Labor Housing: Section 514 (Loans) & Section 516 (Grants)
- *Note: also including Multifamily Preservation & Rehabilitation (MPR) Program*

Transparent Categorization of Transactions

- Category 1: Properties that have closed on FLH or 515 Financing and therefore eligible for Subsequent Loan
 - Governed by Regulation 7 CFR 3560.73
 - Discussed in Handbook 1-3560 Chapter 10
 - Closed, in / about to start construction or construction complete
- Category 2: Properties that have not closed on FLH or 515 Financing, but can be assisted under applicable NOSA
 - Properties with a funding gap that, when combined with initial award, are under their NOSA Cap
 - NOSAs that identified a per-project or per-unit award cap
 - Example:

Initial Award	Funding Gap	Total Need	NOSA Cap	Result
\$2.2 million	\$700,000	\$2.9 million	\$3 million	Category 2
\$2.2 million	\$1.3 million	\$3.5 million	\$3 million	Category 3

- Category 3: Properties that have not closed and cannot be assisted under applicable NOSA
 - Properties with a funding gap that, when combined with initial award, exceed their NOSA Cap
 - NOSAs that identified a per-project award cap

Category 1: Properties that have closed on RD Direct Loan and therefore eligible for Subsequent Loan

Handbook 1-3560 Chapter 10:

- Subsequent loans may be made to current borrowers for a project with Agency financing to complete, improve, repair, or make modifications to the project;
- Complete a project when there have been unforeseen factors beyond the owner's control, including:
 - Design changes that were required by the Agency or Local Government,
 - Changes in financing
 - When the cost of completing the project has escalated due to .. excessive delays in constructing the project.
- Subsequent loan funds may not be used to reimburse an owner for additional owner contributions that were made to complete a project.
- May be used to convert additional construction or bridge financing approved by the agency to permanent debt.

Category 1: Properties that have closed on RD Direct Loan and therefore eligible for Subsequent Loan

Rates & Terms	Restrictive Use Provisions	Application Requirements	Underwriting
<ul style="list-style-type: none">• Separate Loan• Set to the applicable rates and terms at the time of the closing	<ul style="list-style-type: none">• Projects receiving subsequent loans are also subject to additional restrictive-use provisions in accordance with 7 CFR 3560.662.• When a subsequent loan is made, a new 20-year restrictive-use period on the project begins as of the date of subsequent loan closing.	<p>P2: Invites the applicant to attend a meeting to discuss the subsequent loan application.</p> <p>P2: Provides a list of required documentation (Exhibit 10-2, Chapter 10 of 3560 Handbook)</p> <p>Applicant: Provides list of required and updated documentation, including 3rd party documents and reports</p>	<p>P2 to Review:</p> <ul style="list-style-type: none">• Applicant Eligibility• Project Eligibility• Cost Reasonableness• Financial Feasibility• Other sources of Financing• Sufficient Loan Security

Category 1: Properties that have closed on RD Direct Loan and therefore eligible for Subsequent Loan

Exhibit 10-2

Documentation to be Submitted for a Subsequent Loan to Complete, Improve, Repair, or Modify an Existing Project

- *Form SF 424 A, Application for Federal Assistance;*
- *Form RD 1944-37, Previous Participation Certification;*
- The method of financing construction;
- Drawings, specifications, and a contract document that meets the requirements of Paragraph 9.10 B;
- The estimated total development cost, the cost per unit and the estimated loan amount (*Form RD 1924-13, Estimate and Certificate of Actual Cost*);
- Scope of work (not necessary for loans to complete a project);
- Signed statement regarding cost overruns;
- Information on architectural, engineering, and legal services and proposed contractor;
- *Forms RD 3560-30, Certification of No Identity of Interest (IOI) and RD 3560-31, Identity of Interest Disclosure/Qualification Certificate;*
- Change in related assistance;
- Detailed operating budget (*Form RD 3560-7, Multiple Family Housing Project Budget/Utility Allowance*);
- Demonstrated ability of cooperative to self-manage, if applicable;
- Updated financial statements; and
- *Form RD 1910-11, Applicant Certification Federal Collection Policies for Consumer or Commercial Debts.*

Category 2: Not Closed and Eligible Under Applicable NOSA

- Farm Labor Housing New Construction NOSAs have a per-project award cap (typically \$3 million)
- Applications that have not closed on their financing are continued to be monitored for financial feasibility
- Amendments to awards and rent setting may be made to address financial feasibility, when necessary, at the discretion of the agency
- If your initial award + the funding gap requested = ***less than*** the NOSA cap under which the award was given:
 - Applicant may request an amendment to their initial award
 - If eligible, applicant may request modification (grants vs. loans)
 - Application will be reviewed in accordance with applicable NOSA application guidance

Category 2: Not Closed and Eligible Under Applicable NOSA

Rates & Terms	Restrictive Use Provisions	Application Requirements	Underwriting
<ul style="list-style-type: none"> • Single loan closing • Amendment to Initial Award Amount • Increase is added to and included in Rates and Terms of Initial Loan 	<ul style="list-style-type: none"> • No change to initial Restrictive Use Provision 	<p>P2: Invites the applicant to attend a meeting to discuss the need for additional funds.</p> <p>P2: Provides a list of required documentation, including:</p> <ul style="list-style-type: none"> • Any applicable updates to information submitted as part of initial application • Updated Sources & Uses • Updated Operating Budget • Support Documentation / Evidence of Cost Increase • Updated 3rd Party Reports (if necessary) <p>Applicant: Provides list of required documentation</p>	<p>P2 to Review:</p> <ul style="list-style-type: none"> • Cost Reasonableness • Financial Feasibility • Other sources of Financing • Sufficient Loan Security

Category 3: Not Closed and Ineligible Under Applicable NOSA

- Farm Labor Housing New Construction NOSAs have a per-project award cap (typically \$3 million)
- Applications that have not closed on their financing are continued to be monitored for financial feasibility
- If your initial award + the funding gap requested = **more than** the NOSA cap under which the initial award was given:
 - Applicant may request additional funds in subsequent FLH New Construction NOSA
 - Next NOSA is scheduled for mid-May 2022
 - Applicants only need to apply for gap financing request
 - May apply for loan or grant, in accordance with eligibility
 - Application will be reviewed in accordance with applicable NOSA application guidance
 - Awards are subject to individual NOSA per-project award caps, not cumulative under a single cap
 - Example: Project has a \$3 million award from 2019 (NOSA cap was \$3 million)
Project needs \$2.2 million in gap financing in 2022 (NOSA cap is \$5 million)
Project is eligible for \$2.2 million in gap financing because request is below 2022 NOSA cap of \$5 million.

Category 3: Not Closed and Ineligible Under Applicable NOSA

Rates & Terms	Restrictive Use Provisions	Application Requirements	Underwriting
<ul style="list-style-type: none">• Single loan closing• Addition to Initial Award Amount• Increase is added to and included in Rates and Terms of Initial Loan	<ul style="list-style-type: none">• No change to initial Restrictive Use Provision	<p>P2: Invites the applicant to attend a meeting to discuss the need for additional funds.</p> <p>Applicant: Provides list of required documentation under the NOSA, including updated third party and project documents from original application</p>	<p>P2 to Review:</p> <ul style="list-style-type: none">• Compliance with the NOSA, including:• Eligibility• Cost Reasonableness• Financial Feasibility• Other sources of Financing• Sufficient Loan Security

P2 Snapshot: Status of P2 NOFAs & NOSAs

NOSA / NOFA / RFP	Status
Off-Farm Labor Housing New Construction Round 1	COMPLETE: Awards Announced 9/30/21
Off-Farm Labor Housing New Construction Round 2	Closed: 11/1/21, Final Applications Due 5/2/22
MFH NP Tech Assistance Grant	Closed: 2/8/22, Awards Announcement in June
FLH Technical Assistance Grant	Closed 3/21/22, Awards Announcement in July
Off-Farm Labor Housing Repair	Published 3/9/22, Workshop 4/13, Apps due 5/9
MPR No-Cost Debt Deferral NOSA	Published 3/15/22, Workshop 4/5/22, Apps due 5/16
Off-Farm Labor Housing New Construction Round 3	Target Publication: May 14, 2022
Section 538 Guaranteed Loan Program	Ongoing Applications / Rolling

Farm Labor Housing Process Improvements Since MFH Realignment

- Enhanced transparency with NOSAs, NOFAs, Requests for Additional Funds
- Enhanced communication with Industry (listening sessions, industry workshops)
- Enhanced communication with Industry when applications are not funded
- Improvements to FLH Technical Assistance Program Delivery
- Enhanced NOSA Compatibility with Local-, State-, and Federal-funding Rounds
 - Modified NOSA Application Requirements (effective Round 3)
 - Modified Commitment Letters (effective Round 3)
- Developed Job Aid / SOP for Staff for Consistency in RD Guidance / Application Review of Requests for Additional Funds
- Transparent organization of transactions into “3 buckets” to address cost overruns
- Enhanced communication with industry partners, working groups, and other public lenders
- Standing weekly meetings with P2 management & staff
- Enhanced NOSA Predictability: Beginning in FY23, MFH will have a single FLH NC & Repair NOSA in January

Questions & Answers

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