**CHAPTER 2.06 - Budget Based Rent Increases**

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# SECTION 1. OVERVIEW AND ELIGIBILITY

##  2.06.1 INTRODUCTION

1. **Applicability.** The guidance in this chapter applies to the project type programs listed below:
	1. Section 8 Project-based Rental Assistance
		1. New Construction
		2. State Agency Financed
		3. Substantial Rehabilitation
		4. Section 202/8
		5. Rural Housing Services (RHS) Section 515/8
		6. Loan Management Set-Aside (LMSA)
		7. Property Disposition Set-Aside (PDSA)
	2. Section 101 Rent Supplement
	3. Section 202/162 Project Assistance Contract (PAC)
	4. Section 202 Project Rental Assistance Contract (PRAC)
	5. Section 811 PRAC; Project Rental Assistance (PRA)
	6. Section 236
	7. Section 236 Rental Assistance Payments (RAP)
	8. Section 221(d)(3) Below Market Interest Rate (BMIR)

**Purpose.** Section524 of MAHRA authorizes HUD to renew expiring project-based section 8 HAP contracts and to restructure the rents that may be charged. Renewal rents are based on the statutory formula for the renewal option that the owner selects. For HAP contracts renewed under section 524(a), (b)(1), or (e)(2) of MAHRA with a multi-year contract, rents are to be adjusted on the anniversary of the HAP contract by OCAF, or, at the owner’s request and subject to HUD approval, on the basis of a budget[[1]](#footnote-2).

At the owner’s request, 236, 221 (d)(3)[[2]](#footnote-3), 202/8, 811 and 202[[3]](#footnote-4), Rent Supplement rents may be adjusted on the basis of budget subject to project business agreements and HUD approval. In preparing the procedures and guidance in this chapter certain references are made to the Section 8 Renewal Policy Guidebook (Guide) for detailed guidance on processing rent adjustments on Section 8 contracts under MAHRA. Chapter Two of the Guide provides instructions for processing either OCAF or budget based rent adjustment requests for expiring section 8 Housing Assistance Payment (HAP) contracts.

1. Annual adjustments[[4]](#footnote-5) to contract rents that occur during the term of a multi-year contract are called rent adjustments. The method of adjusting rents by application of AAF is not covered in this Chapter Please refer to HUD H 2002-10[[5]](#footnote-6).application of the published OCAF or, if applicable, a budget-based request of the owner and subject to approval by HUD.

1. ***Exception*** processes to 1. above:

1. See Section 2.17. B.4[[6]](#footnote-7). for additional instructions for Option One, and

Option Two.

2. Title II and Title VI preservation projects discussed in Chapter 7, Option

Five – Renewal of Portfolio Reengineering Demonstration or Preservation Projects. The rent adjustment mechanism is spelled out in the individual project’s Plan of Action (POA) and/or Use Agreement. These documents may permit other rent adjustment mechanisms.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

HUD’s prime interest is to ensure the efficient management and continued financial viability of its projects, along with compliance with relevant tenant participation requirements.

1. **Overview.** This chapter provides procedures for processing rent adjustments in certain HUD projects defined in Section 2.06.1 above and outlines guidance in the calculation of utility allowances[[7]](#footnote-8), adjustments to Reserve for Replacement, and charges for commercial facilities and services provided in those projects. The chapter also includes guidance on relevant tenant participation procedures which must be followed when applicable. Section 2 of this chapter provides specific guidance to owners for submitting complete and compliant packages when requesting a rent adjustment. In Section 3, the chapter includes guidance to HUD’s Regional Centers and Satellite Offices, as well as Contract Administrators also referred to as ‘reviewers’, on how to evaluate a rent adjustment request, while ensuring that the adjusted rents and fees provide adequate funding for the projects, when operated effectively and efficiently. Sections 4 and 5 outline the implementation and appeals procedures for both owners and reviewers. The appendices to the chapter include step-by-step procedures, along with standardized checklists and templates, designed to facilitate consistency and comprehensiveness in submissions, reviews and approvals of rent adjustments. The following **Figure** **1** provides a roadmap to owners and reviewers regarding the relevant guidance contained in this chapter and its appendices.

**Figure 1 – Roadmap to the Chapter**

|  |  |  |
| --- | --- | --- |
| **Sections & Paragraphs** | **Topic** | **Primary Stakeholder(s)** |
| Owner / Agent | HUD / CA Reviewer |
| **Section 1**Paragraphs 2.06.1 – 2.06.3 | Introduction, Eligibility and Type of Rent Adjustment Requests | ✓ | ✓ |
| **Section 2**Paragraphs 2.06.4 – 2.06.12 | Owner’s Submission Requirements | ✓ |  |
| **Section 3**Paragraphs 2.06.13 – 2.06.21 | Review of the Owner’s Submission |  | ✓ |
| **Section 4**Paragraphs 2.06.22 – 2.06.23 | Notification and Implementation | ✓ | ✓ |
| **Section 5**Paragraphs 2.06.24 – 2.06.26 | Appeal Procedures | ✓ | ✓ |
| **Appendix 2.06-1** | Summary of Resources | ✓ | ✓ |
| **Appendix 2.06-2** | Glossary of Key Terms | ✓ | ✓ |
| **Appendix 2.06-3** | Guidance to Owners | ✓ |  |
| **Appendix 2.06-4** | Guidance to Reviewers |  | ✓ |
| **Appendix 2.06-5** | Historical Guidance | ✓ | ✓ |

## 2.06.2 ELIGIBILITY

**Reasons for Rent Adjustment.** Owners may only charge the rents that were authorized by HUD in their most recently approved rent schedule (Form HUD-92458). Owners submit rent adjustment requests to cover the increase in the cost of operations. Should the owner choose not to submit rent adjustment requests when warranted, it could compromise the owner’s ability to maintain the property in an acceptable condition. Therefore, owners assess their operating costs annually.

**Timing for Budget Submissions.** Owners are generally limited to one rent adjustment per year. For HAP contracts renewed under section 524(a), (b)(1), or (e)(2) of MAHRA with a multi-year contract, rents are to be adjusted on the anniversary of the HAP contract by OCAF, or, at the owner’s request and subject to HUD approval, on the basis of a budget. Owners should refer the Guide for the timing of requests[[8]](#footnote-9). Other eligible projects as defined in Section 2.06.1 should submit the request for an increase in the maximum permissible rents to the assigned HUD office as their operational needs demand and, in cases where tenant notice is required, should submit to HUD upon issuance of that notice and again after the review of tenant comments.

1. Regulatory Agreements require cooperative projects to submit their operating budgets annually, as well as obtain HUD approval of carrying charges. HUD and CA reviewers must enforce this requirement for cooperative projects in lieu of the requirement that budgets be submitted only when the owner believes a rent adjustment is needed. For Section 202 and 811[[9]](#footnote-10) projects, owners prepare and maintain budgets every year, but submission of the budget to HUD is only required when an adjustment is requested. In accordance with the regulatory agreement requirement for annual budget submissions, the owner must include any information required by Section 2 of this Chapter.
2. **Eligibility Requirements Regarding Owner’s Good-Standing.** For the Department to consider an owner’s request to adjust project’s rents, the owner must be in compliance with all business agreements with the Department and project operations must meet HUD standards as demonstrated by:
	1. **Physical Condition.** The project must have a current REAC PASS score of 60 or above. If the score was below 60. The owner agrees to operate and maintain the units and related facilities so as to provide safe, decent and sanitary housing has defined by HUD.
	2. **Management Reviews.** The project must have received a *Satisfactory Management and Occupancy Review (*MOR*)* rating for the prior review. Except that if the project received a less than satisfactory rating in any section of its last MOR, HUD may consider an adjustment if the owner provides acceptable written comments regarding the status of any improvement action plan in progress, the other corrective actions taken, and target dates for completing these actions.
	3. **Financial Statements.** The owner must be current in the filing of the HUD Annual Financial Statements (AFS) required by the Department, as well as the monthly accounting reports, if required by HUD.
	4. **Excess Income.** Owners of Section 236 projects must be in compliance with all Excess Income requirements. If an owner is not in compliance with all Excess Income requirements but is in compliance with an approved correction plan, HUD may consider a rent adjustment request.
	5. **Defaults and Violations.** The property should have no outstanding notices of default or violation of business agreements. Except that HUD may, in its discretion, approve an improvement action plan that incorporates an owner’s proposal for a rent adjustment.

## 2.06.3 RENT ADJUSTMENT REQUESTS

**Maximum Allowable Rent Potential (MARP).** As a result of reviewing a budget based rent adjustment request, the reviewer computes a new maximum annual rent for the project, also referred to as the *Maximum Allowable Rent Potential*(MARP). Note, the Guide requires certain MAHRA budget based adjustments are subject to a RCS (Refer the Guide Chapter 2-15 and 2-17 if applicable). Also refer to 24 CFR §245.10; and section 2.06.1 above. For Section 202 and 811[[10]](#footnote-11) projects, owners prepare and maintain budgets every year, but submission of the budget to HUD is only required when an adjustment to the rents is requested.

MARP establishes the maximum rent level that an owner may charge. The actual rents authorized by HUD and charged by owners must either be equal to or less than the project’s MARP.

When processing a budget based rent adjustment, reviewers will provide the MARP and the authorized rents in their notification letter to the owner and on the approved Rent Schedule (Form HUD-92458).

1. **Type of Rent adjustment.** An owner may later request higher rents that are below or equal to the last MARP[[11]](#footnote-12), or higher than the last MARP (which will require the establishment of a new MARP). As shown in **Figure 2** and described in Section 2, the type of rent adjustment requested by the owner, determines the scope of submission and processing requirements.

**Figure 2 – Types of Rent Adjustment Requests**

|  |  |
| --- | --- |
| **Type of Rent adjustment** | **Description** |
| 1. Proposed Rent is **Less than or Equal to Last MARP**
 | Some properties, especially those without income-based subsidy for tenants, may implement rents that are significantly less than their last MARP. In such situations, these properties may follow a streamlined process as outlined in paragraph 2.06.4 but may not decrease the utility allowance without triggering the tenant comment procedures in paragraph 2.06.6.  |
| 1. Proposed Rent **Exceeds the Last MARP**
 | In cases when the owner’s requested rent adjustment exceeds the project’s last MARP, owners must follow up with a new BBRA submission, as outlined in paragraph 2.06.5, requesting the establishment of a new MARP. The submission requirement and timelines differ for this type of rent adjustment if the project is subject to tenant comment procedures as described in paragraph 2.06.6.  |

# SECTION 2: OWNER’S SUBMISSION REQUIREMENTS

This section of the chapter provides guidance to owners on submission requirements for rent adjustments. It also provides background on requesting adjustments to utility allowances[[12]](#footnote-13) and/or reserve for replacement deposits. Additionally, it provides general guidance for Section 236 and Section 221(d)(3) BMIR properties, as well as information on commercial and other charges.

## 2.06.4 PROPOSED RENT IS LESS THAN OR EQUAL TO LAST MARP

1. **Background.** When projects such as Section 202, 236 and 221(d)(3) BMIR were originally established, assistance was provided through the project’s financing structure, and tenants paid proportionate operating expenses and debt service. Consequently, adjustment in operating expenses resulted in higher rents for tenants, since their subsidy was not limited to a rent burden of 30% of monthly adjusted income. Rent adjustments created a hardship to tenants and caused increased tenant turnover and rent delinquency. To mitigate these negative outcomes, some owners chose to “phase in” rent adjustments over two or more years. If owners chose not to implement the full authorized rent adjustment at one time, they were able to implement the remainder of the previously authorized rent adjustment under a simplified process. In such cases, owners are eligible to request a rent adjustment within or up to the previously authorized Maximum Allowable Rent Potential (MARP).
2. **Submission Requirement.** If theproposed rent adjustment is less than or equal to the last MARP, owners must submit a new Rent Schedule (Form HUD-92458), found in Appendix 2.06-1. The owner must complete all parts of the Rent Schedule except for parts F and I. Other submission requirements outlined in **Figure 3** do not apply for such rent adjustment requests. If the owner is also requesting an adjustment related to utility allowances and/or reserve for replacement deposits, the owner must follow the requirements outlined in paragraphs 2.06.7 (Adjustments to Utility Allowances) and 2.06.8 (Adjustments to Reserve for Replacement). The owner should be aware that additional requests, such as a reduction in utility allowances, could prompt tenant comment requirements, and must follow the requirements outlined in paragraph 2.06.6 (Projects Subject to Tenant Comment Procedures).
3. **Timing Requirement.** For HAP contracts renewed under section 524(a), (b)(1), or (e)(2) of MAHRA with a multi-year contract, rents are to be adjusted on the anniversary of the HAP contract by OCAF, or, at the owner’s request and subject to HUD approval, on the basis of a budget. Owners should refer to the Guide for the timing of requests; or annual rent adjustments at the MAHRA contract anniversary for an annual rent adjustment at least 120 days but no earlier than 180 days before the anniversary date of the HAP contract. The reviewer will complete their review to return the signed Rent Schedule in accordance with the established operating procedures.

## 2.06.5 PROPOSED RENT EXCEEDS LAST MARP

1. **Submission Requirement.** If the proposed rent exceeds the last MARP, the owner must submit the relevant materials listed in **Figure 3** for review and approval. This figure identifies the relevant appendices that contain suggested formats and templates to assist the owner in preparing the submission package.

**Figure 3 – Owner’s Submission Requirements**

**FOR ALL PROJECTS**

| **Required Materials** | **Description** | **Appendix** |
| --- | --- | --- |
| 1 | **Owner’s** **Cover Letter** | Must describe: 1. The reasons why a rent adjustment is needed and the date the adjustment will be effective.
2. The project's physical condition and any improvements that have been budgeted for.
3. Any proposed change in services equipment or charges and the reasons for the change.
 | 2.06-3. B |
| 2 | **Budget Worksheet** (Form HUD-92542.06-A) | Must provide income and expenses:1. From the current HUD annual financial statement (AFS)
2. Current year to date
3. Projected for 12 months following anticipated effective date of the proposed rent adjustment.

Note: Appendix 2.06-1 provides a link to HUD form, Appendix 2.06-3. C. provides link to Excel-based budget worksheet  | 2.06-12.06-3.C |
| 3 | 1. Supporting Narrative
2. **Supporting Documentation**
 | 1. Must provide a brief statement explaining the basis for any adjustment in the expense line items that is greater than or equal to $500.
2. Must provide supporting documentation for any adjustment in the expense line items that is greater than or equal to $500 AND that is greater than or equal to 5 percent of prior year’s actual.
 | 2.06-3.C |
| 4 | **Owner’s Certification** | An executed copy certifying Purchasing Practices and Reasonableness of Expenses | 2.06-3. D |
| 5 | **Energy Conservation Plan Status Report** (if applicable)[[13]](#footnote-14) | Follow current OAMPO guidance as required |  |

**FOR PROJECTS SUBJECT TO TENANT COMMENT PROCEDURES**

| **Required Materials** | **Description** | **Appendix** |
| --- | --- | --- |
| 6 | **Copy of Tenant Notice** | Annotate it to show where and how the Notice was distributed. | 2.06-3. E. |
| 7 | **Certification of Compliance with Tenant Comment Procedures** | An executed copy certifying compliance with tenant comment procedure requirements | 2.06-3. F. |
| 8 | **Copy of Tenant Comments with Evaluation** | If tenant comments were received, a copy of all comments must be provided with the owner’s final submission after the tenant comment period has ended. The submission must include an evaluation of the comments received. | 2.06-1 |
|  |  |  |  |

**FOR PROJECTS REQUESTING ADJUSTMENT TO THE REPLACEMENT RESERVE**

| **Required Materials** | **Description** | **Appendix** |
| --- | --- | --- |
| 9 | **Request to Revise Reserve Deposits** | A signed request for a change in the reserve for replacement deposit if such a change is contemplated as part of the rent adjustment request. | 2.06-3. H. |
| 10 | **Reserve Analysis** | An analysis must be performed if an owner wishes to adjust the reserve deposits. See paragraph 2.06.8 of this chapter. | 2.06-1 |
| **The U.S. Department of Energy (DOE) and the U.S. Department of Housing and Urban Development (HUD)[[14]](#footnote-15) have partnered to expand the *Better Buildings Challenge (Challenge)*** to the multifamily residential sector. The *Challenge* will now support residential, as well as, commercial and industrial building owners by providing technical assistance and proven solutions to energy efficiency. The project also provides a forum for matching Partners and Allies to enhance collaboration and problem solving in energy efficiency. Participating residential building owners and managers will commit to reducing energy consumption by at least 20 percent over 10 years, which can lead to an annual energy savings of almost 350 trillion Btu. The expansion of the *Better Buildings Challenge* project is part of President Obama's Climate Action Plan, and recognizes the role that increased energy efficiency can play in reducing carbon pollution, fostering healthy communities, and improving the financial stability of housing assets. For more information, please go to the U.S. Department of Energy's [**link**](http://www4.eere.energy.gov/challenge/partners/multifamily). |

May be amended or superseded by a more current version.

**FOR PROJECTS WITH UTILITY ALLOWANCES**

| **Required Materials** | **Description** | **Appendix** |
| --- | --- | --- |
| 11 | **Utility Allowance Recommendation** | A recommendation regarding what utility allowance is appropriate for each unit type and a summary of how the owner arrived at that amount with appropriate recommendation. | 2.06-3. G. |
| 12 | **Utility Allowance Analysis** | A baseline utility analysis is required every three years. For the next two years, owners may submit a factor-based utility analysis.  | 2.06-1 |

1. **Preparing BBRA Submissions.** Owners must submit accurate and complete materials. Incomplete submissions are the most common reason for delays in processing. It is important that owners complete the budget worksheet (Form 92547-A) accurately and carefully, avoiding over or under estimations or computational errors. Appendix 2.06-1 provides a link to Form HUD-92547-A. Owners are encouraged to prepare and submit an Excel-based version of the budget worksheet to HUD, provided as a link under Appendix 2.06-3. C. Owners must explain all adjustments that are greater than or equal to $500 in a supporting narrative. For expense adjustments greater than or equal to 5 percent and $500, owners must provide supporting documentation such as copies of contracts, real estate bills, and published adjustments in utility rates. Where it is not practical to provide supporting documentation (i.e., a part-time employee will be moved to full-time when the adjustment is implemented), owners should clearly state the basis for the adjustment in their narrative. Appendix 2.06-3. C. also provides a link to the current Chart of Accounts that owners can use for line item definitions when preparing a budget worksheet.
2. **Timing Requirement.** Owners of projects subject to a rental assistance contract covered by the Guide Chapter 2-17. Projects subject to 24 CFR §245 Subpart D should submit their request for rent adjustment upon expiration of the period for tenant comments required in the notice format in 24 CFR §245.310 and after review of the comments submitted to the mortgagor, the mortgagor must submit to the assigned HUD office, in addition to the materials enumerated in 24 CFR §245.315 and any revisions thereto, the request for an increase in the maximum permissible rents, together with the required materials or in accordance with outstanding guidance. The reviewer will complete their review of the documentation in accordance with guidance in Section 3, compute a new MARP, and notify the owner of the new authorized rent in accordance with established operating procedures. For projects that are subject to tenant comment procedures, the 30-day tenant comment period begins with the initial submission and the submission is deemed to be complete only after the owner sends the comments generated during the posting period, the owner’s evaluation of the comments and a certification to make the initial submission a complete submission. The reviewer cannot issue a final approval before the tenant comment period has ended and the owner’s complete submission has been received. **Figure 4** below outlines the processing requirements for projects.

**Figure 4 – BBRA Process Overview**

STEP 4

STEP 7

STEP 6

STEP 5

STEP 3

STEP 2

STEP 1

## **2.06.6** **PROJECTS SUBJECT TO TENANT COMMENT PROCEDURES**

 **Applicability.** The requirements of this paragraph (2.06.6) affect only those owners whose requested rent potential would exceed the last MARP or who are requesting approval of a covered action, such as a reduction in utility allowance. If the proposed rent potential is less than or equal to the last MARP, the tenant comment procedures outlined in this paragraph do not apply. The properties subject to tenant comment procedures are listed in **Figure 5**. Tenant comment procedures for the rent adjustment [[15]](#footnote-16)process are provided for in Section 202(b)(1) of the 1987 Housing and Community Development Amendments (HCDA) and Section 329(F) of the 1981 HCDA. Regulations at 24 CFR §245 set the Department’s policy on the subject (Appendix 2.06-1 provides a link to the regulations and directions to a sample notice). Specifically, the Federal regulations for Tenant Comment Procedures during the BBRA process can be found in Subpart D (Procedures for Requesting Approval of an Adjustment in Maximum Permissible Rents). Owners of applicable projects requesting conversion from project-paid to tenant-paid utilities or a reduction in utility allowance are also required to follow tenant comment procedures; these regulations are found in 24 CFR §245 Subpart E. Owners of Section 236 non-insured properties requesting conversion from project-paid utilities to tenant-paid utilities or a reduction in tenant utility allowances[[16]](#footnote-17) are subject to 24 CFR §245.435. (Procedures for Requesting Approval of a Covered Action).

1. Subpart D and E do not apply to cooperatives whose residents elect a Board of Directors which must approve any proposed adjustment in carrying charges.

**Figure 5**

|  |
| --- |
| **Properties Subject to Tenant Comment Procedures** |
| * Insured or HUD –Held Mortgage assisted under:
	+ 236
	+ 221(d)(3) BMIR
	+ Rent Supplement (RS)
	+ Section 8 LMSA (886) converted from RS; or
* Formerly assisted under the above and acquired by HUD and sold under a low and moderate income use restriction that survives
* State or local housing finance agency non-insured project assisted under RS or 236[[17]](#footnote-18)
* Project-based assistance under Section 8 of the United States Housing Act of 1937
* 202, 202 Supportive Housing or Section 811
 |

1. **Notice to Tenants.** Owners must issue a Notice to Tenants[[18]](#footnote-19) for any rent adjustment request[[19]](#endnote-2) or covered action, such as a reduction in utility allowances[[20]](#footnote-20). The Notice must contain all the information included in the sample notice shown in Appendix 2.06-3. E. The owner must make the initial request to the reviewer at the same time the Notice is given to the tenants. The date of the Notice must reflect the date when Notices were hand carried, mailed, and/or initially posted. The Notice date marks the beginning of the 30-day comment period.
	1. **Delivery.** For all projects, other than High-Rise, owners must "deliver" the Notices. The owner may mail a copy of the Notice to each tenant or preferably, hand deliver it directly to each unit. Owners are required to also deliver the Notice to those tenants who pay market rent, as well as tenants who would not be affected by an adjustment because they pay a percentage of income.
	2. **Posting.** For High-Rise projects, owners have the option to "post" (24CFR § 245,15(a)) or "deliver" (hand-deliver) the Notice to each tenant. If applicable, the owner must post the Notice in at least three (3) visible places in each high-rise building in which dwelling units are located and in one (1) visible place at the address where the submission material will be available for tenant review and copying. Owners must keep the posted Notices in place and in legible form for the entire 30 days of the tenant comment period.
2. **Tenant Review and Comment.** During the 30 days following the date when the Notice to Tenants was given, the owner must make all of the materials and additional information used to justify the requested adjustment, as listed in **Figure 3**, available to tenants or their representatives to review and/or copy. The owner must make materials available at least during normal business hours.
3. **Comment Submission.** Tenants may submit written comments on the rent adjustment request to the owner and/or send it directly to the HUD or CA reviewer. The owner must review and evaluate all tenant comments, and forward the comments and evaluation to the HUD or CA reviewer after the 30-day tenant comment period as part of the complete rent adjustment request.
4. **Changes to Supporting Documentation.** If during the 30-day comment period, the owner makes a material change in any of the documents submitted in support of the adjustment, the owner must notify the tenants of the change(s) in a new Notice to be distributed in the exact same manner as the original Notice to Tenants. The owner must make the revised materials available for the tenants to review and/or copy for the greater of (i) 15 days after the revised Notice was given, or (ii) the days remaining in the initial 30-day comment period.
5. **Complete Submission.** At the conclusion of the tenant comment period, the owner must forward the tenant comments and evaluations (if any), as well as an executed copy of the owner's Certification as to Compliance with 24 CFR §245 Review and Comment Procedures (a sample Certification is provided in Appendix 2.06-3. F. to the reviewer. The submission will then be considered complete and will be processed for budget approval and for the computation of the new MARP. The reviewer will notify the owner of the new MARP and authorized rents in accordance with the established operating procedures.

## 2.06.7 ADJUSTMENTS TO UTILITY ALLOWANCE

1. **Applicability.** An adjustment to the utility allowance is required at the time of the annual adjustment of contract rents and when utility rate change results in a cumulative adjustment of 10 percent or more from the most recently approved utility allowance. Owners must refer to HUD Notice H-2015-04[[21]](#footnote-21), Methodology for Completing a Multifamily Housing Utility Analysis (link provided in Appendix 2.06-1), for guidance on establishing utility allowances. This HUD Notice provides detailed instructions to owners for guidance on completing utility analysis. Rent adjustment requests that include a request for utility allowance adjustment, will not be processed if owners do not comply with HUD requirements as per the current guidance.
2. **Procedures.** The HUD Notice H-2015-04[[22]](#footnote-22) outlines adjustment request procedures such as time considerations, tenant notice, and implementation guidelines, as well as sample reference documents. The owners are also required to notify the tenants of any proposed utility allowance adjustments, as per 24 CFR §245 Subpart E. For owners requesting a decrease in utility allowances, separate tenant notice requirements apply. In addition, HUD requires that certain utility allowance decreases must be phased-in, as outlined in the HUD Notice.
3. **Submission Requirements.** Each owner must submit:
	1. A utility allowance recommendation (as shown in Appendix 2.06-3. G.) that outlines the following:
		1. The type of utilities covered by the utility allowance (e.g., gas for heating).
		2. States whether any utility rate adjustments or decreases were implemented during the past 12 months or are expected to be implemented during the next 12 months and the amount of those adjustments or decreases.
		3. States how any energy conservation initiatives have impacted or will impact consumption.
	2. A baseline analysis (required every three years) or a factor-based analysis (permitted for years 2 and 3, between baseline analyses). Sample analysis methodology can be found in HUD Notice H 2015-04, or most current guidance.

## 2.06.8 ADJUSTMENTS TO RESERVE FOR REPLACEMENT

**Overview.** The Reserve for Replacement account is established for the purposes of providing a source of capital to defray costs to replace structural components and mechanical equipment of the property. Projects subject to 24 CFR §245 Subpart D should submit their request for rent adjustment including required materials for a reserve for replacement adjustment upon tenant notice for comments required in the notice format in 24 CFR §245.310 and after review of the comments submitted to the mortgagor. Regulatory Agreements require cooperative projects to submit their operating budgets annually, as well as obtain HUD approval of carrying charges for expense. Per 24 CFR §880.602(a)(1) the R for R balance is to be adjusted each year by the automatic annual adjustment factor (AAF). However, per 24 CFR §880.602(a)(1)(ii), HUD has the discretion to reduce the rate of deposit if HUD deems that the balance is sufficient to meet projected requirements.

1. Owners may request revisions in deposits to reserves, as part of rental adjustment processing based on project type business agreement (e.g. regulatory agreement; use agreement; mortgage note) and / or assistance type and rules and requirements governing the reserve for replacement as required by HUD.

Examples of Requirements:

24 CFR §880.602 Replacement reserve**.**

**(a)** A replacement reserve must be established and maintained in an interest-bearing account to aid in funding extraordinary maintenance and repair and replacement of capital items.

**(1)** 24 CFR§880 and [24 CFR §881](https://www.law.cornell.edu/cfr/text/24/part-881) projects.

(a)This reserve amount will be adjusted each year by the amount of the automatic annual adjustment factor.

(b) In the case of [HUD](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=fd1b93dc13cd196a231bff867a91b3b6&term_occur=7&term_src=Title:24:Subtitle:B:Chapter:VIII:Part:880:Subpart:F:880.602)-insured projects, the provisions of this section will apply instead of the otherwise applicable mortgage insurance provisions, except in the case of partially-assisted insured projects which are subject to the applicable mortgage insurance provisions.

(2) [24 CFR §883](https://www.law.cornell.edu/cfr/text/24/part-883), [subpart D](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=114805ff6e3fed85a16cc39d763a86a4&term_occur=1&term_src=Title:24:Subtitle:B:Chapter:VIII:Part:880:Subpart:F:880.602)

(a) For projects approved under [24 CFR §883](https://www.law.cornell.edu/cfr/text/24/part-883), [subpart D](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=114805ff6e3fed85a16cc39d763a86a4&term_occur=2&term_src=Title:24:Subtitle:B:Chapter:VIII:Part:880:Subpart:F:880.602), this amount may be adjusted each year by up to the amount of the automatic annual adjustment factor. For all projects not approved under [24 CFR §883](https://www.law.cornell.edu/cfr/text/24/part-883), [subpart D](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=114805ff6e3fed85a16cc39d763a86a4&term_occur=3&term_src=Title:24:Subtitle:B:Chapter:VIII:Part:880:Subpart:F:880.602), this amount must be adjusted each year by the amount of the automatic annual adjustment factor.

(b) The reserve must be built up to and maintained at a level determined to be sufficient by the to meet projected requirements. Should the reserve achieve that level, the rate of deposit to the reserve may be reduced with the approval of the [Agency](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=681bd723017381068cec36d8cfd2d8b0&term_occur=3&term_src=Title:24:Subtitle:B:Chapter:VIII:Part:880:Subpart:F:880.602).

(c) HUD may exempt [partially-assisted projects](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=31e5a138203e669de1a13a95ebb9ddb9&term_occur=1&term_src=Title:24:Subtitle:B:Chapter:VIII:Part:880:Subpart:F:880.602) approved under [24 CFR §883](https://www.law.cornell.edu/cfr/text/24/part-883), [subpart D](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=114805ff6e3fed85a16cc39d763a86a4&term_occur=4&term_src=Title:24:Subtitle:B:Chapter:VIII:Part:880:Subpart:F:880.602), from the provisions of this section. All [partially-assisted projects](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=31e5a138203e669de1a13a95ebb9ddb9&term_occur=2&term_src=Title:24:Subtitle:B:Chapter:VIII:Part:880:Subpart:F:880.602) not approved under the Fast Track Procedures formerly in [24 CFR §883](https://www.law.cornell.edu/cfr/text/24/part-883), [subpart D](https://www.law.cornell.edu/definitions/index.php?width=840&height=800&iframe=true&def_id=114805ff6e3fed85a16cc39d763a86a4&term_occur=5&term_src=Title:24:Subtitle:B:Chapter:VIII:Part:880:Subpart:F:880.602), are exempt from the provisions of this section.

**(2) 24 CFR §891.605**

**(a)***.* The Borrower shall establish and maintain a replacement reserve to aid in funding extraordinary maintenance, and repair and replacement of capital items.

**(b)** *Deposits to reserve.* The Borrower shall make monthly deposits to the replacement reserve in an amount determined by HUD. Further requirements regarding the amount of the deposits for projects funded under 24 CFR §891.655

1. **Procedures and Submission.** If an adjustment is needed, owners must submit a signed request for a change in the Reserve or Replacement as of the rent adjustment request (a sample request is provided in Appendix 2.06-3. H.). For new projects, owners are required to submit a Physical Capital Needs Assessment (PCNA)[[23]](#footnote-23) and periodic updates to establish proper levels and usage. Owners must refer to current guidance, Mortgagee Letter 2012-25, HUD Notice 2012-27[[24]](#footnote-24) for further guidance[[25]](#footnote-25) on adjustments to Reserve for Replacement. Owners should be aware that this guidance may be amended and reissued from time to time (Appendix 2.06-1 provides links to relevant current guidance).

## 2.06.9 SERVICE COORDINATORS, ELDERLY CARE AND CONGREGATE SERVICES

1. **Service Coordinators Overview.** A Service Coordinator (SC) is a social service person hired, contracted, or retained by the assisted housing owner or its management company, who assists residents in identifying, locating and acquiring supportive services necessary for elderly persons to live independently and age in place in that development. The SC position and related project costs are eligible operating expenses in certain housing developments that are targetedto elderly persons. Owners should include aSC position in their operating budget at any time after the project is fully occupied.When a current operating budget is not sufficient to cover SC-related costs, owners may request a rent adjustment to meet this need. Statutorily, any cost associated with the employment or otherwise retaining a SC in Section 202 housing supported by a PRAC must be considered an eligible cost.
2. **Eligible Developments**

Authority for eligible costs for service coordinators for elderly or disabled families in eligible housing projects is addressed in Sections 671, 672, 674, 676 and 677 of the Housing and Community Development Act of 1992 (42 U.S.C. 13631 and 13632).

a. Be assisted or financed through any of the following projects:

(1) Section 202 Direct Loan;

(2) Project-based Section 8 (including Section 8 Moderate Rehabilitation), or

(3) Section 221(d)(3) below-market interest rate and Section 236 (insured or assisted).

b. Have frail or at-risk elderly residents and/or non-elderly residents with disabilities who together total at least 25 percent of the building's residents. (For example, if a property has 52 total residents, at least 13 residents must be frail, at-risk, or non-elderly people with disabilities.)

c. Were designed or designated for the elderly or persons with disabilities and continue to operate as such. This includes any building within a mixed-use development that was designed for occupancy by elderly persons or persons with disabilities at its inception and continues to operate as such, or consistent with title VI, subtitle D of the Housing and Community Development Act of 1992 (Pub. L. 102-550). If not so designed, a property in which the owner gives preferences in tenant selection (with HUD approval) to eligible elderly persons or nonelderly persons with disabilities for all units in that property.

d. If FHA insured or financed with a Section 202 Direct Loan, are current in mortgage payments or are current under a workout agreement.

e. Meet HUD's Uniform Physical Conditions Standards (codified in 24 CFR § 5, subpart G), based on the most recent physical inspection report and responses thereto, as evidenced by a score of 60 or better on the last physical inspection or by an approved plan for properties scoring less than 60.

f. Are in compliance with their regulatory agreement, Housing Assistance Payment (HAP) Contract, and any other outstanding HUD grant or assistance contract document.

g. Have no available project funds (i.e., Section 8 operating funds, residual receipts, or excess income) that could pay for a Service Coordinator. (“Available funds” are those that require HUD approval for their use and are not needed to meet critical property needs.) Assigned HUD staff will make this determination based on financial records maintained by the Department and information provided by the applicant in the grant application.

Note: If development eligibility status changes during the course of the Service Coordinator grant term, making it ineligible to receive a grant (e.g., due to prepayment of mortgage or sale of property) notification is required to HUD.

1. **Service Coordinator Request.** Owners requesting a budget adjustment to cover the cost of a SC project must submit the following documents, in accordance with current guidelines and timeframes as specified by HUD (Refer to Section 2 above):
	1. A copy of the project’s current or proposed operating budget, using Form HUD-92547-A, Budget Worksheet Income and Expense Projections.
	2. Multifamily Housing Service Coordinator Funding Request, Form HUD-91186-A.
	3. Evidence of at least three comparable salaries that are consistent with salaries and cost of similar projects in the jurisdiction of the property’s HUD Regional Center.
	4. Narratives detailing:
		1. A plan to provide sufficient on-site private office space for the SC. Such office space shall be provided as a permanent private office with a door, ceiling and four walls to allow for confidential meetings with residents. If construction is involved, owner must include a plan and a cost estimate.
		2. An explanation of proposed Quality Assurance (QA) activities and an itemized list of estimated expenses, since HUD does not permit on-site housing management staff to perform QA work. QA activities are expected to evaluate the project and assure that the position and the project are being effectively implemented. The owner should indicate the type of professional or entity who is expected to perform this work, if known in advance, and also include the qualifications of the QA provider, such as education or licensing in either social work or a related health care field.
		3. A Supportive Service Plan that identifies short and long term project outcomes to help measure project performance.
2. **Income.** Subject to HUD approval, projects for the elderly may have additional income and expenses that are not found in other projects. Multifamily Housing does not administer nursing homes or assisted living facility mortgage insurance projects. When completing the HUD Budget Worksheet, Form HUD-92547-A, owners must use line item 5300 to record revenues related to elderly care services (such as revenues from meal projects and housekeeping keeping services). The 5300-line item corresponds to accounts 5300-5390 provided in HUD Handbook 4370.2. All HUD funding received for a Service Coordinator should also be included in the 5300-line item.
3. **Expenses.** The owner should reflect HUD-covered Elderly Care expenses in account line item 6900 of the Budget Worksheet, Form HUD-92547-A. The owner should include only the approved HUD-covered expenses on the budget worksheet. HUD Notice H 1998-12[[26]](#footnote-26) or most current guidance, provides detailed information regarding HUD-funded elderly care expenses for Section 202 PRACs that have prior approval to use operating funds to pay up to 15% of a service package needed by a resident. The owner must include the elderly care and congregate service expenses in line item 6900, including the salary of a HUD-funded Service Coordinator which is found in line item 6990 of the current AFS. Other examples of expenses captured under line 6900 include dietary salaries, food, dietary supplies, and recreation and rehabilitation. Owners should refer to their service agreements for specific services covered by HUD when budgeting for line item 6900.
4. **Effect on Budget Based Rents.** Certain properties with Section 202 PRACs may have prior approval to use operating funds to pay up to 15% of a service package needed by a resident (as per HUD Notice H-1998-12 or most current guidance). For all other projects, HUD does not support assisted living activities from operational funds and any such activities should not affect the budget. HUD expects such projects to be self-sufficient through grants (including HUD grants), service enhanced housing or assisted living conversion projects or permissible use of residual receipts. Owners are required to document any permission or funding received from HUD for assisted living activities.

## 2.06.10 PROJECTS WITH COMMERCIAL SPACE

The term "Commercial" is applied to any space or facility permitted and acceptable for "Nonresidential Use" from which income is derived or anticipated. Owners must not include income from residents for the use of facilities such as community rooms and parking, as these are not considered commercial income even though fees may be collected. Some properties with Section 236, 202 and 220, that were provided with rental housing assistance may request a budget based rent adjustment with commercial income included in the budget. HUD does not establish market rates for commercial spaces. If the lease arrangement is something other than a triple net lease or is with a related party, owners must be careful in including these charges. Owners can refer to HUD Notice H-2011-10 [[27]](#footnote-27)on the Requirements for Documenting the Review and Setting of Rents for Commercial Space in HUD Properties at Appropriate Levels as Approved by HUD.

## 2.06.11 PROJECTS WITH FACILITIES AND SERVICES SUBJECT TO CHARGE

1. **Overview.** Owners may not charge the tenants separately for equipment and services that are included in the rent. Owners may offer congregate services only on terms that have been approved by HUD. All income derived from service and facility charges must be deposited in the project operating account. Owners can find the HUD approved amounts for services and equipment included in rent in Part B of the Rent Schedule, and the amounts approved in addition to rent in Part C. Owners may charge tenants for other services or facilities only if all of the four (4) conditions listed below are met:
	1. The services, facilities and charges have been included in Part C of the most recently approved Rent Schedule;
	2. A schedule of those charges has been posted or distributed to the tenants;
	3. Use of those facilities or services is optional on the part of the tenant; and
	4. If not previously authorized, the charges must be approved by HUD prior to implementation.
2. **Parking Charges.** Owners can charge for parking only in unsubsidized projects where HUD previously approved it. The owner can charge for car heaters in both subsidized and unsubsidized projects in cold climates where parking spaces are so equipped.

## 2.06.12 SECTION 221(d)(3) BELOW MARKET INTEREST RATE PROPERTIES

1. **Applicability.** For Section 221(d)(3) that are below market interest rate (BMIR) properties, HUD approves the rents as with other subsidized projects. BMIR projects that are housing cooperatives are not subjected to tenant comment procedures.
2. **Utility Allowances.** Utility allowances[[28]](#footnote-28) are not allowed for units without income based subsidies if the properties were built with tenant-paid utilities. However, if the project has rental housing assistance (a Loan Management Set Aside contract) or Rent Supplement, the tenants receive a utility allowance.
3. **Monthly Schedule.** BMIR mortgagors must complete a monthly schedule - Schedule of Computation of Rental Income in Excess of BMIR Rent Paid by Over Income Tenants, in order to compute the amount of rent in excess of BMIR rent paid by over-income tenants (once initially approved, tenants are grandfathered in). Owners are required to deposit these funds to the residual receipts account if the project has a surplus cash position at the end of the fiscal year. Unless requested by the HUD or CA reviewer, the owner must retain this form as part of the owner’s record.

# SECTION 3: REVIEW OF THE OWNER’S SUBMISSION[[29]](#footnote-29)

This section provides reviewers with guidance on processing (approving, modifying or denying) a request to budget based rental adjustment, as well as, requests to revise utility allowances and reserve for replacement deposits. The section also outlines guidance regarding the different review requirements based on the rent adjustment type requested, program type and if tenant comment procedures apply. Also included in this section are directions to reviewers for evaluating and approving the Budget Worksheet, in addition to conducting the necessary due diligence prior to computing the new Maximum Allowable Rent Potential (MARP) and establishing the authorized rents. Reviewers must use the guidance in Appendix 2.06-4 for approving the Budget Worksheet and calculating MARP. [[30]](#footnote-30)

## 2.06.13 PROCESSING REQUESTS LESS THAN OR EQUAL TO LAST MARP

1. **Processing the Request.** For requests with proposed rent less than or equal to last MARP, tenant comment procedures do not apply and the reviewer must review the owner’s submitted Rent Schedule (Form HUD-92458) following the guidance below:
	1. The reviewer must check the accuracy and completeness of the owner’s entries in the submitted Rent Schedule using the Initial Screening Checklist (provided in Appendix 2.06-4. A.).
	2. The reviewer must obtain the last MARP from the last Rent Computation Worksheet (or Part F of the last approved Rent Schedule) completed for the project, and enter this amount in Part F of the Rent Schedule.
	3. The reviewer must ensure that parts D and E of the submitted Rent Schedule agree with the assumptions made on the last Rent Computation Worksheet, with respect to non-revenue producing space and commercial space.
	4. The reviewer must sign and date the Rent Schedule in Part I of the Rent Schedule and notify the owner as directed in Section 4.
	5. For owner requests that also include adjustments to utility allowances and/or reserve for replacement,[[31]](#footnote-31) the reviewer must follow the HUD’s requirements in this chapter (see paragraphs 2.06.12.06 and/or 2.06.18 respectively). Reviewers should note that certain covered actions in 24 CFR §245 Subpart E, such as the reduction of utility allowances, prompt tenant comment procedures, as discussed paragraph 2.06.16 of this chapter.
2. **Timing.** The HUD or CA reviewer will complete the processing of the owner’s request in accordance with the established operating procedures, and notify the owner following the procedures outlined in Section 4 of this chapter.

## 2.06.14 PROCESSING REQUESTS WHEN PROPOSED RENT EXCEEDS LAST MARP[[32]](#footnote-32)

1. **Processing the Request.** The **Figure 4** in Section 2 of this chapter, provides an overview of the process for projects subject to tenant comment procedures when proposed rents exceed the last MARP. Each of the steps in the review process is discussed in detail below.
2. **Timing.** The HUD or CA reviewer must complete an initial review upon receiving the owner’s submission (or *initial* submission[[33]](#footnote-33) for projects subject to tenant comment procedures). Note that for projects subject to tenant comment procedures, the full review cannot be completed until after the owner provides the required documentation as per paragraph 2.06.16.
3. **Performing the Initial Screening.** The reviewer must use the Initial Screening Checklist provided in Appendix 2.06-4. A. to perform a completeness and eligibility assessment of the owner’s submission for a BBRA. The objective of performing the initial screening is to ensure that all required materials were submitted in a complete and timely manner. If the reviewer identifies significant deficiencies in the BBRA submission during the initial screening, the reviewer must follow up with the owner in writing. Guidelines for performing the initial screening include:
	1. The reviewer must call or email the owner and ask them to submit any missing materials if the submission is determined to be incomplete or if the reviewer has other questions.
	2. Before requesting additional materials, the reviewer should determine if the items in questions will have significant monetary impact on the new MARP. The reviewer may require additional submissions only if the actual or projected estimates appear to be excessive and the narrative or supporting documentation provided do not adequately justify the requested expense levels. For projects subject to tenant comment procedures, material changes to the initial submission must comply with the requirements outlined in paragraph 2.06.16.
	3. Once the submission is verified as complete, the reviewer can move to the processing stage which involves preparing the HUD approved budget worksheet to determine the authorized rents.
4. **Preparing the HUD Approved Budget.** The reviewer should evaluate and analyze the owner’s projected income and expenses in order to prepare a HUD approved budget using the tool provided in Appendix 2.06-4. A. The reviewer must carefully evaluate the reasonableness of the project’s income and expenses following the detailed line by line guidance outlined in Appendix 2.06-4. B., as well as the general guiding principles listed below:
	1. **Review Owner’s Estimates.** Reviewers must be careful that expenses are not underestimated as it may indicate deferred maintenance or result in a default. Similarly, if expenses are overestimated, it may lead to higher rents resulting in HUD paying unnecessary subsidy.
	2. **Assess Reasonableness.** Reviewers must assess whether the actual expense base is reasonable for the level of maintenance expected during the next year. Reviewers must also assess whether the project is taking reasonable efforts to control costs and is complying with the terms of the Certification to Reasonable Purchasing Practices in Appendix 2.06-3. D. If the prior period's actual expenses were unusually high due to special circumstances, the reviewer should consider this when making adjustments for the budgeted period.
	3. **Document Adjustments and Justifications.** The reviewer must document all adjustments and approvals in the “Approved” column of the HUD approved budget worksheet tool. The reviewer must document justifications for line item approvals, especially for those greater than or equal to $500 and 5% of prior year’s actuals, in the “Comments” column of the HUD approved budget. The worksheet tool facilitates documentation of reviewer’s analysis while preparing the approved budget worksheet.
	4. **Due Diligence.** The reviewer must then comprehensively evaluate the approved budget by evaluating the aggregate numbers in the context of prior year’s actuals and owner’s budgeted cost of operations. The reviewer should consider the physical and financial condition of the property and whether or not the owner's submission as well as past performance support the requested adjustment. The purpose of performing this due diligence check is to ensure that the “allowed expenses” (as discussed in item 2.06.14. E.3. below) are appropriately approved prior to computing a new MARP.
5. **Compute New MARP.** Once the reviewer determines an approved budget and completes the due diligence checklist, the reviewer must compute the new MARP using the Rent Computation Worksheet (RCW) tool (provided in Appendix 2.06-4. A.). Reviewers should refer to Appendix 2.06-4. C. for step-by-step guidance on computing the new MARP using the Excel-based RCW tool.2.06 It is critical that the reviewer computes the correct MARP in order to authorize the appropriate rent adjustment that does not result in undue rent burden on residents or HUD over-subsidizing the properties. The five main factors influencing MARP are discussed below. The reviewer must ensure the accuracy of these items prior to computing the new MARP.
	1. **Debt Service*.***Reviewers must use the current debt service in computing the new MARP for projects with mortgages, unless the project requirements specify that another debt service[[34]](#footnote-34) must be used. In approving the budget and incorporating debt service into the rent calculation, the reviewer must ensure that the project’s current debt service and debt service coverage requirement are reflected. Reviewers must ensure that the debt service coverage ratio do not exceed a maximum of 1.2 when computing MARP. In the context of a refinancing transaction and a renewal of the rental housing assistance contract to preserve the project, “current debt service” is the amount that will take effect when the new loan closes. If the debt service associated with the refinancing changes before the contract renewal, HUD retains the right to revise the budget.
	2. **Distributions*.*** Reviewers must determine the appropriate distribution amount based on the business agreements governing the specific project. Reviewers should note that the currently allowed distribution may vary from the original allowed distribution due to several factors such as change of ownership type, infusion of additional equity and/or as of preservation transactions where owners were provided an adjusted distribution as an incentive in return for maintaining long-term affordability.[[35]](#footnote-35)
	3. **Allowed Expenses*.***For the purposes of computing new MARP, “Allowed Expenses” is comprised of four items – (i) Total Administrative Expenses, (ii) Total Utilities Expenses, (iii) Total Operating and Maintenance Expenses, and (iv) Total Taxes and Insurance. Reviewers must obtain these four items from the HUD approved budget worksheet. Reviewers may also include elderly care in Allowed Expenses, when applicable and in accordance with the guidance in paragraph 2.06.19.
	4. **Management Fee*.*** In computing the new MARP, reviewers must deduct the management fee[[36]](#footnote-36) from the Allowed Expenses. Management Fee is used for computing the “factor” when determining the new MARP[[37]](#footnote-37). Reviewers must ensure that they utilize the correct management fee from the most recently approved Management Certification, Form HUD-9839. If the fee is not capped, the reviewer must utilize the approved fee to establish the factor for determining the MARP. Reviewers must note that Management fee percentages that are too high or too low can cause rents to exceed or fall short of operating expenses.

Multifamily Housing has established a management add- on fee incentive to address one of the market and policy barriers that Owner and Agents experience in greening their projects and achieving of Better Building Challenge. Participation in this incentive is limited to only those projects by Better Building Challenge Participants, and applies to identity-of-interest, independent management agents and owner managed Belter Building Challenge multifamily housing projects,

Multifamily Better Buildings Challenge Incentive: Link to Allowable Management Add on Fees [**Multifamily Memorandum**](http://portal.hud.gov/hudportal/documents/huddoc?id=multifamily_memorandum.pdf)

To determine if a fee should be capped, reviewers must reference the guidance in **Figure 6** below (from Handbook 4381.5, page 3-35).

**Figure 6 – Management Fee Determinations[[38]](#footnote-38)**

|  |
| --- |
| OWNERS REQUESTING FEE PERCENTAGE ADJUSTMENTS |
| **Post-1986 Agreements Subject to HUD Review** | **Pre-1986 Fixed Term Agreements** | **Pre-1986 Open Ended Agreements** |
| Use ranges to determine the approvable fee | Use ranges to determine the approvable fee | Any adjustment in the fee percentage must result in a yield within the range limits. However, the old percentage may continue to be used, even if the yield exceeds the range limits. |

|  |
| --- |
| RENEWALS OF PRE-1986 FIXED TERM AGREEMENTS |
| If the fee percentage is not adjusted but the current fee yield exceeds the range:1. Cap the yield at the current yield
2. Adjust the fee percentage by dividing the capped PUPM yield by the new net monthly rent potential

*See paragraph 3.27* |

* 1. **Vacancy Rate*.***Vacancy rate is used in conjunction with the management fee to establish the factor for determining the new MARP. Reviewers must ensure that they use the approved vacancy rate when computing the factor. The reviewers must verify the approved vacancy rate from the business agreement of the respective project. General guidelines for establishing vacancy rates are provided below:
		+ 1. Projects with 100 percent Section 8 must include a vacancy loss rate of 3[[39]](#footnote-39) percent in the budget unless as part of a refinancing, the lender requires a different vacancy rate. Exceptions to the policy are:

a. Projects with 50 or fewer (which includes both assisted and

unassisted units) units must include a vacancy loss rate of 5

percent in the budget; or

b. Projects where the assisted units account for 20 percent or less of

the total units must use a vacancy loss rate of 7 percent in the budget.

For Section 202/811 projects or projects where 100% of the units are assisted with PRAC, the standard vacancy rate is 0%, however the owner may include a vacancy factor not to exceed 3 percent as applicable per HUD Notice H 2011-18 (See appendix 2.06-1) or most current guidance.

1. **Determine Authorized Rent.** Once the reviewer computes the new MARP, the reviewer must determine an authorized rent which may be less than the new MARP or different from the owner’s requested rent. For Section 8 Option 4 renewals, the reviewer must authorize the rents at the lesser of OCAF or budget. For such renewals, reviewers must not keep the rents at the existing levels if the budget supports a reduction in the rents. The reviewer should use the RCW tool provided in Appendix 2.06-4. A., in conjunction with the guidance below, to determine the authorized rent. Reviewers must follow the guidance below when authorizing rents. **Figure 7** provides illustrative examples of authorized rents.[[40]](#footnote-40)
	1. The New MARP is less or equal to the Owner’s Proposed Rent*.*When the rent adjustment percent based on new MARP is less than or equal to the owner’s requested rent adjustment, the reviewer must authorize rents that are equivalent to the new MARP.
	2. The New MARP exceeds the Owner’s Proposed Rent*.*When the rent adjustment percent based on new MARP exceeds the owner’s requested rent adjustment, the reviewer must authorize the owner’s proposed rent (unless the analysis justifies a higher rent than the owner requested and also notify the owner of the new MARP.
	3. The New MARP results in a Rent Decrease. If the new MARP results in a reduction to the current rent level, the reviewer should authorize rent decrease which is equivalent to the new MARP.

**Figure 7 – Examples for Authorizing a New Rent adjustment**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Proposed Rent** | **New MARP Adjustment** | **Authorized Rent** |
| New MARP < Proposed Rent | 4% | 2% | 2% |
| New MARP > Proposed Rent | 4% | 6% | 4% |
| New MARP results in Decrease | 4% | -2% | -2%  |

1. **Complete Reviewer Summary Memo.** Once the reviewer determines an authorized rent, the reviewer must complete the Reviewer Summary Memo (the Memo) available in Appendix 2.06-4. D. The reviewer must document a detailed summary of adjustments made and issues encountered in the Memo. The reviewer must summarize the changes he/she made to the owner’s budget (changes to individual budget line item are to be captured in the Approved Budget Worksheet) and explain the overall rationale for those changes. Also, any significant adjustments made in the Rent Computation Worksheet while computing the new MARP, must be documented in the Memo. For example, if the debt service provided by the owner was not used in the computations, the reviewer must note the reasons in the Reviewer Summary for why the reviewer used a different debt service in computing the new MARP. Other items to capture in this summary include:
	1. If the owner’s proposed rent adjustment was approved as requested.
	2. If an adjustment is lower/higher than what the owner requested.
	3. If processing resulted in a decrease in the MARP.
	4. If reviewer authorized a rent that is lower than the new MARP.
	5. The results to the owner’s request for changes to utility allowances, reserve deposits, commercial rents and/or other charges.

The reviewer must also document how the authorized rent adjustment is to be funded. Typically, the adjustment will be funded by rental assistance contract funding. However, the reviewer should consider if the adjustment can be funded in whole or in part by residual receipts for “New Regulation” rental housing assistance properties subject to Housing Assistance Payment offsets. See HUD Notice H-2012-14 or most current guidance.

The individual performing the computations and processing the rent adjustment request must sign the Reviewer Summary Memo. The Memo will aid in preparing the notification letter, discussed in Section 4 of this chapter, as well as serve as a record-keeping document.

## 2.06.15 SECTION 236 PROJECTS

For Section 236 projects, a new MARP is computed as outlined in paragraph 2.06.14. However, the new maximum unit rents for Section 236 projects are calculated differently. Rents may vary by floors if these differentials were approved at initial endorsement. This can be changed only if HUD and the owner think it necessary. Reviewers must follow the procedures in Box H of the Rent Computation Worksheet. The Worksheet's procedures give each unit type the same percentage adjustment in rent. Also, the reviewers must compute new maximum rents and new maximum market rents. NOTE: The dollar difference between basic rent and market rent may vary from that set at final endorsement because the interest reduction payments decline over time. Therefore, reviewers must review the amortization schedule for the budgeted year to ensure the correct amount is used.

## 2.06.16 PROJECTS SUBJECT TO TENANT COMMENT PROCEDURES

1. **Applicability.** For a list of properties subject to tenant comment procedures see **Figure 5** in paragraph 7.6. The reviewer must ensure that the applicable properties follow the tenant comment procedures outlined in 24 CFR §245 Subpart D when requesting approval of an adjustment in maximum permissible rents and Subpart E when requesting conversion from project paid to tenant paid utilities or a reduction in utility allowance. Owners of Section 236 non-insured properties requesting conversion from project-paid utilities to tenant-paid utilities or a reduction in tenant utility allowances are subject to 24 CFR §245.435.
2. Reviewers should note that Subparts D and E do not apply to mortgagors who are cooperative housing corporations or associations. A link to the 24 CFR §245 regulations is provided in Appendix 2.06-1.
3. **HUD’s Role.** In enforcing tenant comment procedures, the reviewer must follow these general guidelines:
	1. The reviewer must ensure that the tenant notice was delivered, usually hand delivered, to each tenant. Posting is permissible in high rise buildings (24 CFR §245.15(a)).
	2. The reviewer cannot process a rent adjustment request until the 30-day tenant comment period has expired and the owner has submitted a complete request, evaluating any tenant comments and modifying, if appropriate, the initial submission.
	3. For State and Local Agency Section 236 non-insured property rent adjustments, 24 CFR §245.330 applies for those the agency receives and processes the owner application. If the agency determines to approve some or all of the adjustment, the agency must submit the rent adjustment package to HUD for review, certifying that the owner is in compliance with tenant comment requirements, HUD[[41]](#footnote-41) must process and notify the agency of HUD’s approval, modification or disapproval within 30 calendar days.
	4. If a conversion to tenant paid utilities or a reduction in utility allowance was submitted with the rent adjustment, these actions have separate tenant comment requirements (outlined in 24 CFR §245 Subpart E) and the reviewer must ensure that the owner complied with the procedures required by Subpart E, in addition to the rent adjustment tenant comment procedures.
	5. When reviewing projects subject to tenant comment procedures, reviewers must make requests for additional information in writing. The reviewer must require that the owner makes missing materials available for any required tenant review. The owner must distribute a second Notice to Tenants, if necessary to comply with the requirements under paragraph 7.6.E. (Changes to Supporting Documentation).

## 2.06.17 PROCESSING REQUESTS FOR UTILITY ALLOWANCE ADJUSTMENTS

1. **Owner’s Request.** Owners of eligible projects must follow the requirements of HUD Notice H-2015-04[[42]](#footnote-42), Methodology for Completing a Multifamily Housing Utility Analysis, or most current guidance. Owners must submit a written recommendation summary that states the type of utilities covered by the utility allowance (e.g., gas for heating), whether any utility rate adjustments or decreases were implemented during the past 12 months or are expected to be implemented during the next 12 months and the amount of those adjustments or decreases; and how any energy conservation initiatives have or will impact consumption. A sample owner utility allowance recommendation summary is provided in Appendix 2.06-3. G.
2. **Mandatory Utility Analysis.** The owner’s request must include either a baseline utility analysis (required every three years) or a factor-based utility analysis (acceptable for two years after a baseline is completed) regardless of whether or not an adjustment is requested. If an analysis is not included, the reviewer must require the owner to submit the analysis and hold off on the rent adjustment until it is received. Rent adjustments in such cases can be retroactively implemented.
3. **Processing the Request.** The reviewer must review the owner’s submission to determine if an adjustment is being requested. If the owner submitted a baseline analysis, the reviewer must ensure an accurate sample size was used. If the owner used the factor-based analysis, the reviewer must ensure the calculations are correct. Finally, the reviewer must review any proposed adjustments to ensure they are consistent with the analysis provided.

## 2.06.18 PROCESSING REQUESTS FOR REPLACEMENT RESERVE ADJUSTMENTS

**Reserve Adequacy.** For owner eligible under MAHRA, refer to the Guide Section 2-16. The owner or lender may request increases in the monthly deposit to the RFR account. Either the owner or Lender will be required to submit a Project Capital Needs Assessment (PCNA) or its equivalent. Note: A project that is partially-assisted as defined in 24 CFR 880.201 with a new regulation Section 8 contract under 24 CFR § 880 or §881 is exempt from the requirement to establish and maintain a RFR account. (See 24 CFR §880.602(a)(1)(v).) A project that is partially-assisted with a new regulation Section 8 contract under 24 CFR §883 may be exempt from the requirement to establish and maintain a RFR account. (See 24 CFR §880.602(a)(2)(v).)For requests with adjustments to replacement reserve deposits, the reviewer must review the project’s calculated reserve schedule to ensure that the owner’s proposed schedule of deposits results in a minimum balance in the reserve account that is at least 5% of the total, aggregate, inflation adjusted portion of physical capital needs for the required period. If not, the owner should adjustment the annual deposits to the reserve. In addition to reviewing the reserve balance, reviewers must also consider future physical capital needs of the project along with other factors, such as wage rates in the area and the age of the property, which might affect the required minimum balance. Reviewers can reference on Replacement Reserves in this Handbook for detailed guidance.

1. **Processing the Request.** The reviewer must document the approved reserve for replacement deposit in the Reviewer Summary (provided in Appendix 2.06-4. D.). In the final notification letter to the owner, the reviewer should confirm the amount and effective date of any revised replacement reserve deposit. The reviewer must also complete Form HUD-9250, Funds Authorization form (see Appendix 2.06-1), working with the owner to assure the correct mortgage servicer. The reviewer must transmit copies of the Form HUD-9250 to the owner, mortgagee, and the Management Agent.

## 2.06.19 SERVICE COORDINATORS, ELDERLY CARE AND CONGREGATE SERVICES

Reviewers must assure that the owner has approval for services and has adopted a two-tiered budget structure that has supportive service income and expenses maintained separately and independently from the regular income and expenses of the applicable project.For detailed guidance, reviewers should refer to paragraph 7.9 in Section 2.

## 2.06.20 PROCESSING REQUESTS WITH COMMERCIAL RENTS

**Reviewing the Request for Commercial Rents.** The reviewer must determine if the owner’s request considered the factors in paragraph 7.10. Generally, the established commercial rents should cover the commercial space’s share of operating expenses and debt service. If not, the reviewer should review the owner’s submission to determine if there is sufficient documentation to provide an evidence of their efforts to lease the space and evidence of market rents. Also, the reviewer should consider if the proposed use of the space provides other benefits to the project. If the owner is requesting a commercial rent that is less than break-even or less than the market rate, the owner is required to provide a certification as to whether there is an identity of interest relationship between the operator of the commercial space and the owner, agent or principal of either the owner or agent. Conversely, commercial spaces rented at profitable levels can offset the project’s expenses. Refer to HUD Notice H-2011-10 [[43]](#footnote-43)and HUD Notice 2011-23.[[44]](#footnote-44)

## 2.06.21 PROCESSING REQUESTS WITH FACILITIES AND SERVICES SUBJECT TO CHARGE

1. **Reviewing the Request for Changes to Facilities and Services Subject to Charge.** The reviewer must ensure owner’s confirmation for the following:
	1. The services, facilities and charges have been included in Part C of the most recently approved Rent Schedule.
	2. A schedule of those charges has been posted or distributed to the tenants.
	3. Use of those facilities or services is optional on the part of the tenant.
	4. If not previously authorized, the charges must be approved by HUD prior to implementation.
2. **Parking Charges.** Owners can charge for parking only in unsubsidized projects where HUD previously approved such a charge. The owner can charge for car heaters in both subsidized and unsubsidized projects in cold climates where parking spaces are so equipped.

# SECTION 4: NOTIFICATION AND IMPLEMENTATION

This section discusses the timing requirements for notifying an owner once a decision has been reached on the owner’s request. It also provides information on what should be included in the notification letter as well as special requirements for HUD-held mortgages that are delinquent.

## 2.06.22 NOTIFICATION OF RENT ADJUSTMENT

1. **Notifying the Owner.** The HUD or CA reviewer will notify the owner of the decision on the rent request in writing by a notification letter in accordance with established operating procedures. The reviewer must send the original letter to the owner and a copy to the management agent, unless the owner has requested a different distribution. For State and Local Agency non-insured property rent adjustments, HUD notifies the agency of its approval, adjustment upward or downward or disapproval of the proposed rent adjustment as set out in 24 CFR §245.330(b). The Agency notifies the owner of the final disposition of the rent adjustment request and the reasons therefore. The owner gives notice to the tenants, including the reasons behind the decision.
2. **Notification Letter.** The HUD or CA reviewer must use the sample provided in Appendix 2.06-4. E. to prepare their notification letter. Note, HUD will remind owners who are subject to 24 CFR, Part 245 tenant comment procedures to notify tenants of HUD’s decision, regardless of the adjustment decision. The notification letter must:
	1. Identify the authorized rent(s) and the newly-computed MARP.
	2. Explain the reasons for the decision to approve the adjustment or to deny all or part of the adjustment. The adjustment approved can be greater than what the owner requested if justified by the analysis and properly documented.
	3. Outline any adjustments made to the owner’s submitted budget worksheet.
	4. Identify any project improvements for which funds were budgeted on the Rent Computation Worksheet.
	5. Confirm the amount and effective date of any revised replacement reserve deposit and request that the owner complete a Form HUD-9250, Funds Authorization form. The reviewer must transmit copies of the Form HUD-9250 to the owner, the mortgagee, and the Management Agent.
	6. Require the owners to give tenants 30-day written notice of any adjustment in the tenant’s rent under the terms of the lease.
	7. Remind owners who are subject to 24 CFR §245 tenant comment procedures, to notify tenants of HUD’s decision regardless of the decision.
	8. Require the owner to complete parts A and F of the Form HUD-92458 Rental Schedule reflecting unit rents not to exceed the MARP, and transmit the original and one copy to HUD for signature. The reviewer must return a signed copy of this form to the owner.
3. **Notifying Office of Asset Management and Portfolio Oversight (OAMPO).** If the mortgage is HUD-held and delinquent, the reviewer sends the following to the assigned desk officer in the OAMPO, or as per current established procedures.
	1. The decision notification letter;
	2. Rent Schedule; and
	3. Rent Computation Worksheet.

## 2.06.23 IMPLEMENTATION OF THE RENT ADJUSTMENT

1. **Owner Requirements for Implementation.** Owners may implement the HUD approved adjustments to rents or utility allowances only after they have:
	1. Completed Parts A and F of the Form HUD-92458 Rental Schedule, reflecting unit rents not to exceed the MARP, and transmit the original and one copy to HUD for signature;
	2. Complied with tenant notice requirements; and
	3. Completed Forms HUD-50059 or HUD-50059 Worksheet required by Handbook 4350.3, Occupancy Requirements of Subsidized Multifamily Housing Projects (These forms are not required for Section 231 or Section 202 tenants who do NOT receive tenant-based subsidies).
2. **Implementing Utility Allowance Adjustment.** Owners must implement the new utility allowances for all tenants within 75 days after HUD approves the adjustment. Owners may not stagger implementation to coincide with tenant’s annual re-certifications. Owners should be aware that some utility allowance decreases may need to be phased-in. Detailed guidance on adjustments, including when decreases need to be phased in, can be found in HUD Notice H 2015-04[[45]](#footnote-45) or most current guidance (Appendix 2.06-1).
3. **Notifying Tenants.** If the authorized rent causes the Tenant Rent to adjustment, the owner must give the tenant at least 30-day advance written of the adjustment. Also, as required by 24 CFR §245.405(a) and §245.410, a minimum of 30-day notice must be provided to tenants for any utility allowance decrease. Owners of Section 236 non-insured projects must comply with 24 CFR §§245.405 through 245.425 except as modified by §245.435. The Notice must specify the reduction in utility allowance and/or the new Tenant Rent, as well as the corresponding effective date(s).
4. **Notifying Tenants for Projects Subject to Tenant Comment Procedures.** Owners must notify tenants of the HUD or CA reviewer’s decision through a written Notice. The owner must ensure that the Notice:
	1. Is distributed in the manner required by paragraph 2.06.6.
	2. Informs tenants the HUD approved rents and utility allowances, the reasons for the adjustment or disapproval, the effective date, and any special conditions HUD imposed on the adjustment (e.g., completion dates for project improvements required of the management agent).

# Owners of Section 236 non-insured projects must comply with 24 CFR §245.435(d).

# SECTION 5: APPEAL PROCEDURES

Owners may appeal the HUD or CA’s decision of their rent adjustment request through two levels of appeals. (Note: Appeal procedures do not apply to owners of Section 236 non-insured projects). In the first level, the appeal is reviewed by Department staff at least one administrative level above the reviewer who made the contested rent adjustment decision (for example, if the contested rent decision is approved by the Account Executive Branch Chief, then the first level of appeal is reviewed by the Director, Asset Management Division). The final level of appeal is to the Director, Multifamily Regional Center. Owners are permitted to delay implementation of rent adjustments while the appeal is being processed. Any decision rendered by the Regional Director of Housing in the final level of appeal, will not be subject to further appeal.

## 2.06.24 INITIAL APPEAL

1. **All Projects.** The owner must submit their appeal in writing and postmark it within 30 days of the date the owner received the Notification letter regarding rental rate adjustment. At a minimum, the owner must include in the written appeal:
	1. An explanation for why the owner disagrees with HUD’s decision and state the rents being sought in the appeal.
	2. All information required in the initial submission in accordance with Section 2.
2. **For Projects Subject to Tenant Comment Procedures.** If the owner makes any material change in any documents submitted in the initial submission, the owner’s submission no longer constitutes an appeal, but is instead considered a new rent adjustment request and must be compliant with the procedures and requirements in this chapter including tenant notification, tenant comment, as well as submission materials.

## 2.06.25 FINAL APPEAL

1. **Process.** If the owner does not agree with the initial appeal decision, the owner may submit a final appeal to the Director, Multifamily Regional Center. The owner may, but is not required to, implement the rent adjustments while the final appeal is being processed. After the final decision is made, if that decision results in a rent adjustment, the tenant must be given a 30-day notice before the new rents are effective.
	1. The final appeal must be in writing and postmarked within 30 days of the date of the initial appeal decision letter.
	2. The owner must send the Director, Multifamily Regional Center the following:
		1. A copy of the original decision letter, accompanied by any supporting documentation sent with the original request or involved in the original decision; and
		2. A letter explaining why the owner disagrees with the decision on the initial appeal.
	3. The owner must send an additional copy of the letter explaining why the owner disagrees with the decision on the initial appeal (as discussed in item 2.06.26.2.B. above) to the HUD or CA reviewer that processed the contested decision.
	4. The owner may request a meeting with the Director, Multifamily Regional Center but such a meeting must be requested and completed during the 30-day final appeal period.
2. **Timeline.** The owner may, but is not required to, implement rent adjustments while the Regional Center reviews the appeal. When the Regional Center issues a decision on the final appeal, rents must be implemented as described under paragraph 2.06.22.

## 2.06.26 IMPLEMENTATION OF CHANGES IN RENT FROM APPEAL PROCESS

**Implementation of Results from Appeal.** Owners must implement rents resulting from the appeal process, as follows:

1. **Projects with 100 percent Rental Housing Assistance*.*** Since these tenants are not affected by the adjustment in gross rents, there is no need for the owner to provide the normal 30-day notification period to market rate tenants, unless the owner is subject to tenant comment procedures in 24 CFR §245. Owners may bill HUD for the new rental housing assistance rents on the next regular billing cycle under that contract. Owners must also comply with HUD Handbook 4350.3, Occupancy Requirements of Subsidized Multifamily Housing Projects by completing a new Form HUD-50059 and appropriate worksheet.
2. **Projects Subject to 24 CFR** §**245 Tenant Comment Procedures.** Owners may implement HUD approved changes in rents only after they have complied with tenant notice requirements and completed Form HUD-50059 or equivalent worksheet required by HUD Handbook 4350.3.
3. **All other Projects.** The owner must give the tenant 30-day advance written notice to tenants if the appeal results in an adjustment to the Tenant Rent. The Notice must specify the new Tenant Rent and date it will be effective.

**APPENDICES**

|  |  |  |
| --- | --- | --- |
| **Appendix** | **Title** | **Page** |
| 2-1 | Summary of Resources |  |
| 2-2 | Glossary |  |
| 2-3.A to 2-3.H | Guidance to Owners |  |
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**Appendix 2-1**

SUMMARY OF RESOURCES

|  |
| --- |
| **Sample Templates** |
| Sample Owner’s Cover Letter | 2-3.B |
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| Sample Utility Allowance Analysis | [*Excel Link*](http://portal.hud.gov/hudportal/documents/huddoc?id=1504A.xlsx) */* [*Word Link*](http://portal.hud.gov/hudportal/documents/huddoc?id=1504B.docx) |
| **Checklists and Tools** |
| Owner’s Submission Checklist | 2-3.A |
| Reviewer’s Workbook | 2-4.A |
| Reviewer’s Summary Memo | 2-4.D |
| **Forms** |
| Budget Worksheet (HUD 92547-A) for Owners | *Excel Link* / [*PDF Link*](http://portal.hud.gov/hudportal/documents/huddoc?id=92547-a.pdf) |
| Reviewer’s Budget Worksheet | *Link- To be added* |
| Rent Schedule (HUD-92458) | [*Link*](http://portal.hud.gov/hudportal/documents/huddoc?id=92458.pdf) |
| Funds Authorization (HUD-9250) | [*Link*](http://portal.hud.gov/hudportal/documents/huddoc?id=9250.pdf) |
| **Directives** |
| Section 8 Renewal Policy Guide | [*Link*](http://portal.hud.gov/hudportal/documents/huddoc?id=Section8_Renewal_Guide.pdf) |
| FASS Guide – Chart of Accounts | [*Link*](http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/reac/products/fass/fassmf_guide) |
| Notice H-2012-14 (Use of “New Regulation” Section 8 Housing Assistance Payments (HAP)Contracts Residual Receipts to Offset Project-Based Section 8 Housing Assistance Payments) | [*Link*](http://portal.hud.gov/hudportal/documents/huddoc?id=12-14hsgn.pdf) |
| Notice H-2014-12 (Implementation of Tenant Participation Requirements in Accordance with 24 CFR Part 245) | [*Link*](http://portal.hud.gov/hudportal/documents/huddoc?id=14-12hsgn.pdf) |
| Notice H-2015-04 (Methodology for Completing a Multifamily Utility Analysis) | [*Link*](http://portal.hud.gov/hudportal/documents/huddoc?id=15-04hsgn.pdf) |
| Notice H-2011-18 (Updated Processing Guidance for the Section 202 Supportive Housing for the Elderly and Section 811 Supportive Housing for Persons with Disabilities Programs) | [*Link*](https://portal.hud.gov/hudportal/documents/huddoc?id=11-18hsgn.pdf) |
| 24 CFR Part 245 Tenant Participation in Multifamily Housing Projects | [*Link*](http://www.gpo.gov/fdsys/pkg/CFR-2010-title24-vol2/pdf/CFR-2010-title24-vol2-part245.pdf) |
| HUD Handbook 4370.2 | [*Link*](http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsgh/4370.2) |
| HUD Handbook 4350.3 | [*Link*](http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsgh/4350.3) |

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**Appendix 2-2**

GLOSSARY of KEY TERMS

1. **Allowed Debt Service**. Required payments for principal and interest made with respect to a mortgage secured by the property The project’s HUD Authorized Rent would cover the secured HUD approved debt service for the property
2. **Allowed Expenses.** For the purposes of computing new MARP, “Allowed Expenses” is comprised of four items – (i) Total Administrative Expenses, (ii) Total Utilities Expenses, (iii) Total Operating and Maintenance Expenses, and (iv) Total Taxes and Insurance.
3. **Amortization Schedule.** The table detailing each periodic payment on an amortizing loan. A portion of each payment is for interest while the remaining amount is applied towards the principal balance. The HUD amortization schedule is the best source for confirming the Debt Service amount.
4. **Budget Based Rent Increase (BBRI).** When current rent levels are not sufficient to cover anticipated or unavoidable increases in operating costs, eligible owners can request a rent increase based on an evaluation of their budget.
5. **Budget worksheets (BWS).** Owners submit Form HUD-92547-A, which is the owner’s submitted budget worksheet as part of their BBRI request, it includes income and expenses from the most current annual financial statement (AFS), year to date actuals, and requested/ projected income and expenses. The reviewer of a BBRI request evaluates and approves, modifies or rejects the line items of the owner’s submitted budget in the **HUD approved budget worksheet.**
6. **Commercial Rent/ Commercial Space.** The term "Commercial" is applied to any space or facility permitted and acceptable for "Non-residential Use" from which income is derived or anticipated. **Commercial Rent** isthe income earned through renting out Commercial Spaces, it should cover at least the commercial space’s share of operating expenses and debt service.
7. **Elderly Care.** Multifamily Housing is a rental program. Elderly care, congregate housing services, service enhanced housing and service coordinators may be found in Multifamily properties but care services must be separately funded. All parties should be careful to create a second tier within their budget which will only include HUD-approved elderly care income/expenses. These expenses are typically the salary of the HUD-funded Service Coordinator, dietary salaries, food, dietary supplies, and recreation and rehabilitation. Owners should refer to their service agreements for specific services covered by HUD in the line item 5300 income and 6900 expenses.
8. **Historic Guidance.** A collection of guidance that comes from the September 1992 version of the 4350.1 Handbook. These provisions are unlikely to apply to current owners governed by the revised chapter, but the guidance has been brought over for the owners who might still need to refer to this guidance.
9. **HUD Annual Financial Statement (AFS)**. The Income and Expenses information for the owner’s submitted budget comes from the HUD Annual Financial Statement (AFS), the up-to-date filing of which is a requirement for the owner to make a BBRI request.
10. **HUD Authorized Rent.** These are the unit rents shown in column 3 of the most recently approved Rent Schedule (Form HUD-92458). In the Section 236 program these rents are called Basic rents. Depending on income, some 236 tenants will pay Market rent or something between Basic and Market rents which represents 30 percent of the tenant’s adjusted income.
11. **Initial Screening Checklist.** All reviewers must use this checklist to check the completeness of budget based rent increase submission and an assessment of the owner’s eligibility. This checklist must be completed for all rent adjustment requests and can be found in an Excel-based toolkit.
12. **Management Fee.** HUD-approved fee for entities that manage the project. It is presented as a percentage of rent and is recorded in the current management certification (Form HUD-9839).
13. **Maximum Allowable Rent Potential (MARP).** The maximum annual rent the owner may collect by charging the rents authorized by HUD on the Form 92458. New MARP is the MARP that is calculated by HUD or the CA through the current BBRI. Last MARP is the MARP calculated by HUD or the CA from the most recent previous BBRI.
14. **Non-Revenue Units.** Units (e.g., site manager or staff units) that typically do not produce revenue for the property and may not be shown on the rent roll. Non-revenue units must be included in the building's unit count (e.g., on Rent Schedule).
15. **Notification Letter.** The HUD Field Staff or CA (or State Agency, if applicable) will notify the owner of the decision on the rent request in writing by a notification letter in accordance with established operating procedures, after receiving the owner’s complete submission package. The reviewer must send the original letter to the owner and a copy to the management agent, unless the owner has requested a different distribution.
16. **Owner.** Is the entity or person who owns or otherwise controls the project. An owner may designate a management agent to receive communication from HUD. For the purposes of this chapter, owner refers to both the owner and/or the agent.
17. **Proposed Rent Increase.** The percent increase in maximum allowable rent potential (MARP) from the last MARP, based on an owner’s anticipated operating expenses, documented in the submitted budget worksheet. The proposed rent increase should be included in the owner’s cover letter. If the increase amount results in a rent potential that exceeds the last MARP, a new MARP and authorized rents are determined by HUD.
18. **Rent Computation Worksheet (RCW).** Worksheet used by BBRI Reviewers to calculate the new MARP and HUD Authorized Rent.
19. **Rent Schedule.** Form HUD-92458. The rent schedule is approved by HUD and records the implemented rent amounts. Services Subject to Charge refer to such benefits as may be provided by the project owner to tenants that are not included in the rent and are optional on the tenant's part (i.e., cable T.V., laundry facilities and use of community space in the project.)
20. **Reserve for Replacement (R4R).** The Reserve for Replacement account is established for the purpose of providing a source of capital to defray costs to replace structural components and mechanical equipment of the property. The payment level is initially established in underwriting.
21. **Residual Receipts.** Residual receipts are moneys that exceed amounts needed to operate a property on a monthly basis, maintain a reserve for replacement funds and make allowable payments to the property's owner. Residual receipts are generally placed in an interest-bearing account that may be used for project-related purposes.Residual receipts may be used to offset monthly Housing Assistance Payments under certain circumstances. .
22. **Reviewer Summary Memo (the Memo).** The Memo is a detailed summary of adjustments made and issues encountered in the BBRI. The reviewer must summarize the changes he/she made to the owner’s budget and explain the overall rationale for those changes. Any significant adjustments made in the Rent Computation Worksheet while computing the new MARP, must be documented in the Memo.
23. **Reviewer.** The HUD Regional Office, Satellite Office, or Performance Based Contract Administrator (PBCA) employee who reviews the BBRI requests. For state or local agency financed properties subject to tenant comment HUD is a secondary reviewer after the agency.
24. **Service Coordinator (SC).** Social service person hired, contracted, or retained by the assisted housing Owner or its management company, who assists residents in identifying, locating and acquiring supportive services necessary for elderly person to live independent and age in place. The Service Coordinator is responsible for assuring that elderly residents, especially those who are frail or at risk, and those nonelderly residents with disabilities are linked to the specific supportive services they need to continue living independently in that housing development. Service coordinators are not service providers.
25. **Supporting Narrative/Documentation.** When preparing a budget worksheet to submit, owner’s must provide a brief statement (the **Supporting Narrative**) explaining the basis for any increase in the expense line items that is greater than or equal to $500. **Supporting Documentation** must be provided for any increase in the expense line items that is greater than or equal to $500 AND that is greater than or equal to 5 percent of prior year’s actual.
26. **Tenant comment procedures.** These are set out at 24CFR Part 245. Covered owners must issue a Notice to Tenants for any request of approval of rent increase or covered action, such as a reduction in utility allowances. Tenants then have 30 days to submit written comments on the rent increase request to the owner and they may send a copy of the comment to the HUD Field Office/CA.
27. **Utility Allowance.** In some subsidy programs tenants pay a set percentage of their income for total housing expense. Total housing expense includes all utilities except telephone. Where some or all of the utilities are paid directly by the tenant the tenant must get credit for that expense within the set percentage. To do so, a utility allowance is created. The allowance is an estimate of utility costs incurred be an average family occupying a unit. Section 221(d)(3) BMIR projects that were built with tenant paid utilities (separate meters) but no “deep subsidy” do not need utility allowances. If the project has Rent Supplement or rental housing assistance units, those units must receive an allowance.
28. **Vacancy Rate.** The vacancy rate is a numerical value calculated as the pro forma percentage of all available units in a rental property that are expected to be vacant or unoccupied at a particular time.

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**Appendix 2-3**

GUIDANCE TO OWNERS

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| --- | --- | --- |
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| 2-3.G | Sample Utility Allowance Recommendation Summary |  |
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**Appendix 2-3.A**

SAMPLE SUBMISSION CHECKLIST

|  |  |
| --- | --- |
| Request to Adjust Rents Required Documentation | Appendix |
| [ ]  **Cover Letter** Including:[ ]  Requested Rent Adjustment [ ]  Reasons for Adjustment[ ]  Date Rent Adjustment would be Effective[ ]  Description of Property’s Physical Condition | 2-2.B |
| [ ]  **Budget Worksheet** [Form HUD 92547-A] | 2-1 |
| [ ]  **Supporting Narrative** - *for increases in line items requested ≥ $500*[ ]  **Supporting Documentation** - *increases ≥ $500 & 5% of prior year’s actuals* | 2-2.C |
| [ ]  **Certification** of Purchasing Practices and Reasonableness of Expenses | 2-2.B |
| [ ]  **Rent Schedule** [Form HUD-92458] - *Complete all parts except A,D,F*  | 2-1 |

|  |  |
| --- | --- |
| For Projects Subject to Tenant Comment Procedures | Appendix |
| [ ]  Copy of “**Notice to Tenants**” | 2-2.E |
|  Required After 30-day Tenant Comment Period |
| [ ]  **Tenant Comments** Received and **Evaluation** of Comments | 2-1 |
| [ ]  **Certification** as to Compliance with Tenant Notice Period | 2-2.F |

|  |  |
| --- | --- |
| For Projects with Rent Supplement Assistance (Current or Past) | Appendix |
| [ ]  Energy Conservation Plan **Status Report** | 2-1 |

|  |  |
| --- | --- |
| For Projects Requesting Adjustment to Utility Allowance | Appendix |
| [ ]  **Summary** of Proposed Change Including:[ ]  Type of Utilities Covered[ ]  Any Rate Increases in past year or expected in the next year[ ]  Energy Conservation Initiatives Impacting Consumption[ ]  Proposed Rate Change | 2-2.G |
| [ ]  A **Baseline Analysis** (required every three years) or  **Factor-Based Analysis** (allowed second and third year after baseline) | 2-1 |

|  |  |
| --- | --- |
| For Projects Requesting Increase to Reserve For Replacement  | Appendix |
| [ ]  Signed **Reserve Increase** **Request** | 2-2.H |
| [ ]  **Reserve Account Analysis** | 2-1 |

 **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Appendix 2-3.B**

SAMPLE OWNER’S COVER LETTER

Management Agent/Owner Name

Address

City, State, Zip

Dear: HUD/Contract Administrator

Subject: Budget Based Rent Increase Request[[46]](#footnote-46)

 Project Name

 Project Number

This letter is to request an increase of [insert percentage of increase] in the rental charge for the subject property. The proposed effective date for the increase is [insert date]. The reasons for the increase are as follows:

*(List the reasons for the proposed increase. If the project is subject to tenant comment procedures, the main reasons in this letter should be the same as in the Notice.)*

Additionally we are requesting a change in the following services, equipment, or charges:

*(Describe the reason for any proposed changes.)*

Enclosed with this letter are the following items:

* Budget Worksheet HUD 92547-A
* A brief statement explaining the basis for any increase in the expense line items on the budget worksheet for those items with an increase of 5% and $500 more than last year’s annual actual cost.
* An executed copy of the Owner’s Certification Regarding Purchasing Practices and Reasonableness of Expenses.

*[Other items, if Applicable]*

* A copy of the Notice to Tenants. *(The copy should be annotated to show where and how the Notice was distributed.)*
* A signed request for an increase in the Reserve for Replacement.
* For projects with utility allowances, a mandatory utility analysis with a recommendation as to what utility allowances should be.
* A status report on the project’s implementation of its current Energy Conservation Plan. *(This only applies to Section 236 and BMIR projects, projects that receive Rent Supplement Assistance and projects that converted from Rent Supplement to Section 8. This may be submitted as a narrative report coded to facilitate references to the plan or a copy of the plan annotated to show the current status of all items that were scheduled to be completed within 60 days after the rent increase is proposed to be effective.)*

Finally, the principals of the owner are in compliance with all fair housing and civil rights requirements.

Sincerely,

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Signature

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Title

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date

Enclosures:

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Appendix 2-3.C**

GUIDANCE FOR PREPARING BUDGET WORKSHEET, HUD 92547-A,

**Preparing the Budget Worksheet.** In preparing the budget worksheet to be submitted to HUD, owners have the options of using the PDF version or the Excel-based version, each provided below. It is strongly recommended that owners use the Excel-based worksheet as it:

* Automatically calculates sub-totals,
* Provides interactive guidance for most line items – the user can click on the account name for the line item’s Chart of Account definition (see below), and
* Facilitates an efficient, accurate rent computation.

For additional line item definition and guidance, owners should refer to the most recent chart of accounts which is available below. Owners should use this chart to ensure that income and expenses are appropriately categorized and estimated in the submitted budget worksheets.

|  |  |
| --- | --- |
| **Tool** | **Link** |
| Excel-based Budget Worksheet | *Link* |
| PDF Budget Worksheet | [*PDF Link*](http://portal.hud.gov/hudportal/documents/huddoc?id=92547-a.pdf) |
| Chart of Accounts | [*Link*](http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/reac/products/fass/fassmf_guide) |

**Supporting Narrative/Documentation.** When a line item is estimated at more than 5% and $500 of prior year’s actual amount the owners MUST provide supporting narratives and/or supporting documentation. Requests at or below the last year’s prior actual amount do not require the submission of an explanation or supporting documentation. It is recommended, but not required, that the owner provide information on expenses that decline by 5% or more from the prior year’s actual.

**Example Account Definition** from Excel-based Budget Worksheet:

Advertising and Marketing

6210

**6210 Account Definition**

This account reflects the cost of advertising and marketing the rental property, both during initial rent-up and after the project reaches normal occupancy levels.

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Appendix 2-3.D**

SAMPLE OWNER’S CERTIFICATION AS TO

PURCHASING PRACTICES AND REASONABLENESS OF EXPENSES

Project Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

FHA or Non-insured Project Number: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Acting On behalf of, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, the Project owner, I certify that

ALL of the following statements are true.

1. The project is obtaining utilities at the lowest rates available.
2. The project has received or requested any tax relief for which it is eligible and management has analyzed the project’s property tax bills and appealed any assessments which appeared unreasonable.
3. Amounts paid to individuals or companies having an identify-of-interest with the owner or the management agent were not excess of the costs that would have been incurred in making arms-length purchases on the open market.
4. Management has exerted reasonable effort to take advantage of discounts and has credited the project with all discounts, rebates or commissions received with respect to purchases, service contracts and other transactions made on behalf of the project.
5. Management has obtained contracts, materials, supplies and services, including the preparation of the annual audit, on terms most advantageous to the project and at costs no in excess of amounts ordinarily paid for comparable contracts, materials, supplies, and services in the area in which such services, supplies, or materials are furnished.
6. Management has solicited verbal or written cost estimates, as necessary to comply with the Paragraphs 3 through 5 above. Management has documented the reasons for accepting other than the lowest bid and will make the documentation available to HUD, upon request.

Warning:

* 18 U.S.C. 1001 provides, among other things, that whoever knowingly and willingly makes or uses a document or writing containing any false, fictitious, or fraudulent statement or entry, in any matter within the jurisdiction of any department or agency of the United States, shall be fined not more than $10,000 or imprisoned for not more than 5 years, or both.
* 12 U.S.C. 1715z-4 provides in part: “Whoever, as an owner of a property which is security for a mortgage (covering multifamily housing, as defined in the regulations of the Secretary\_ or as a stockholder beneficial owner… trust… or as an officer, director or agent of any such owner (1) willfully uses or authorizes use of any part of the rents or other funds derived from the property covered by such mortgage in violation of a regulation… (2) willfully and knowingly uses or authorizes the use, while such mortgage is in default, of any part of the rents or expense… shall be fined not more than $5,000 or imprisoned not more than 3 years or both.

Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Title: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Signature\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Appendix 2-3.E**

SAMPLE 30-DAY NOTICE TO TENANT LETTER[[47]](#footnote-47)

[Date]

Please take notice that on (*date*) we plan to submit a request for approval of an increase in the maximum permissible rents (and/or a decrease to the tenant utility allowance) for (*name of apartment complex*) to the United States Department of Housing and Urban Development (HUD). The proposed increase is needed for the following reasons:

1.

2.

3.

The rent increases for which we have requested approval are:

 # of Bedrooms Current Rent Proposed Rent

 (*Insert rent information by bedroom size here*)

 A copy of the materials that we are submitting to HUD in support of our request will be available during normal business hours at (*address*) for a period of 30 days from the date of service of this notice for the purpose of inspection and copying by tenants of (*name of apartment complex*) and if the tenants wish, by legal or other representatives acting for them individually or as a group.

During a period of 30 days from the date of service of this notice, tenants of (*name of apartment complex*) may submit written comments on the proposed rent increase to us at (*address*). Tenant representatives may assist tenants in preparing those comments. (If, at HUD’s request or otherwise, we make any material change during the comment period in the materials available for inspection and copying, we will notify the tenants of the change or changes, and the tenants will have a period of 15 days from the date of service of this additional notice (or the remainder of any applicable comment period, if longer) in which to inspect and copy the materials as changed and to submit comments on the proposed rent increase). These comments will be transmitted to HUD along with our evaluation of them and our request for the increase. You may also send a copy of your comments directly to HUD at the following address:

HUD Field Office Name

Attention: Account Executive

Street Address

City, State, Zip

 RE: (*Project Number*)

(*name of apartment complex*)

HUD will approve, adjust upward or downward, or disapprove the proposed rent increase (and/or decrease to the utility allowance) upon reviewing the request and comments. When HUD advises us in writing of its decision on our request, you will be notified. If the request is approved, any allowable increase will be put into effect only after a period of at least 30 days from the date you are served with that notice and in accordance with the terms of existing leases.

Signed by:

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Signature

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Title

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Appendix 2-3.F**

SAMPLE OWNER’S CERTIFICATION AS TO

COMPLIANCE WITH 24 CFR PART 245 REVIEW AND COMMENT PROCEDURES

Project Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

FHA or Contract Number. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Acting on behalf of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, the ownership entity, I certify that project management has taken all of the actions listed below:

1. Distributed a Resident Notification in the form and manner required by 24 CFR 245;
2. Took reasonable steps to assure that any posted Notices remained intact and in legible form for the full comment period required by 24 CFR 245;
3. Made all materials submitted to the local HUD office concerning the proposal available during normal business hours, in a place that was reasonably convenient to the residents, which reside in the property.
4. Honored any request made by the residents or their authorized representatives to inspect and/or copy those materials;
5. Reviewed and evaluated all comments received from the residents or their authorized representatives; and
6. Prepared and submitted to the local HUD office, a written evaluation of the comments.

I also certify that to the best of my knowledge, all information submitted concerning the conversion of units is true, correct and complete.

Warning: 18 U.S.C. 1001 provides, in part, that whoever knowingly and willingly makes or uses a document or writing containing any false, fictitious, or fraudulent statement or entry, in any matter within the jurisdiction of any department or agency of the United States shall be fined not more than $10,000 or imprisoned for not more than 5 years, or both.

Signed by:

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Signature

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Title

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Appendix 2-3.G**

SAMPLE UTILITY ALLOWANCE RECOMMENDATION SUMMARY[[48]](#footnote-48)

Project Name:

Project Number:

I hereby request a change in the amount of the utility allowances as shown below:

|  |  |  |
| --- | --- | --- |
| **Bedroom Size** | **Current U/A** | **Proposed U/A** |
| 0 | $ | $ |
| 1 | $ | $ |
| 2 | $ | $ |

The type of tenant-paid utilities covered by the utility allowance are:

The following rate increases/decreases in the (past 12 or in the next 12 months) are:

We are implementing the following energy conservation initiatives at the property:

In support of this request, attached is: *(select one)*

[ ]  Baseline Analysis *(required every three years)*

[ ]  Factor-Based Analysis *(allowed second and third year after baseline analysis is done)*

Signed by:

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Signature

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Owner Name

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Title

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date

**Appendix 2-3.H**

SAMPLE REQUEST TO REVISE

MONTHLY RESERVE FOR REPLACEMENT DEPOSITS

Project Name:

Project Number:

Mortgagee: *(if applicable)*

I hereby request a change in the amount of the monthly deposit to the reserve for replacements account from the current amount of $\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to the revised amount of $\_\_\_\_\_\_\_\_\_\_\_\_.

Attached is the reserve analysis in support of this request.

Signed by:

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Signature

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Owner Name

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Title

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date

**Appendix 2-4**

GUIDANCE TO REVIEWERS

|  |  |  |
| --- | --- | --- |
| **Appendix** | **Title** | **Page** |
| 2-4.A | Reviewer’s Checklists |  |
| 2-4.B | Guidance for Reviewing and Approving Budget Worksheet |  |
| 2-4.C | Instructions for Rent Computation Worksheet |  |
| 2-4.D | Reviewer’s Summary Memo |  |
| 2-4.E | Template for Notification Letter to Owner |  |

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Appendix 2-4.A**

# REVIEWER’S WORKBOOK

Reviewer’s Workbook is an Excel based toolkit available at [HUD to provide LINK]. This toolkit consists of the following tabs:

1. **Owner’s Budget Worksheet** – The owner may submit their budget in either PDF or Excel form. If it is submitted in PDF, the reviewer must enter the three columns (HUD AFS, Current Actuals, and Requested) in the Owner’s Budget Worksheet manually. If it is submitted in Excel form, the owner will have already filled out this tab and the reviewer should begin at the Initial Screening tab.
2. **Initial Screening Checklist** – All reviewers must use this checklist to check the completeness of budget based rent increase submission and an assessment of the owner’s eligibility. This checklist must be completed for all rent adjustment requests (whether they are less than or equal to MARP or if they exceed the computed MARP), as well as adjustments to utility allowances and reserve for replacement.
3. **Approved Budget Worksheet** –The approved budget worksheet is designed to automatically calculate subtotals and highlight line items requested above $500 and 5% of prior year’s actuals. It also allows for documentation and due diligence checks, in order to facilitate a comprehensive review process.
	1. **Owner’s Submitted Budget Columns:** The numbers from the Owner’s Budget Worksheet tab will auto-populate within the Approved Budget Worksheet. To input owner’s submitted amounts, the reviewer must utilize the Owner’s Budget Worksheet tab.
	2. **CA Approved Budget:** Reviewers must use the worksheet tool provided in the Excel workbook (through the link above) along with the detailed line-by-line guidance tool in Appendix 2-4.B., titled, ‘*Guidance for Reviewing and Approving Budget Worksheet*’. The approved budget worksheet provides reviewers with a comments column for explanations of approved items especially for those approved greater than or equal to $500 of prior year’s actuals.
	3. **Due Diligence:**Reviewers must use the Due Diligence and Sign Off part of the worksheet tool to conduct the necessary checks prior to computing the new MARP.
4. **Rent Computation Worksheet (RCW)** – All reviewers must use this tool in conjunction with the ‘*Instructions for Rent Computation Worksheets*’ provided under Appendix 2-4.C. The RCW tool facilitates the computation of the new MARP for budget based rent increases that exceed the last MARP.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Appendix 2-4.B**

GUIDANCE FOR REVIEWING AND APPROVING BUDGET WORKSHEET

The chart below provides detailed guidance for evaluating the reasonableness of each line item when preparing a HUD approved budget worksheet. Reviewers must use this guidance in conjunction with the Workbook provided under Appendix 2-4.A.

**Note**: Owners should provide supporting documentation when a line item is requested to be adjusted at greater than 5% and $500 of the prior year’s actual amount. Additional guidance on allowable expenses and the appropriate line items can be found in the Chart of Accounts (link provided in Appendix 2-1).

| **Item** | **Acct.****No.** | **Guidance** |
| --- | --- | --- |
| **Rental Income – 5100** |
| Rent Revenue –Gross Potential | 5120 | The reviewer should include the figure which will be determined in the Rent Calculation Worksheet. |
| Tenant Assistance Payments | 5121 | The reviewer does not need to include this in the budget column since 100% of the gross rent potential is included in 5120. |
| Rent Revenue – Stores and Commercial | 5140 | The reviewer should approve the amount of rent based on current leases. If there is a material increase or decrease without explanation, the reviewer should request a copy of the lease. |
| Garage and Parking Spaces | 5170 | The reviewer should approve an estimate based on past experience as this figure will not typically vary much from year to year. |
| Flexible Subsidy Revenue | 5180 | The reviewer should typically approve $0 unless HUD awards new Flexible Subsidy funding. |
| Miscellaneous Rent Revenue | 5190 | The reviewer should consider whether or not this revenue will be recurring (particularly if it is over 5% of Total Revenue). |
| Excess Rent | 5191 | The reviewer should approve an amount which reflects the rental collections due in excess of the basic rental charge for Section 202/811, 221(d)(3) BMIR, and 236 projects. Excess income retained by Section 236 projects in accordance with HUD Notice H 98-10 should be reported in account 5194, Retained Excess Income. |
| Rent Revenue / Insurance | 5192 | The reviewer should approve only the amount of insurance claims proceeds in connection with lost rental revenue. |
| Special Claims Revenue | 5193 | The reviewer should approve the amount of special claims including vacancy, damages, and debt service. See Handbook 4350.3 for additional guidance on special claims. |
| Retained Excess Income | 5194 | The reviewer should only include excess income the owner has been approved by HUD to retain. This is for Section 236 properties only.  |
| **Vacancies – 5200** |
| Apartments | 5220 | The reviewer should approve the following vacancy rates: * 1. Projects with 100 percent rental housing assistance must include a vacancy loss rate of 3 percent in the budget unless as part of a refinancing, the lender requires, and HUD has approved, a different vacancy rate.
	2. For Section 202/811 projects or projects where 100% of the units are assisted with PRAC, the standard vacancy rate is 0%, however the owner may include a vacancy factor not to exceed 3 percent as applicable per Notice H 2011-18 (See Appendix 2-1) or most current guidance.

If actual vacancy rates exceed underwritten, owners may show actual rates but reviewers may not approve rates that exceed underwritten. Excessive vacancy rates shown in the owner budget may substantiate the need for marketing, maintenance or security expense. If the actual vacancy patterns in the marketing area exceed underwritten discuss with your supervisor. |
| Stores and Commercial | 5240 | For all other vacancy losses, the reviewer should approve the owner’s estimate if they are in line with the prior year’s actuals. If any of these line items make up at least 5% of the 5200 series, ask the owner for an explanation if one is not provided or use available comparable data from OPIIS or other sources to determine reasonableness. |
| Rental Concessions | 5250 |
| Garage and Parking Spaces | 5270 |
| Miscellaneous | 5290 |
| **Income 5300** |
| Nursing Homes/Assisted Living/Board and Care/Other Elderly Care/Coop/Other Revenues | 5300 | The reviewer should approve only HUD-approved assisted living services which should have a self-sustaining budget. |
| **Financial Revenue 5400** |
| Financial Revenue – Project Operations | 5410 | The reviewer should approve only the interest earned on the project’s operating account. If centralized accounts are held, each project must be identifiable; and the project’s share of interest earned is pro-rated. |
| Revenue from Investments – Residual Receipts | 5430 | The reviewer should approve a conservative estimate based on prior experience. |
| Revenue from Investments – Replacement Reserve | 5440 | The reviewer should approve a conservative estimate based on prior experience. |
| Revenue from Investments – Miscellaneous | 5490 | The reviewer should approve an estimate of interest owners except to receive from other revenue. This will typically be $0 or a small amount. If it’s more than 5% of Total Financial Revenue, ask the owner for an explanation if one has not been provided. If it’s more than 5% of Total Financial Revenue, ask the owner for an explanation if one has not been provided. |
| **Other Revenue 5900** |
| Laundry and Vending Revenue | 5910 | The reviewer should approve an estimate of this income based on historical performance. If occupancy has varied significantly, approve based on current market conditions unless the owner submits a new lease. |
| Tenant Charges | 5920 | The reviewer should approve estimated tenant charges based on past experience*.*  |
| Interest Reduction Payments Revenue | 5945 | The reviewer should include the amount of IRP based on the amortization schedule. This is for Section 236 properties only.  |
| Gifts (nonprofits) | 5970 | The reviewer should approve any expected charitable contributions, typically seen on non-profit owned properties. |
| Miscellaneous Revenue | 5990 | If the amount exceeds 5% of Total Other Revenue, the reviewer should consider if the revenue will be recurring or not.  |
| **Administrative Expenses – 6200/6300** |
| Conventions and Meetings | 6203 | The reviewer should approve only expenses related to frontline staff attending professional conventions and meetings. Owners should have specified the number and type of staff attending as well as the purpose of the meetings. |
| Management Consultants | 6204 | The reviewer should approve only expenses incurred as a result of a project using management consultants for administrative related activities. The owner should explain why these services are beyond the expertise of the management agent.  |
| Advertising and Marketing | 6210 | The reviewer should approve the cost of advertising and marketing the rental property, both during initial rent-up and after the project reaches normal occupancy levels. Assess whether or not the proposed amount is reasonable given the occupancy level of the property – specifically if the effort aligns with the AFMHP approved by HUD to the least likely to apply at the property and complies with fair housing requirements.  |
| Other Renting Expense | 6250 | The reviewer should include other renting expenses like the cost of credit reports, commissions and similar fees charged by third parties for referring new tenants. |
| Office Salaries | 6310 | The reviewer should consider:1. Only front-line office employees’ salaries (in whole or in part for employees who work at multiple provides) may be included.
2. For employees performing front-line duties but working in the agent's office, the owner must present documentation outlining exactly how the expense was computed.
3. The number of employees and salaries paid should be commensurate with the size and location of the property, as well as number of services contracted and be consistent with information from the last management review.
4. Where identity-of-interest relationships exist, salary levels should be closely reviewed to ensure they do not exceed rates in arms-length relationships. Reviewers may need to rely on OPIIS or other data on comparable projects available to them.
 |
| Office Expenses | 6311 | The reviewer should approve office expenses for the project’s office or pro-rated expenses for the management company’s office if they provide supplies (e.g., mailings from their office) for the benefit of the project. Inflationary increases should be allowed if the prior year was adequate. |
| Office or Model Apartment Rent | 6312 | The reviewer should only approve offline units approved by HUD. Generally office units are established during design but temporary model units may be seen, for example during initial rent-up. The reviewer should ensure the owner does not duplicate any rent-free units already covered in the budget. For HUD-insured or HUD-Held projects, non-revenue units can be found on form HUD-92264. |
| Management Fee | 6320 | The reviewer should approve the approved fee multiplied by the proposed rent. Confirm the approved percentage from the current management certification (Form HUD-9839) approved by HUD. Use a weighted average of the percentage if the fee will change during the budgeted period. |
| Manager or Superintendent Salaries | 6330 | The reviewer should approve salaries paid to a resident manager or superintendent. The reviewer should not include the project's share of payroll taxes (included in 6711) or other employee benefits or compensation given a resident manager or superintendent in lieu of salary payments. |
| Administrative Rent Free Unit | 6331 | The reviewer should approve the contract rent of any rent free unit provided to administrative personnel (including a resident manager or superintendent) which would otherwise be considered revenue producing. Partial rent reductions given should be reflected in this account as well. |
| Legal Expenses – Project | 6340 | The reviewer should typically approve an amount that does not exceed the norm for similar projects in similar locations unless there is a problem unique to the project. The most common expense in this category is for evictions. The reviewer should consider whether the legal expenses benefit the project or the owner. If legal services are needed because of poor action or inexperience by the management company, the owner should cover the legal fees. Conversely, if legal fees rise considerably because a new agent is effectively working to resolve issues left from the former agent, reasonable fees should be allowed. These types of fees should be non-recurring so if approved, the reviewer must annotate the HUD-approved budget worksheet.  |
| Audit Expenses | 6350 | The reviewer should approve the auditing expense incurred by the project that is directly related to HUD's requirement for audited financial statements. This account also includes the auditor's charge for preparing Schedule K-1 for the mortgagor entity's Federal income tax return. Do not approve amounts incurred for the cost of routine maintenance or review of the project's books and records (see account 6351). The reviewer may obtain an audit engagement letter. |
| Bookkeeping Fees/Accounting Services | 6351 | The reviewer should include the project’s share of centralized accounting operations. Centralized fees must be approved by HUD prior to the project paying. If identity-of-interest firms are used, the cost paid by the project should not exceed what it would pay a non-related entity. |
| Miscellaneous Administrative Expenses | 6390 | For tax credit properties, the reviewer should approve payment of the equity syndicator’s asset management fees; state allocating agency’s compliance and asset monitoring fees. |
| **Utilities – 6400** |
| Fuel Oil/Coal | 6420 | For all utility expenses paid by the project, the reviewer should approve an increase or decrease based on the average costs over the last three years to account for higher or lower than typical uses in the last year. The reviewer should not approve projections for increased consumption unless caused by severe weather. The reviewer should determine if the owner has analyzed utility rates and request the rates most advantageous to the project (i.e., commercial versus residential). Reviewers should be cognizant of cost trends for local utilities. Reviewers may ask the owner to provide correspondence from the utility company or any utility oversight body.  |
| Electricity | 6450 |
| Water | 6451 |
| Gas | 6452 |
| Sewer | 6453 |
| **Operating & Maintenance Expenses - 6500** |
| Payroll | 6510 | The reviewer should approve only the salaries of project employees who perform services including but not limited to janitorial/cleaning, exterminating, grounds, repairs, and decorating. |
| Supplies | 6515 | The reviewer should approve the cost for supplies charged to the project for janitorial/cleaning, exterminating, grounds, repairs, and decorating |
| Contracts | 6520 | The reviewer should approve an amount based on the projected cost for all maintenance-related contracts. The reviewer should consider the trade-off between salary costs and contract costs. A high contract cost may indicate a need for improved maintenance capability. Supporting documentation may include copy of any contracts. If this expense is related to repairs required by recent inspection, owners should provide the condition of the property and proposed rehab. |
| Operating and Maintenance Rent Free Unit | 6521 | The reviewer should include the rent for any unit(s) approved by HUD for maintenance staff. |
| Garbage and Trash Removal | 6525 | The reviewer should check and approve estimated costs based on past experience unless the owner submits new contract costs. The reviewer should not approve salaries paid to janitors who collect the trash. Possible reasons for increases in the category include increasing the number of collections.  |
| Security Payroll/Contract | 6530 | The reviewer should approve cost for all security-related contracts. Consider the need for the expense (is there a security problem due to poor screening/eviction at the property or is it a wider issue) and if its cost- effective (i.e., should security devices like cameras, lighting and alarms be considered instead of staff?). Examples of justifications for increasing this item include changing conditions/environment at the property, or new/additional security personnel being added at the property. |
| Security Rent Free Units | 6531 | The reviewer should approve the contract rent of any rent free unit provided to security personnel or a unit used for the purpose of security of the project (for example, police substations). Partial rent reductions given should be reflected in this account as well. |
| Heating/Cooling Repairs and Maintenance | 6546 | The reviewer should approve only for expenses related to routine maintenance and repairs. Replacement of these components should be paid from the replacement reserve account. |
| Snow Removal | 6548 | The reviewer should consider using a three-year average as snow removal costs can vary from year to year. |
| Vehicle & Maint. Equip. Oper. and Repair | 6570 | The reviewer should approve only the cost (or pro-rated cost) of a vehicle used at the project. |
| Misc. Operating & Maintenance Expenses | 6590 | The reviewer should ensure costs do not include items that should be paid from the reserve for replacement account. If the amount exceeds 5% of the category, ask the owner for a breakdown if not provided. |
| **Taxes and Insurance – 6700** |
| Real Estate Taxes | 6710 | The reviewer should allow only verified increases in rates. If a current bill has not been issued, owners are required to compare the current assessed value to that for the prior year.  |
| Payroll Taxes (Project’s Share) | 6711 | The reviewer should approve the project’s share of payroll taxes. Payroll taxes will generally be about 12-15% of the payroll costs. In some areas, high costs of workman’s compensation could increase this. In those cases, ask the owner to document the costs. Note that increases in the salary base will affect this account as well.  |
| Property and Liability Insurance (Hazard) | 6720 | In assessing reasonableness, the reviewer should consider the types of coverage, deductibles, and claim history. |
| Fidelity Bond Insurance | 6721 | The reviewer should include the cost of the premium; prorate the cost to cover frontline and principal management employees, not supervisory employees. Note: this insurance is required for all HUD multifamily projects. If there is no cost shown, the reviewer should follow up with the owner. |
| Workmen’s Compensation | 6722 | The reviewer should approve an amount which covers the cost of a policy that covers all of the agent’s employees. This could be project’s pro-rated share of the total cost of the policy. The pro-ration should cover the employees listed on the attached payroll schedule. |
| Health Insurance & Other Employee Benefits | 6723 | The reviewer should approve the projected cost of health insurance and other employee benefits for frontline staff, pro-rated if necessary. |
| Misc. Taxes, Licen. Permits & Insurance | 6790 | The reviewer should approve based on fees paid in the last year or with adequate documentation from the owner. Examples where this may increase include when the property needs additional permits to do rehab.  |
| **Financial Expenses – 6800** |
| Interest on Mortgage Payable | 6820 | The reviewer should include the interest on the HUD-approved mortgage in this line item. |
| Interest on Notes Payable (Long-Term) | 6830 | The reviewer should approve the interest and discounts incurred on long term project operating notes. The reviewer should not include interest incurred on notes which are payable only from surplus cash. |
| Interest on Notes Payable (Short-Term) | 6840 | The reviewer should approve the interest and discounts incurred on short term project operating notes. The reviewer should not include interest incurred on notes which are payable only from surplus cash. |
| Mortgage Insurance Premium/Service Charge | 6850 | The reviewer should approve payments to the mortgagee for insurance on the mortgage in this account. In the case of HUD-held mortgages, the payment is in the form of a service charge, as reflected on Form HUD-2771. PMI for conventional loans can be included in account 6859. |
| Miscellaneous Financial Expenses | 6890 | The reviewer should approve financial expenses not otherwise classified in the 6800 series. This account also includes fees paid to a bond trustee. |
| **Expenses – 6900** |
| Nursing Homes/Assisted Living/Board & Care/Other Elderly Care/Coop/Other Expenses | 6900 | This account should reflect line item 6990 from the project’s current HUD-AFS. For the 6900 line item in the budget worksheet, the reviewer should approve elderly care and congregate services expenses, including the salary of a HUD-funded Service Coordinator. Examples of expenses captured in this line item are dietary salaries, food, dietary supplies, and recreation and rehabilitation.  |
| Reserve for Replacements Department Required |  | The reviewer should include the current approved amount unless the owner is requesting a change to the monthly deposits. The reviewer should question any request to increase the account if the project is eligible to prepay the mortgage and are likely to do so in the next 10 years. Since the reserve is an asset of the mortgagor after prepayment, this is an especially important issue in projects where the reserve is paid for by project-based subsidy.  |
| Principal Payments Required |  | The reviewer should approve only be the principal payments owed on debt approved by HUD. Note that if the project refinanced in the last year or is in the process of refinancing, the revised principal payments may be significantly higher particularly if the original loan was close to maturing. If the payment has been modified, use the current payment due. |
| Debt Service for other approved loans |  | The reviewer should only include loans with payments approved by HUD. Notes paid from surplus cash should not be included here. See HUD Handbook 4370.2 for guidance on other debt that may be charged against the project.  |
| Debt Service Reserve (if required) |  | The reviewer should approve the amount charged by the lender for debt approved by HUD.  |
| General Operating Reserve (Coops) |  | The reviewer should approve at a rate of 3% of the proposed gross rent potential (also known as carrying charges). |

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Appendix 2-4.C**

INSTRUCTIONS FOR RENT COMPUTATION WORKSHEET

This document provides reviewers with guidance on how to utilize the Rent Computation Worksheet (RCW tool), provided in the Reviewer’s Workbook in Appendix 2-4.A. The reviewer should use the RCW tool once an owner’s rent increase submission is determined to be complete and the Approved Budget Worksheet is completed. To compute a new MARP, the reviewer must use the RCW tool by filling out the fields that are not auto-populated. The RCW tool facilitates the computation of a new MARP by automatically calculating most of the information in each box. Should a box require an adjustment, the RCW allows the reviewer to customize the number and provides an area to document the reasons for adjustments.

**Project Information from Initial Screening Checklist**

This section captures the basic project information from the Initial Screening Checklist.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|   |   |   |   |   |   |   |   |   |
| Project Name | auto-populates |   |
| Owner Name | auto-populates | Management Agent | auto-populates |   |
| Ownership Type | auto-populates |   |  |  |  | iREMS ID | auto |  |
| Total Number of Units | auto-populates |   | Total # of Non-Revenue Units | auto |  |
| Project Contract # | auto-populates |   | FHA # | auto |  |
| Section of the Act | auto-populates |  | Type of Rental Housing Assistance | auto |  |
|   |   |   |   |   |   |   |   |   |

|  |  |
| --- | --- |
| **Item** | **Guidance** |
| Project Name | Auto-populates |
| Owner Name |
| Management Agent |
| Ownership Type |
| iREMS ID |
| Total Number of Units |
| Total Number of Non-Revenue Units |
| Project Contract # |
| FHA # |
| Section of the Act |
| Type of Rental Housing Assistance |

**Reviewer Input**

This section allows reviewers to enter financial data not included in the budget worksheet that will significantly impact the calculation of the new MARP. Therefore, it is critical to ensure that the correct data is used. Where practical, the reviewer should verify information from multiple sources.

**Part 1: Determine Monthly Rent Potential**



| **Item** | **Guidance** |
| --- | --- |
| Unit Type | Modify to meet project’s unit configuration.  |
| Number of Units | Modify to meet project’s unit configuration. |
| Current Unit Rent | Enter from the current rent schedule, HAP contract exhibit or iREMS |
| Currently Monthly Rent Potential | Auto-populates |
| Owner’s Requested Rent Increase % | Obtain this from the owner’s request (the Owner’s Cover Letter). |

**Part 2: Management Fee and Vacancy Inputs**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|   |   |   |  |  |  |
| Approved Management Fee % |   | *Reconciles with Management Certification (9839)?* | Yes/No/NA |  |
| Management Fee PUPM Cap | Yes/No |  |  |  |  |
| Allowed PUPM Cap |   | *Consistent with Management Certification (9839)?* | Yes/No/NA |  |
|  |  |   |  |  |  |
| Approved Vacancy Rate |   | *Reconciles with underwritten vacancy rate?* | Yes/No |  |
|  |  |   |  |  |  |

| **Item** | **Guidance** |
| --- | --- |
| Approved Management Fee % | Review iREMS, the annual financial statement, or Form 9839, Management Certification. |
| Reconciles with Management Certification (9839)? | Select Yes, No, or N/A, depending on if reviewer has access to this information. |
| Management Fee Cap | Select Yes or No after reviewing iREMS, the annual financial statement, or Form 9839. |
| Allowed PUPM Cap | Review iREMS, the annual financial statement, or Form 9839, Management Certification |
| Consistent with Management Certification (9839)? | Select Yes, No, or N/A depending on if reviewer has access to this information and if the PUPM Cap amount reconciles with the Certification. |
| Approved Vacancy Rate | Item 2.14.E.5. provides specific vacancy guidance. Reviewer must review the vacancy rate approved in underwriting (Form HUD-92264) to verify.  |
| Reconciles with underwritten vacancy rate? | Select Yes or No by checking the underwritten business agreement. |

**Part 3: Enter Financial Data**

|  |  |  |
| --- | --- | --- |
|  |  |   |
| Initial Mortgage Amount |   |  |
| Current Mortgage Amount |   |  |
| Monthly Debt Service |   |   |
| Interest Reduction Payment (IRP) |   |   |
|   |   |   |
| Initial Equity |   |   |
|  |   |   |

|  |  |
| --- | --- |
| **Item** | **Guidance** |
| Initial Mortgage Amount | Enter the initial mortgage amount for Section 221(d)(3), Section 236 and Section 202 loans. Also include any other debt approved by HUD (e.g. Section 223(d) or Section 241(a) loans). |
| Current Mortgage Amount | Enter the current amount for the project’s mortgage loans, if applicable. |
| Monthly Debt Service | Enter the monthly debt service payment(s) for HUD-approved debt. |
| Interest Reduction Payment *(if applicable)* | For Section 236 projects only, enter the amount of the IRP for the budgeted year. This can be found in the project’s amortization schedule. |
| Initial Equity *(Section 221(d)(3)s and Section 236 properties only)* | Obtain this from iREMS or form HUD 92264. For non-profit owners, this is $0. However, if the owner subsequently refinanced and formed a for-profit entity for the purpose of using tax credits, use the new equity amount. Make sure you select the correct ownership type above (for-profit if previously a non-profit). Also review the owner’s submission of Attachment 5 if this is the new owner’s first BBRI request on a Preservation transaction. |

**BOX A: Debt Service Computation**

This section computes the annual debt service requirement which will be incorporated into the Cash Requirements in Box C and is used to compute the new MARP. Reviewers must use the current debt service in computing the new MARP for projects with mortgages, unless programmatic requirements specify that another debt service be used (refer to business agreements for use of debt service such as IRP de-couplings).



|  |  |
| --- | --- |
| **Item** | **Guidance** |
| Section of Act | Auto-populates |
| Mortgage | Auto-populates |
| Debt Service Amount | Auto-populates |
| Equation | Auto-populates based on the project’s information |
| Adjustment Needed? | Select Yes or No to manual insert a distribution |
| Enter Adjusted Debt Service | Adjust this figure if warranted by sufficient documentation (such as HUD approval letter, the annual financial statement, iREMS, or project files). Document the reason for the adjustment. |
| Adjustments | Provide a brief explanation for the adjustment made, while providing the complete details in the Reviewer Summary Memo |

**BOX B: Distribution/Return or Income Reserve Computation**

This section will auto-populate the allowed return or income reserve for Section 236 and Section 221(d)(3) loans only. Note that only one of these two items may be claimed. For-profit owners get a “distribution” while non-profit owners get an “income reserve”. For non-profit projects that were transferred to a limited dividend owner, the income reserve calculation is used - not the distribution computation.



|  |  |
| --- | --- |
| **Item** | **Guidance** |
| Section of Act | Auto-populates |
| Ownership Type | Auto-populates |
| Income Reserve | Auto-populates |
| Allowed Distribution Rate | Auto-populates |
| Allowed Distribution / Income Reserve | Auto-populates |
| Equation | Auto-populates based on the project’s information. |
| Adjustment Needed | Select Yes or No |
| Enter Adjusted Distribution/ Income Reserve | Adjust this figure if warranted by sufficient documentation (such as Attachment 5 to the Renewal Guide, the annual financial statement, iREMS or project files). Document the reason for the adjustment. Note: most frequently, distributions are not changed in the budget. Instead owners are allowed to take higher distributions should surplus cash accrue despite the standard budget allowance. |
| Adjustments | Provide a brief explanation for the adjustment made, while providing the complete details in the Reviewer Summary Memo |

**Box C: Cash Requirements**

All of the figures below will auto-populate from either the approved budget worksheet or earlier entries in the RCW so it is critical that the entries in previous tabs are correct.



|  |  |
| --- | --- |
| **Item** | **Guidance** |
| Allowed Expenses | Auto-populates |
| Less Management Fee |
| Plus Reserve for Replacement Deposits |
| Plus Debt Service |
| Plus Return/Net Income Reserve |
| Total Cash Requirements (less management) |

**Box d: Management/Vacancy Factor**

If the management fee is not capped, the factor calculation is (1 minus management fee x 1 minus vacancy factor). If the management fee is capped, then the factor calculation is simply 1 minus the vacancy factor. For more guidance see paragraph 7.14.

|  |  |
| --- | --- |
| **Item** | **Guidance** |
| Authorized Management Fee | Auto-populates |
| Vacancy Rate | Auto-populates |
| Factor | Auto-populates |
| PUPM Cap | Auto-populates |
| Allowed PUPM | Auto-populates if a PUPM Cap is entered  |

**Box E: Rent Potential**

In this section, the RCW will calculate the rent potential based on whether or not the management fee is capped. You should only have one figure calculated in this section. If you don’t, ensure your entries in the Management Agency section of the RCW are correct.

|  |  |
| --- | --- |
| **Item** | **Guidance** |
| Total Cash Requirements  | Auto-populates from Box C |
| Divided by Factor  | Auto-populates using Box D |
| Rent Potential (No PUPM Cap) | Auto-populates if no PUPM Cap |
| Plus PUPM Fee x 12 x # of Units | Auto-populates with calculated Management Fee |
| Rent Potential (with PUPM Cap) | Auto-populates if a PUPM Cap is entered |

**Box F: Compute New MARP**

This section will calculate the amount of the new Maximum Allowable Rent Potential and the resulting percent increase from current MARP.



|  |  |
| --- | --- |
| **Item** | **Guidance** |
| Rent Potential | Auto-populates from Box E. |
| Less Other Income | Auto-populates from approved budget worksheet |
| New MARP | Auto-populates |
| Current Rent Potential | Auto-populates from earlier reviewer input |
| Percent Increase based on New MARP | Auto-populates (New MARP minus Current Rent Potential divided by Current Rent Potential) |

**Box G: Determine Rent Increase to be Authorized**

This section will calculate the Authorized Rent Increase. See item 2.14.E. for guidance on determining the authorized rent.

|  |  |
| --- | --- |
| **Item** | **Guidance** |
| Owner’s Requested % Rent Increase is | Auto-populates with “less than”, “greater than”, or “equal to” by comparing the new MARP to the Owner’s Requested Rent Increase |
| Authorized Percent Increase | Auto-populate based on Chapter guidelines outlined in item 2.14.E. |
| Adjustment needed? | If the percent increase is correct, select Yes. If an adjustment is needed, select No. |
| Enter Adjusted Rent Increase Percent | Enter the authorized rent increase percent; summarize the reason here and in the Reviewer Summary Memo. |
| If different % Increase | Provide a brief explanation for the adjustment made, while providing the complete details in the Reviewer Summary Memo. |

**BOX H: Market Rent Potential (Section 236 Only)**

HUD provides subsidy in the form of Interest Reduction Payments (IRP) to owners of Section 236 projects, resulting in a Basic Rent and a Market Rent (which serves as a rent cap for the project). The Basic Rent is auto-populated from Box F's Authorized Rent Potential. The Market Rent is auto-populated in this Box by including the IRP and then calculates the ratio between Basic Rent and Market Rent. Typically, the ratio between the rents remains the same throughout the life of the loan but market conditions may warrant a different ratio between the rents.

| **Item** | **Guidance** |
| --- | --- |
| Authorized Annual Rent Potential | Auto-populates from Box F |
| Plus Annual HUD IRP Subsidy | Auto-populates |
| New Annual Market Rent Potential | Auto-populates |
| Market Rent Ratio | Auto-populates |
| Adjustment Needed | Select Yes or No. |
| Enter Adjusted Market Rent Ratio | Adjust this figure if warranted by sufficient documentation. Document the reason for the adjustment. |
| Adjustments | Provide a brief explanation for the adjustment made, while providing the complete details in the Reviewer Summary Memo. |

**BOX I: Unit Rents**

This section auto-populates the Authorized Unit Rent per unit type after the reviewer provides the unit type information. If the increase has to be split up between unit types (e.g., applying a 1% increase to 1 bedroom units and a 2% increase to 2 bedroom units), the reviewer can do so as long as the new MARP is not exceeded.

|  |  |
| --- | --- |
| **Item** | **Guidance** |
| Unit Type | Auto-populates from Reviewer Input |
| Current Unit Rent | Auto-populates from Reviewer Input |
| 1 + % Authorized Increase | Auto-populates |
| Authorized Unit Rent | Auto-populates |
| Adjustment Needed | Select Yes or No. The 1 + % Authorized Increase cells will unlock and be adjustable if Yes is selected.  |
| Adjustments | Provide a brief explanation for the adjustment made, while providing the complete details in the Reviewer Summary Memo. |

**BOX J: Market Rent (Section 236 Only)**

|  |  |
| --- | --- |
| **Item** | **Guidance** |
| Unit Type | Auto-populates from Reviewer Input |
| Authorized Unit Rent | Auto-populates from Box I |
| Market Rent Ratio | Auto-populates from Box H |
| New Market Rent | Auto-populates |
| Adjustment Needed | Select Yes or No. The New Market Rent cells will unlock and be adjustable if Yes is selected.  |
| Adjustments | Provide a brief explanation for the adjustment made, while providing the complete details in the Reviewer Summary Memo. |

**BOX K: Utility Allowances**

|  |  |
| --- | --- |
| **Item** | **Guidance** |
| Unit Type | Auto-populates from Reviewer Input |
| Current Utility Allowance | From current rent schedule, iREMS, or HAP contract exhibit |
| Approved Utility Allowance | Based on the owner’s approved request for an adjustment |

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Appendix 2-4.D**

REVIEWER’S SUMMARY MEMO

|  |  |
| --- | --- |
| Project Name: |  |
| REMS ID: |  |
| Rent Increase Request Submitted by: |  |

|  |
| --- |
| 1. Rent Increase Summary
 |
| Owner’s Requested Rent Increase | $ |
| New MARP | $ |
| Gross Rent Potential of Authorized Rents | $ |

|  |
| --- |
| 1. Additional Requests Included:
 |
| Utility Allowance |  |
| Reserve Analysis |  |
| Commercial Rents/other charges |  |

1. **Describe any documentation or initial screening issues encountered.**

*Example: Owner did not provide a cover letter with package. Will direct them to the chapter’s submission requirements in the notification letter.*

1. **Explain any budget-related issues, including adjustments to the owner’s submitted budget and/or any deviations from the HUD approved budget.**

*Example: Owner filled out budget worksheet by hand, there were three subtotal errors, which were corrected in the HUD approved budget. Will recommend owner use excel-based worksheet*.

1. **Summarize any adjustments made in the RCW tool to compute the new MARP.**

*Example: Debt service varies due to refinancing...*

1. **If the authorized rent increase does not equal the computed rent increase, explain here.**

*Example: Approved a rent increase at the percentage requested by the owner, which was less than the computed increase. Will inform owner of new MARP in notification letter.*

1. **Summarize results of additional requests, if any:**

*Example: Owner requested a $15 increase to utility allowance using base-line factor analysis. Increase was supported; a $15 increase was approved.*

I,\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, have performed a comprehensive review of this BBRI (comprising of an initial screening, assessing and approving a budget, and a rent computation). Based on my review, the authorized rent increase is supported and suitable.

Click here to enter a date.

**Appendix 2-4.E**

SAMPLE NOTIFICATION LETTER TO OWNER

Rent Decision Letter

Date:

Owner/Agent Name

Address

City, State, Zip Code

Dear [Insert Name],

This is in response to your request for an increase in the rents [and/or changes to the reserve for replacement deposits and/or utility allowances] for the above-referenced property. Based on our analysis of your budget, the most recent financial statement, and documentation provided we have concluded that an increase is [is not] justified.

**[If rent increase is authorized as requested]**

The rent increase is approved as requested and the new authorized rents are reflected below. Based on the Approved Budget Worksheet, the new Maximum Allowable Rent Potential (MARP) is determined to be [$.00], which is [equal to/higher than] the gross rent potential shown below. As a reminder, you must give tenants 30 days written notice of any increase in the tenant’s rent under the terms of the lease.

**[Or if authorized rent increase varies from requested increase]**

The new authorized rents are reflected below. Based on the Approved Budget Worksheet, the new Maximum Allowable Rent Potential (MARP) is determined to be [$.00]. As a result, the authorized rent increase is less than your requested increase. As a reminder, you must give tenants 30 days written notice of any increase in the tenant’s rent under the terms of the lease.

**[Required Reviewer Explanations]**

Our decision was due to:

*Explain the reasons for the decision to deny/approve the requested increase.*

Furthermore, based on our review, changes were made to the following items when approving the budget:

*Identify adjustments made to budget line items, debt service, reserves, the management fee, vacancy rate or allowable distributions as appropriate.*

**[If a utility allowance change was requested]**

We have also reviewed your request to revise the utility allowances. Your request was [approved/denied]. The chart below reflects the new [and/or current] utility allowances**. [If the project is subject to tenant comment procedures]** You are required to notify tenants of HUD’s decision. This notification must be delivered in the same manner that the original Notice to Tenants was distributed.

*Add or delete any unneeded rows; delete any unneeded columns, such as if there is no utility allowance or a request to change the utility allowance was denied.*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Unit Type** | **Current Contract Rent** | **New Contract Rent** | **Current Utility Allowance** | **New Utility Allowance** | **Gross Rent** |
| 0 BR |  |  |  |  |  |
| 1 BR |  |  |  |  |  |
| 2 BR |  |  |  |  |  |
| 3 BR |  |  |  |  |  |

**[If Reserve for Replacement adjustment approved]**

The amount of your monthly reserve for replacement deposit has been revised from $0.00 to $0.00. Form HUD-9250, Funds Authorization should reflect this new amount.

**[Or if Reserve for Replacement not adjusted]**

Based on our analysis, no change to the reserve for replacement deposit is warranted. Your monthly deposit will remain the same.

Please complete parts A and F of the Form 92458 Rental Schedule reflecting unit rents as seen in the table above, with an effective date of [date] and transmit the original and one copy to us for signature.

If you wish to appeal this decision, please follow the procedures in Handbook 4350.1, Chapter 2.06 Section 5.

Questions regarding this correspondence may be directed to [Name] at [Phone Number] or by email to [Email Address].

Sincerely,

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Signature

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Reviewer Name

Date

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Title

SAMPLE NOTIFICATION LETTER TO OWNER

Rent Schedule Transmittal Letter

Date

Owner/Agent Name

Address

City, State, Zip Code

Dear [Insert Name]:

The Rent Schedule, Form HUD-92458, that you submitted for the subject property effective [date], is approved. An executed copy is included for your records.

Please note that the rents and services included on the Rent Schedule cannot be changed without the prior written approval of HUD/CA.

**[For projects except those with 100% rental housing assistance]**

As a reminder, the effective date of your revised Rent Schedule must be at least 30 days after giving notice to the tenants.

**[For projects with 100% rental housing assistance]**

If all tenants receive rental housing assistance and are not affected by this rent increase, no notice is required and the increase may be implemented on your next rental housing assistance billing. However, if utility allowances were decreased, tenant must be given 30 days notice.

Questions regarding this correspondence may be directed to *[Name]* at *[Phone Number]* or by email to *[Email Address]*.

Sincerely,

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Signature

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Title

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date

1. MAHRA Section 524(c) (“Rent Adjustments After Renewal of Contract”). See also 24 CFR §402.5(c). Section 524(c) requires that rent adjustments be by OCAF but authorizes HUD to provide a Budget Based rent adjustment instead if requested by the owner. [↑](#footnote-ref-2)
2. 24 CFR §245.10. [↑](#footnote-ref-3)
3. Regulations for Supportive Housing for the Elderly and Persons with Disabilities (202 and 811) are found at 24 CFR §891 Subpart B; and 24 CFR§ 891 Subpart C; and 202/8’s at 24 CFR §891 Subpart E; 202/162 at 24 CFR §891.655. [↑](#footnote-ref-4)
4. Section 2.13 of the Guide. [↑](#footnote-ref-5)
5. This Notice may be amended or superseded by a more current version. [↑](#footnote-ref-6)
6. Section 2.17.B.4 of the Guide. [↑](#footnote-ref-7)
7. [↑](#footnote-ref-8)
8. The Section 8 Renewal Policy Guide as amended. [↑](#footnote-ref-9)
9. Refer to H 2002-17 and H 2006-06. This Notice may be amended or superseded by a more current version. [↑](#footnote-ref-10)
10. Refer to H 2002-17 and H 2006-06. This Notice may be amended or superseded by a more current version. [↑](#footnote-ref-11)
11. The last MARP is the Maximum Authorized Rent Potential most recently calculated by HUD or the CA. It can be found on the last Rent Computation Worksheet or the current approved Rent Schedule Form HUD-92458. [↑](#footnote-ref-12)
12. Refer to H-2015-04. This Notice may be amended or superseded by a more current version. [↑](#footnote-ref-13)
13. This applies only to Section 236 and Section 221(d)(3) BMIR projects, projects that receive Rent Supplement Assistance and projects that converted from Rent Supplement to rental housing assistance. [↑](#footnote-ref-14)
14. DOE and HUD Better Building Challenge - Energy Plan Info <http://portal.hud.gov/hudportal/HUD?src=/states/new_york/stories/multifam_energy_savings> [↑](#footnote-ref-15)
15. Also refer to Guide Section 2.15 G. [↑](#footnote-ref-16)
16. Refer to H-2015-04. This Notice may be amended or superseded by a more current version. [↑](#footnote-ref-17)
17. For State and Local Agency non-insured property rent adjustments the agency receives and processes the owner application. If the agency determines to approve some or all of the adjustment, the agency must submit that to HUD for review. HUD must process and notify the agency of HUD’s approval, modification or disapproval within 30 calendar days. [↑](#footnote-ref-18)
18. Sections 2-15G and 2-17. C.1 Guide - Tenant Notifications are not required for OCAF rent

adjustments but are required for budget-based rent adjustments or for any adjustment

where the utility analysis results in a possible decrease in the utility allowance. [↑](#footnote-ref-19)
19. [↑](#endnote-ref-2)
20. Refer to H-2015-04. This Notice may be amended or superseded by a more current version. [↑](#footnote-ref-20)
21. This Notice may be amended or superseded by a more current version. [↑](#footnote-ref-21)
22. This Notice may be amended or superseded by a more current version. [↑](#footnote-ref-22)
23. Refer to Guide 2.16. [↑](#footnote-ref-23)
24. This Notice may be amended or superseded by a more current version. [↑](#footnote-ref-24)
25. Refer to MAP Guide <http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/guidebooks/hsg-GB4430> and Handbook 4460.1 Rev-2 Chapter 5 for PCNA Guidance. Both may be amended or superseded by a more current version. [↑](#footnote-ref-25)
26. This Notice may be amended or superseded by a more current version. [↑](#footnote-ref-26)
27. This Notice may be amended or superseded by a more current version. [↑](#footnote-ref-27)
28. Refer to HUD H-2015-04 [↑](#footnote-ref-28)
29. For projects subject to Tenant Comment Procedures, the initial submission is sent for review on the first day of the tenant comment period. The initial submission does not include the certification and received tenant comments until after the 30-day tenant comment period. However, the initial submission should still be reviewed for completeness and the reviewer should request other outstanding documents before the end of the 30-day tenant comment period. [↑](#footnote-ref-29)
30. Refer to Chapter 2 of the Guide and 24 CFR §245 as applicable. [↑](#footnote-ref-30)
31. Refer to Chapter 2 of the Guide as applicable. [↑](#footnote-ref-31)
32. Refer to 24 CFR 245 as applicable. [↑](#footnote-ref-32)
33. [↑](#footnote-ref-33)
34. Refer to business agreements for use of debt service such as IRP de-couplings. [↑](#footnote-ref-34)
35. Guide Section 2-12. [↑](#footnote-ref-35)
36. Chapter 3.2 Types of Management Fees. [↑](#footnote-ref-36)
37. The guidance presented HUD Handbook 4381.5 to management agents of

both HUD-insured and HUD-assisted properties. Figure 1-2 of 4 381.5 lists the different

types of HUD properties subject to their provisions. [↑](#footnote-ref-37)
38. Handbook 4381.5, page 3-35. [↑](#footnote-ref-38)
39. Section 12.15.2 of the Guide. [↑](#footnote-ref-39)
40. In rare cases, it may be acceptable to approve an adjustment higher than what the owner requested. For example, if the owner supplemented their original request based on follow-up from the reviewer and provided sufficient supporting documentation for increasing an expense without revising their cover letter, the reviewer may make the appropriate adjustment in the approved budget worksheet. This is subject to Supervisory approval however may not deviate from MAHRA requirements if applicable and should be documented in the approved budget worksheet as well as in the reviewer’s summary document. [↑](#footnote-ref-40)
41. 24 CFR § 245.330(b). [↑](#footnote-ref-41)
42. This Notice may be amended or superseded by a more current version. [↑](#footnote-ref-42)
43. This Notice may be amended or superseded by a more current version. [↑](#footnote-ref-43)
44. This Notice may be amended or superseded by a more current version. [↑](#footnote-ref-44)
45. This Notice may be amended or superseded by a more current version. [↑](#footnote-ref-45)
46. Proposed changes to the reserve for replacement deposits and/or utility allowances should be included in this line as appropriate. [↑](#footnote-ref-46)
47. See 24 CFR 245 for Tenant Comment Procedure regulations and a list of applicable projects ([*Link*](http://www.gpo.gov/fdsys/pkg/CFR-2010-title24-vol2/pdf/CFR-2010-title24-vol2-part245.pdf)) [↑](#footnote-ref-47)
48. Guidance on establishing utility allowances can be found in Notice H 2015-04 which may be amended from time to time. [↑](#footnote-ref-48)