




U. S. Department of Housing and Urban Development

Knoxville Field Office, Region IV
John J. Duncan Federal Building
710 Locust Street, Suite 300
Knoxville, Tennessee 37902 - 2526

ISSUED: May 17, 2011

RE-ISSUED: June 20, 2013

MEMORANDUM FOR: Owners and Management Agents of Section 8 Housing Assisted Properties

FROM: 
Kim B. Cox, Director, Knoxville Multifamily Program Center

SUBJECT: 20 Year Housing Assistance Payments (HAP) Contracts

I. Purpose

This memorandum encourages owners and management agents to preserve the long term affordability of Section 8 properties by taking advantage of 20 year HAP contracts. This memorandum also highlights the benefits of securing a 20 year HAP contract and how to apply for a 20 year HAP contract.

II. Background

Twenty year HAP contracts ensure the preservation of affordable housing. A property can request a 20 year HAP at expiration of the current contract or request an early termination of the current contract and renew for a term of twenty years. Previously, contract extensions were an option; however, effective May 18, 2012, "the Department is no longer allowing Section 8 contract extensions under Section 524 of MAHRA. If there is a need for a long term contract on the Section 8 assisted property, for which the original Section 8 HAP contract has already been renewed under MAHRA, the Hub Director or designee may allow the early termination of the existing Renewal Contract and the renewal of the contract under any option for which the property is eligible at the time."¹ Properties that choose early termination and renew for a term of 20 years will have a Preservation Exhibit attached to the contract. The Preservation Exhibit is put in place to ensure that upon expiration of the 20 year contract, the property will renew for an additional term equal to the number of years remaining on the contract that was terminated.

III. Benefits of a 20 Year Contract

Twenty year contracts offer a number of benefits. Long-term contracts offer a stable income stream, even during market downturns. Twenty year contracts also offer securitization of financing to rehabilitate or remodel the property. The property will receive annual rent increases through the OCAF or budget process, thus reducing processing time and less annual

¹ This guidance refers to Chapter two, Section 2-8 (Early Termination and Renewal of the Section 8 Contract vs Contract Extension) of the Section 8 Renewal Policy Guide, page 9.

paperwork. In addition to the aforementioned benefits, 20 year contracts also preserve affordable housing.

IV. Applying for a 20 Year HAP Renewal

Properties requesting a 20 Year HAP renewal, this includes both expiring HAP contracts and early terminations, must submit a letter that expresses the need for a 20 year contract. It is recommended in the body of the letter to include the city the property is located, number of applicants on the waiting list, most recent physical inspection score, date and score of the most recent management and occupancy review, and indicate if the owner is under administrative sanctions.

HAP Renewals and early terminations must also submit the Contract Renewal Form (form HUD-9624) with a term of 20 years specified under the desired option. For accompanying documents, please refer to the Section 8 Renewal Policy Guide or contact the Knoxville Multifamily Program Center or THDA for assistance. It should be noted that early terminations require the same documents that subsequent renewals require. Once completed, all documents should be submitted to THDA or, if a HUD Administered contract, to Lindsay Cain or Lisa Laugherty.

V. Conclusion

Interested owners and management agents are encouraged to contact Lindsay Cain at (865) 474-8262 or Lisa Laugherty at (865) 474-8261 with the Knoxville Multifamily Program Center. Owners and management agents may also contact Carolyn Head at (615) 815-2189 or Calvin Winston at (615) 815-2199 with the Tennessee Housing Development Agency (THDA). All interested owners and agents are also encouraged to refer to the attached Frequently Asked Questions document for further clarification of a 20 year HAP renewal.

Thank you for your continued commitment to providing quality affordable housing.

Attachment

Frequently Asked Questions: 20 Year HAP Renewal

1. When can I come in for a 20 year HAP?

You can apply for a 20 year renewal contract 120 days prior to the contract expirations, just like a typical renewal. However, if you are applying under Option 1, Mark Up to Market (for profit-motivated owners) or Chapter 15, Mark Up to Budget for Capital Needs or Transfers (for non-profit owners), you can come in for a renewal at any time.

2. I currently have a multi-year contract. Can I still apply for a 20 year HAP?

If the property is in the midst of a multi-year contract, the property can come in at any time for an early termination and 20 year renewal. Please refer to Chapter 2, Section 2-8 of the Section 8 Renewal Policy Guide.

3. How will the new rents be calculated?

A 20 year HAP contract does not affect the Section 8 rents. Owners still have the opportunity to secure annual rent adjustments through the Operating Cost Adjustment Factor (OCAF) or the Budget-Based adjustment process, depending on the renewal option chosen and the type of existing contract.

If an existing contract is terminated and a new 20 year contract goes into place, the contract should be treated as a new year. This means that if the property renewed their contract in January and received a rent increase and in June they decide to terminate their existing contract and renew for a term of 20 years the property could potentially receive another rent increase even though it has been less than twelve months. If the owner renewed under Option 4, then the lesser of test would apply.

4. Is the 20 year HAP renewal a new policy? How is this different from the past?

HUD has always allowed 20 year contracts, but normally required a number of contingencies, including rehabilitation, refinancing, and an energy audit. Those components are no longer required.

5. Why is HUD promoting 20 year contracts?

Twenty year contracts are a way for HUD to proactively preserve affordable housing over the long term. With a 20 year contract, HUD knows the property will have a stable income stream and that HUD can work with the owners and management agents in the years ahead to ensure the property stays successful and affordable.

6. Can I add Section 8 units to the contract?

No, HUD is not able to add Section 8 units to the contract.

7. Will I still need to submit a Rent Comparability Study every 5 years?

It depends upon the renewal option selected and the requirements of the existing contract. Please follow up with your Contract Administrator or the Knoxville HUD office for details affecting your specific property.

8. Is the property eligible for a 20 year HAP if it is still in the original term?

No, if the property is still in the original non-MAHRA contract, it is not eligible until the original contract expires.