

Preserving Federally Assisted Housing in Rural Areas

Thursday, October 29, 2009

La Sells Stewart Center, Oregon State University, Corvallis

AGENDA

8:30 Introductions

9:00 The Big Picture: Preservation in Oregon
Policies, Number of Projects/Units, Available Resources

9:30 Preserving USDA Rural Development Housing– Multifamily Housing
Revitalization Demonstration Program (MPR)
Larry Anderson, Director of Housing Preservation, USDA RD

10:30 Break

10:45 Preserving HUD/HFA Housing

12:00 Lunch

12:30 Lunch Speaker– Gideon Anders, National Housing Law Project

1:15 Roundtable Discussion – Financing Preservation

Capital Needs Assessments
Oregon Preservation Fund
CFC– Trust Fund, Document Recording Fee, HOME,
OAHTC
RD 538
Oregon Facilities Authority
TCAP and Exchange

2:30 Break

2:45 Roundtable Discussion– Other Development Topics

Developing Relationships with owners
Negotiating Purchase Agreements

Negotiating with equity investors
Transition reserves, operating reserves, guarantees
Use of TCAP/Exchange funds
Relocation

4:00 Evaluation and Adjourn

Preserving Federally Assisted Housing in Rural Areas

Friday October 30, 2009

8:30– 12:30

Oregon Opportunity Network Conference Room

847 NE 19th, Portland

The agenda for Friday's will be based on topics identified by the participants during the Thursday session.

Friday will provide an opportunity for more in depth discussion on preservation practices, processes and policies.

Thanks for Your Participation!

Resource Materials Posted on the Oregon Opportunity Network Website

The following materials are useful background information on preservation. They can be downloaded by going to the Member Services– Training and Technical Assistance section and clicking on the Resource Material link at http://oregonon.org/member_services/training-technical-assistance/. Materials include:

- LISC– Glossary of Affordable Housing Preservation Terms
- LISC–Preservation of Affordable Rural Housing: A Practitioner’s Guide to the Section 515 Program
- LISC–Recapitalizing Affordable Rental Housing: A Handbook for Nonprofit Owners
- Housing Assistance Council– Preserving Rural Rental Housing: A Guide For Nonprofit Organizations, Public Agencies and Others
- List of USDA Rural Development Projects in Oregon– Compiled by OHCS, December 2008

In addition the **Preserve Oregon Housing** Website, which can be found at– <http://www.preserveoregonhousing.org/>– has a complete database of all Oregon federally assisted housing including county by county analyses of at risk properties.

Section 8 Renewal Options

Options	Who is eligible:	RCS needed:	Rents determined by:
1. Mark up to Market	All projects (must be under market)	Yes	<u>Initial:</u> RCS <u>Subsequent:</u> OCAF
2. Basic Renewal	All projects	Yes	<u>Initial:</u> RCS is cap; projects get current rent + OCAF up to RCS ceiling. (Can submit budget if desired - but RCS is still cap) <u>Subsequent:</u> OCAF (RCS is also adjusted annually by OCAF)
3. Referral to OMHAR	Insured only (risk-share not eligible)	Yes	Restructuring
4. Exception/Exemption Projects	HFA/202/SRO/insured projects at or below mkt, formerly insured	No	<u>Initial:</u> Lesser of test: current rents + OCAF or budget (if insured at or below mkt - do RCS to confirm eligibility for Opt 4 but it is not ceiling) <u>Subsequent:</u> Budget or OCAF (lesser of test still required)
5. Preservation and Portfolio Reengineering	Preservation and Demonstration Projects	Preservation: No <u>Reengineering: Yes</u> (until further notice)	See Use Agreement
6. Opt-out	All (unless UA in place)	No	N/A

Determinative Criteria

Application Submittal Checklist

This Checklist is to be used to document ownership transfer of any **Non FHA** Insured Mortgage with a Project Based Section 8 Housing Assistance Payments Contract.

Project Name: _____ Contract Number: _____

No.	Item	N/A	√
Section 1: Transaction			
1-1.	Purchaser's Narrative Included? <i>Generally, the narrative should not exceed 3 pages in length.</i> Does the Narrative: <ul style="list-style-type: none"> ✓ Briefly outline the financial details of the transaction? ✓ Introduce the proposed Owner and Agent? ✓ Provide a purchaser contact name, number and email? (This is the person that HUD will contact if there are questions regarding the submission.) 	<input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
1-2.	Is the property subject to a Financial Adjustment Factor (FAF)? If yes, are the details of the FAF savings included? Enter Date Prepayment request transmitted to HUD Portland:	<input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
1-3.	Appraisal submitted An appraisal is required if the property is subject to FAF or if the purchaser is requesting HUD to recognize additional debt service in future budgets. Appraiser signature date must be within 6 months of HUD submission date. Appraisal based on As-Is market rents (not HAP rents). Sales Price based upon As-Is market rents . Mortgage underwritten at As-Is market rents .	<input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
1-4.	Sources and Uses of funds relating to the transfer.	<input type="checkbox"/>	<input type="checkbox"/>
1-5.	Interim Unaudited Financial Statements for the property.	<input type="checkbox"/>	<input type="checkbox"/>
1-6.	Current financial statements for the purchaser.	<input type="checkbox"/>	<input type="checkbox"/>
1-7.	Pro forma operating budget for the property.	<input type="checkbox"/>	<input type="checkbox"/>
1-8.	Recent assessment of the current physical needs of the property.	<input type="checkbox"/>	<input type="checkbox"/>
1-9.	If rehabilitation is proposed, a detailed description of the work to be done.	<input type="checkbox"/>	<input type="checkbox"/>
1-10.	If the purchaser is requesting HUD to recognize monthly deposits into a Reserve for Replacement account in future budget-based rental adjustments, documentation from the 3 rd party that describes the required monthly deposit and their requirements and procedures for draws on the account.	<input type="checkbox"/>	<input type="checkbox"/>
Section 2: Ownership			
2-1.	Organizational chart	<input type="checkbox"/>	<input type="checkbox"/>
2-2.	Previous Participation Certification-form HUD 2530 <ul style="list-style-type: none"> ○ Submitted through APPS with signature pages mailed to HUD -or- ○ Paper 2530 submitted to HUD project manager 	<input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>

Section 3: Management Agent			
<p><i>HUD approval of management fees is necessary per HB 4381.5 Rev-2, par. 3.8. for all Section 8 properties except for:</i></p> <ul style="list-style-type: none"> • Profit-Motivated (PM) with AAF Rents • HUD Preservation projects with OCAF Rents (PM only) • HFA (883) Section 8 contracts with fees controlled by the HFA 			
3-1.	HUD Management Forms <ul style="list-style-type: none"> ○ HUD-9832, Management Entity Profile <p>One of the following certifications:</p> <ul style="list-style-type: none"> ○ HUD 9839-A, Project Owner's Certification for Owner-Managed Projects ○ HUD 9839-B, Project Owner's Certification for Identity of Interest or Independent Management Agents ○ HUD-9839-C, Project Owner's/Borrower's Certification for Elderly Housing Projects Managed by Administrators 	<input type="checkbox"/>	<input type="checkbox"/>
3-2.	Previous Participation Certification-form HUD 2530 <ul style="list-style-type: none"> ○ Submitted through APPS with signature pages mailed to HUD –or– ○ Paper 2530 submitted to HUD project manager 	<input type="checkbox"/>	<input type="checkbox"/>
Section 4: Contract			
4-1	Assignment and Assumption of the HAP <ul style="list-style-type: none"> • Provide 4 originals • All parties must sign (purchaser, seller and OHCS) • HUD will sign upon approval of package 	<input type="checkbox"/>	<input type="checkbox"/>
4-2	If applicable, explanation of status of HFA prepayment request	<input type="checkbox"/>	<input type="checkbox"/>
4-3	Old Reg Contract: _____ New Reg Contract: _____	<input type="checkbox"/>	<input type="checkbox"/>
4-4	Current Contract Expiration Date: _____	<input type="checkbox"/>	<input type="checkbox"/>
4-5	Proposed Effective date of New Contract: _____	<input type="checkbox"/>	<input type="checkbox"/>
4-6	If requesting a contract (or comfort letter) that exceeds 5 years, a separate letter that details the need and benefits of a long-term contract.	<input type="checkbox"/>	<input type="checkbox"/>
	Length of contract: _____ Years		

HUD Processing Timeframes:

- 5 Business days from receipt of the package HUD verifies whether the DC package is complete. During this time, if any of the required items are not included, HUD notifies the purchaser via e-mail of the incomplete package deficiencies.
- Once a complete package is received, the HUD Program Center has 30 days to complete the DC review.
- If the package requires HQ approval (FAF proposals for example) the 30 day clock may be extended pending receipt of HQ's response. If the PM is unable to elicit a response from HQ's within 10 business days of HQ's receiving the submission, then management intervention, starting with the Program Center Director, may be necessary to obtain HQ's approval.
- If the purchaser is required to submit amended documentation for reasons out of their control after the receipt date, 10 additional days will be added to Program Center's processing time. (An example would be if the interest rates changed after the final submission.)



U.S. Department of Housing and Urban Development
Office of Multifamily Housing Program Center
Region X Multifamily HUB

October 1, 2008

MEMORANDUM FOR: Preservation Working Group

FROM: Patrick J. Shea, Supervisory Project Manager 0EHML
Portland Multifamily Housing Program Center

SUBJECT: Project Based Section 8 Determinative Criteria Review
HUD Scope of Work for Appraisers

The following is HUD Scope of Work for contract appraisers that should be included in engagement letters for Project Based Section 8 Determinative Criteria Review:

The appraisal report should be USPAP compliant. The purpose of the appraisal should be to estimate the unencumbered "as-is" market value of the fee-simple interest in the subject property as of the inspection date. It should not be assumed that the proposed repairs or renovations have occurred. A hypothetical assumption should be made that the subject property is not encumbered by restricted rental rates.

The following suggestions are based on errors and omissions witnessed by HUD in prior appraisals.

- The Appraisal should not be any older than the 6 months from the submission date of the Determinative Criteria Review to HUD.
- Comparables should be local and within 5 miles of the subject property, if possible.
- Comparables from greater distances must include a short narrative as to why no other closer comparables were available.
- Contact name and phone number should be included for each comparable data source.
- The estimated market rental rates should be based on comparably unassisted similar unit types and market supported adjustments that are explained.
- Projected stabilized vacancy and collection loss should be based on unencumbered market rate comparables.

- The projected expenses should be reconciled with the historical expenses (with adjustments for being a hypothetical market rate project) and the local comparable expenses.
- Off-site management fees should be reflective of number of units at subject and supported by comparables and by interviews with subject market property managers.
- Property taxes should be analyzed and the local assessor should be interviewed to determine if the existing assessment was based on the subject being subsidized.
- At least two subject market rent comparables should be used as property tax comparables to support the subject's projected unencumbered property tax assessment.
- Improved sale comparable information should be attempted to be confirmed with brokers, seller and buyer.
- The estimated value of any excess land should be deducted from price of improved sale comparable.
- Overall capitalization rate should be based on buyer's pro forma expectations to correlate with the subject's projected net operating income, and should be within the range of capitalization rates commonly utilized within the region.
- Costs for curing existing deferred maintenance and profit should be deducted from the estimated "stabilized" market value to estimate the "as-is" market value.

If you have any questions regarding this Memorandum, please contact Will Lee by email at william.r.lee@hud.gov or by phone at 971-222-2639.

The Section 538 Guaranteed Rural Rental Housing Program



Presented by
Rod Hansen
Housing Programs Director

Discussion Topics

- Creating Affordability
- Lender Benefits
- Developer Benefits
- Revitalization of 515 portfolio
- Target Audience
- Efficient Approval Process
- Case Studies
- Marketing Ideas



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Creating Affordability



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Creating Affordability:

- Works well with tax credits, HOME funds, grants, bonds, and other sources of financing
- Developers must find a way to minimize the impact of any debt needed to finance a tax credit property
- Property must still be able to Cash Flow at the HFA minimum DSC – usually 1.15
- Debt Service Coverage = Annual Net Operating Income / Annual P&I Mortgage Payment



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Creating Affordability:

- Loan terms; 25 year to 40 year repayment term
- 25 year minimum term for balloon with a 40 year amortization
- Interest rate; Best negotiated rate between lender and borrower fixed over the loan term
- Minimum and Maximum Loan Amount
 - No limit



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Lender Benefits



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Lender Benefits

- 90% protection against losses
- Program loans fulfill CRA requirements
- Guaranteed amount does not count against lender's lending limit
- 2% loan amount rent-up escrow (of the appraised value of the project or TDC, which ever is greater) in lieu of 90% occupancy requirement
- Expanding secondary market and private investor opportunities
- Lender retains servicing fee



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Developer Benefits



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Developer Benefits

- No ROI Limitation
- Future value in rent increases
- No Davis Bacon requirement
- No Designated Place list
- Guarantee up to 90% of the TDC or property value, which ever is less (LTV) for For-Profit-Entities
- Up to 97% LTV for Non-Profit-Entities



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Revitalization of 515 Portfolio



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515 Revitalization

How can the Section 538 help?

- Transfer of a 515 property with \$6,500/unit rehab, or
- Acquire an existing 515 property with \$6,500/unit rehab.
- Equity funding for the Multifamily Housing Preservation and Revitalization (MPR) Demo Program transfers
- An existing owner can use the 538 to revitalize and repair an existing 515 property



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515 Revitalization

Using the Section 538 for Revitalization

- Property continues to serve affordable housing needs
- Helps reduce burden of additional debt on rents and on RA
- Up to a 40 year loan term or useful life of property, whichever is less
- 25 year balloon with 40 year amortization



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515 Revitalization

Using the Section 538 for Revitalization

- No Davis Bacon Requirement
- Section 538 requires a first lien position
- A standard subordination agreement has been developed for use in conjunction with the Section 515 revitalization and preservation program



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Target Audience



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Target Audience:

- Affordable housing lenders and developers in our State
- Lenders currently doing tax credit and HUD loans
- 515 developers
- HFA's



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Lender Eligibility:

- Lenders currently approved by and active with Fannie Mae, Freddie Mac, Ginnie Mae, HUD, FHLB, and HFA's may participate
 - "Currently active" means the lender has originated at least one (1) multifamily loan in the last 24 months, or is currently servicing at least one (1) multifamily loan in portfolio.
- Lenders who demonstrate adequate ability to originate and service GRRHP loans may also participate
 - Has a through knowledge of multifamily lending and the capacity to underwrite, originate, process, close, service, manage, and dispose of multifamily housing loans in a reasonable and prudent manner; and
 - A track record of making at least three (3) multifamily loans, including at least one (1) loan in the last two years.



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Borrower Eligibility:

- To be eligible for Agency assistance, borrowers must meet the following eligibility requirements:
 - Individuals, corporations, state or local public agencies, partnerships, limited liability companies, trusts, Indian tribes, or any organization deemed eligible by the Agency.
 - U.S. citizens or permanent legal residents; a U.S. owned corporation, or a limited liability company, or partnership in which the principals are U.S. citizens or permanent legal residents.



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Eligible Fund Uses:

- New construction and acquisition with rehab of at least \$6,500 /unit
- Acquisition and improvement of land on which housing will be located
- Development of necessary essential on-site and off-site improvements
- Construction of on-site management or maintenance offices and living quarters for operating personnel for the property being financed
- Purchase and installation of appliances and certain decorating items
- Development of surrounding grounds
- Costs for feasibility determination, loan application fees, appraisals, environmental documentation, professional fees or other fees necessary to development of the project
- Technical assistance to and by non-profit entities to assist in the formation, development, and packaging of a project
- Construction interest accrued on the construction loan
- Relocation assistance in the case of rehabilitation projects
- Developer's fees
- Repaying applicant debts in limited situations



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Eligible Property and Housing Types:

Eligible Property

- The property must be located in a rural area with a population up to 25,000
- The property must consist of at least five rental dwelling units
- Non-contiguous sites in some instances per 7 CFR 3565.251
- New construction and acquisition with rehab of at least \$6,500 /unit

Housing Types

- Units may be attached, detached, semi-detached, row houses, modular or manufactured houses, or multifamily structures.



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Program Fees:

For Fiscal Year 2009:

- No non-refundable \$2,500 Application Fee
- No initial Guarantee Fee of one (1) percent of the guarantee amount at the time the Loan Note Guarantee is issued
- No annual Guarantee Fee of one-half (.5) percent of the outstanding principal amount of the loan as of December 31st of each year the guarantee is in effect
- But there is a \$500 fee to Extend or Reopen a Guarantee Commitment
- There would also be a \$1,250 fee for the transfer and assumption to an eligible prospective borrower



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Program Objectives:

- Available to families or persons whose incomes at time of initial occupancy do not exceed 115% of area median income
 - Access Tables for both Guaranteed Single and Multifamily Housing at the website:
<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>
- Rent (including tenant-paid utilities) for any unit at initial occupancy cannot exceed 30% of 115% of area median income, adjusted for family size
- Average rent (including tenant-paid utilities) for all units in a project cannot exceed 30% of 100% of area median income



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Request for Proposals: The NOFA Process

The purpose of the Section 538 Guaranteed Rural Rental Housing Program is to increase the supply of affordable rural rental housing, through the use of loan guarantees that encourage partnerships between RD, private lenders and public agencies.

The Agency has a limited amount of funds to achieve this objective, and therefore must ensure that the best and most appropriate projects are placed in rural areas of greatest need.

- It is the Agency's goal to provide the maximum number of units possible without sacrificing the quality of the housing.

- The Agency has determined the best way to achieve this objective is to solicit initial applications for funding of projects in rural areas through a Notice of Funding Availability (NOFA) process.



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NOFA

Key Origination Activities

- National Office publishes NOFA.
- States accept initial NOFA responses.
- States conduct preliminary eligibility review and score and rank initial responses.
- Responses will be processed on the criteria set forth in the NOFA to establish their priority for obligation of funds.
- Lenders will be invited to submit a complete application and the required application fee.



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NOFA

- Typically no maximum or minimum guaranteed loan levels have been established at the National Office level.

The NOFA indicates:

- The terms and rates of the guarantee
- Lender and borrower eligibility criteria
- The State Office address, contact name, and phone number where the NOFA responses are to be submitted.
- The selection criteria the Agency will use to evaluate and rank proposals
- Subsequent information that will be required from any lenders who are invited to submit a complete application
- The deadline for submitting NOFA responses



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NOFA

The amount of funds available and the deadline for submitting NOFA responses:

- The **Omnibus Appropriations Act** dated March 11, 2009 – up to \$129,000,000 will be available this FY from the rural housing fund for the section 538 Guaranteed Multifamily Housing Loans
- The program dollars will be allocated through a continuous selection process this fiscal year. The deadline for submission of the GRRHP Program is 12:00 p.m. Eastern Standard or Daylight Time, December 31, 2009, or until all funds are expended. See Federal Register Volume 74, Number 122, dated Friday, June 26, 2009.

Demo

- Notice of Acceptance of Proposals for the Section 538 Multifamily Housing Guaranteed Rural Rental Housing Program Demonstration Program for FY 09. See Federal Register Volume 74, Number 177, dated September 15, 2009.
 - Up to \$10,000,000 in previously obligated program authority may participate



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NOFA

Demo cont.

- A continuous loan note guarantee through construction and permanent loan financing phases of construction
- In effect upon closing of construction loan and through permanent financing phases of the project
- Guarantees construction loan advances and subsequent permanent loan
- After Loan Note Guarantee is issued, Lender submits the following items:
 - Certificate of substantial completion;
 - Certificate of occupancy;
 - Final cost certification;
 - Copy of permanent loan closing docket, if a separate closing is conducted for the permanent loan, and
 - Any other necessary information



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NOFA

Demo eligibility:

1. The project must have been awarded and continue to receive Low Income Housing Tax Credits.
2. The project must have a loan to cost (LTC) ratio equal to or lower than 50%.
3. The Lender must have submitted a timely response to this Notice in accordance with the "Demonstration Program Response Submission Address" section of the Notice.
4. A Lender must have submitted its application under the GRRHP 2008 Notice published February 4, 2008, Volume 73 FR 6469-6477, the GRRHP 2009 Notice published January 21, 2009, Volume 74 FR, 3551-3558, or the GRRHP 2009 Notice published on June 26, 2009, Volume 74 FR, 30503-30510.
5. The application to be considered must have been obligated from October 1, 2008 to December 18, 2009. However, if Demonstration funds have not been fully utilized by December 18, 2009, the Agency may consider applications obligated on or after October 1, 2007.



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NOFA & GRRHP Regulation and Forms:

Demo eligibility cont.

- 6. The Lender must not have closed the construction loan prior to its selection to participate in the Demonstration Program.

•Interested applicants for our Guaranteed Multifamily Housing Program should contact an eligible lender of their choice.

GRRHP Regulation and Forms:

•The Guaranteed Rural Rental Housing Program (GRRHP) Origination and Servicing Handbook (HB-1-3565) is available to provide lenders and the general public with guidance on program administration.

•HB-1-3565, which contains a copy of 7 CFR part 3565 in Appendix 1, can be found at the Rural Development Instructions Website address:

<http://www.rurdev.usda.gov/regs/hblist.html>



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Efficient Approval Process



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Efficient Approval Process:

- We provide/ensure continual communication with the lender.
 - The award letter or notice to proceed with processing for example, gives preliminary eligibility determination (requires site visit by State office)
- We hold a pre-planning meeting with the lender and all key players to present and discuss Agency requirements for developing a GRRH project:
 - Americans with Disabilities Act
 - Fair Housing Act
 - Section 504 of the Rehabilitation Act of 1973 (if receiving interest credit)
 - State and Local Accessibility
 - Attendees: project architect, borrower, lender, and state office
- Requests Application be submitted within 90 days
- Requires FU - If no response within 90 days.....



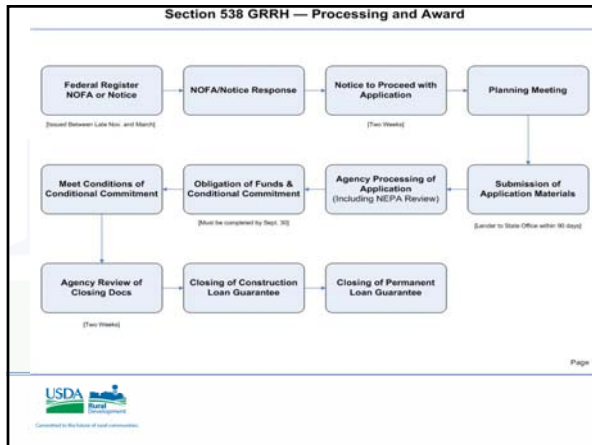
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Efficient Approval Process:

- The National office is a phone call away.
- We will not delay adverse decisions.
- OGC's review of the State's first proposed closing documents is mandatory - Thereafter, pre-approval of loan docs



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Case Study Willow Greene

Project: Willow Greene
Location: Anmore, West Virginia
Financing: IRS Section 42 Housing Tax Credits
TDC: \$3,670,361
538 Loan: \$1,120,000
LTV: 31%
Type: Family Project-50 units
Rents: Range from \$410-\$510



Without Section 538:
1.05 DCR at 6% Vacancy

With Section 538 and W/O Interest Credit:
1.15 @ 6% Vacancy in Year 2

Same Loan with Interest Credit:
1.40 DCR @ 6% Vacancy




WODA MEADOW GLEN LIMITED PARTNERSHIP



515/538 Rehab


Meadow Glen Apts – Existing 515 Property
Located in Carey, (Wyandot County), Ohio
Median Household Income = \$33,116
Total Project Units = 50
Rental Assistance Units = 37




Meadow Glen Apts.

Sources of Funds:

- **Total Development Cost: \$3,723,084**
- **HDAP Loan: \$550,000**
- **Section 538 Loan: \$400,000**
 40 years @ 7.29% with
 Interest Credit to AFR (4.79%)
- **Tax Credits/GP Equity = Balance**




- **Rents as a result of the 538 permanent debt only increased by \$20.00 per unit.**
- **100% of units committed to less than 50% of AMI**
- **Currents rents:**
 - 1 bedroom = \$325**
 - 2 bedroom = \$370**
 - 3 bedroom = \$385**



New Community Room

Plans included a new Community Room (pictured below) and office space for manager, and an increase in building size from 8,312 to 9,382.
There are 5 buildings with 10 units per building







Marketing the Section 538 GRRHP

Marketing Ideas:


- Hand Outs in Program Packet
- Contact Developers of Tax Credit Awards in Eligible Areas
- Share ideas



USDA
United States Department of Agriculture
Conservation to the Nation of rural communities

Contact Information


Rod Hansen
Housing Programs Director
(503) 414-3353
Rod.Hansen@or.usda.gov




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Questions and Answers:



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Committed to the future of rural communities.

State Office
1201 NE Lloyd Blvd, Suite 801
Portland, OR 97232
Phone: 503-414-3353
Web site: <http://www.rurdev.usda.gov/or/>

Rod Hansen
Housing Programs Director
Rod.Hansen@or.usda.gov

538 Guaranteed Rural Rental Housing Program

Loan Products

- Up to 90% guarantee

Eligible Purposes

- New construction and acquisition with rehabilitation of at least \$6,500/unit
- Guarantee on permanent financing or a guarantee on construction advances when the lender agrees to finance the permanent loan
- Housing with five or more adequate dwellings

Eligible Uses

- All hard costs
- Soft costs — professional services, bond fees, developer's fees, land acquisition and development, cost of financing

Eligible Borrowers

- Individuals, partnerships, non-profit or for-profit corporations
- Limited liability companies and trusts
- State and local agencies, Indian tribes

Eligible Areas

- Rural areas with populations up to 25,000

Eligible Lenders

- Lenders eligible for approval include HUD, Ginnie Mae, Fannie Mae, and Freddie Mac approved multi-family lenders
- Lenders with multi-family lending experience and demonstrated capacity to provide all aspects of loan processing, and asset management functions, including disposition

Benefits to Lenders

- Up to 90% protection against loan losses
- Credit toward fulfillment of Community Reinvestment Act requirements
- Secondary mortgage market participation
- Loans exempted from lender's legal lending limits
- Enables lenders to expand their portfolios, while improving the economic health of rural communities

Loan Features

Loan to Value (LTV)

- 90% or less for loans made to for-profit entities
- 97% or less for loans made to non-profit entities

Interest Rate

- Best negotiated rate between lender and borrower fixed over the loan term
- Buy down interest rate of eligible projects with annual interest credit payments to the Applicable Federal Rate

Maximum Repayment Terms

- 25 years minimum, 40 years maximum
- 25 years minimum for balloon with 40 year amortization

Maximum Loan Amount

- No limit

Program Guidelines

- Available to families or persons whose incomes at time of initial occupancy do not exceed 115% of median income. After initial occupancy, a tenant's income may exceed these limits.
- Rent (including tenant-paid utilities) for any unit at initial occupancy cannot exceed 30% of 115% of area median income, adjusted for family size.
- Average rent (including tenant-paid utilities) for all units in a project cannot exceed 30% of 100% of area median income adjusted for family size.

Guaranteed Rural Rental Housing Program Regulations and Forms

- The application process and competitive selection criteria will be described in an annual Notice of Funding Availability (NOFA) published in the Federal Register.
- Regulations and forms are available online at: www.rurdev.usda.gov/regs/hblist.html#hbw6

For more information

Contact your local USDA Rural Development Office or the USDA Rural Development State Office at: USDA Rural Development, Attn: Rural Housing Programs, 1201 NE Lloyd Blvd, Suite 801, Portland, OR 97232 Telephone: (503) 414-3353 TDD Number: (503) 414-3387
Web site: <http://www.rurdev.usda.gov/or/>



Revised 5/09

August 20, 2009

TO: State Directors
Rural Development

ATTN: Multi-Family Housing Program Directors, Coordinators,
Specialists, State Architects, and Construction Analysts

FROM: Tammye H. Trevino (*Signed by Tammye H. Trevino*)
Administrator
Housing and Community Facilities Programs

SUBJECT: Guidance on the Capital Needs Assessment Process

Introduction

This Unnumbered Letter (UL) provides guidance on the Rural Development Capital Needs Assessment (CNA) process. This guidance is comprised of nine main sections: 1) References to CNA in 7 C.F.R. Part 3560 and the Handbooks; 2) Contract Addendum; 3) Requirements and Statement of Work for a CNA; 4) The CNA Review Process; 5) Revising a CNA; 6) Guidance for the Multi-Family Housing (MFH) Property Owner Regarding Contracting for a CNA; 7) Updating a CNA; 8) Incorporating a Property's Rehabilitation into a CNA; and 9) Repair and Replacement Schedule. There are nine attachments to this UL, Attachments A, B, C, D, E, F, G, H, and I. The information in this Unnumbered Letter should be made available to property owners involved in a CNA as well as CNA Providers.

1. References to CNA in 7 C.F.R. Part 3560 and the Handbooks

A comprehensive list of references to a Capital Needs Assessment, or CNA, found in 7 C.F.R. Part 3560, HB-1-3560, HB-2-3560, and HB-3-3560 is found in Attachment A, *References to Capital Needs Assessment (CNA) in 7 C.F.R. Part 3560 and Handbooks*. These references include information on situations for which a CNA is required, suggested uses of a CNA, general requirements for a CNA, sources of funding for a CNA, and situations in which a CNA may be performed by the Rural Development.

EXPIRATION DATE:
August 31, 2010

FILING INSTRUCTIONS:
Housing Programs

2. Contract Addendum

Rural Development's Contract Addendum can be found in Attachment B, *Addendum to Capital Needs Assessment Contract*. The suggested addendum should accompany all contracts executed between the owner and CNA Provider. If the suggested addendum is not used, it is acceptable to use a different format as long as the contents remain the same. For any conflicts that may arise between the "Contract" or "Contract Addendum", the "Contract Addendum" will supersede. The Contract Addendum identifies the responsibilities and requirements for both the property owner and the CNA Provider. For this year, a blank for the contract amount has been added, and selection boxes on page B-4 added for the type of CNA to be provided. On page B-5, the preferred language for the blank on report format is: "USDA RD CNA Template, version 1.5d in Microsoft Excel format". This will provide Rural Development with a format that will import directly into the underwriting template for loan underwriting purposes.

3. Requirements and Statement of Work for a CNA

Rural Development's requirements for a Capital Needs Assessment can be found in Attachment C, *Capital Needs Assessment Statement of Work*, and Attachment D, *Fannie Mae Physical Needs Assessment Guidance to the Property Evaluator*.

Attachment C, *Capital Needs Assessment Statement of Work* (CNA SOW), states that a CNA should be prepared in accordance with Attachment D, *Fannie Mae Physical Needs Assessment Guidance to the Property Evaluator*. To resolve any inconsistency in the two documents, *Capital Needs Assessment Statement of Work* will in all cases prevail over the *Fannie Mae Physical Needs Assessment Guidance to the Property Evaluator*. For example, on page D-2 of Attachment D, Fannie Mae defines the "term" as "term of the mortgage and two years beyond". For USDA, the "term" will be 20 years, as defined in the CNA SOW. The *Addendum to Capital Needs Assessment Contract* is consistent with the *Capital Needs Assessment Statement of Work*.

Attachment C includes the required qualifications for the CNA Provider, the required scope of work for a CNA assignment, and general distribution and review instructions to the CNA Provider. To be acceptable to Rural Development, a contract for a CNA between the property owner and the CNA Provider should include Attachment C.

Attachment D, *Fannie Mae Physical Needs Assessment Guidance to the Property Evaluator*, is a three-part document that was developed jointly by Fannie Mae and On-Site Insight, Inc. Rural Development has permission from both to use this guidance. However, On-Site Insight has placed restrictions on Rural Development's use of the document to the revitalization demonstration program. Please note the restrictive use language on the cover page of the guidance to the property evaluator. Attachment D has three components: 1) guidance to the property evaluator; 2) expected useful life tables; and 3) a set of forms. The guidance to the property evaluator includes general instructions on the scope of work for a CNA report and specific instructions on how to use the expected useful life tables and the set of forms. There are three types of forms: 1) Terms of Reference form; 2) Systems and Conditions forms; and 3) Evaluator's Summary forms.

Attachment E, *Accessibility Laws and Requirements*, outlines the federal accessibility laws, regulations, and standards that apply to Section 515 and Section 514/516 Multi-Family Housing properties. The CNA Provider should use Attachment E as a guide in assessment of how the property meets the requirements for accessibility to persons with disabilities. The CNA report must include any actions and estimated costs necessary to correct deficiencies in order for the property to comply with applicable federal, state, and local laws and requirements on accessibility. The report should also include an opinion on the adequacy of any existing and approved transition plans for the property. Attachment F, *Existing Property Accessibility Checklist*, contains general information in checklist format that will help the CNA Provider comply with these requirements. For example, a transition plan that does not address any of the deficiencies listed in Attachment F is not adequate, and Attachment F should be used to indicate necessary corrections to the property. A transition plan that addresses all accessibility deficiencies in the property would be adequate. Attachment G, *Accessibility Requirements for Rural Development Financed Existing Multi-Family Housing (Supplemental Questions & Answers)*, provides “Frequently Asked Questions” on accessibility for RD MFH Program properties, which may be helpful to the CNA Provider.

4. The CNA Review Process

A CNA used by Rural Development will be reviewed by a designated CNA Reviewer in the Rural Development Office. The CNA Reviewer should be an architect, construction analyst, appraiser, or other staff member with education, training, and experience in construction, rehabilitation, and repair of Multi-Family Housing properties, especially as it relates to costs.

A CNA report must be obtained by the property owner from a third party CNA Provider that has no identity of interest, as defined in 7 C.F.R. Part 3560, unless the CNA is performed by Rural Development in accordance with HB-3-3560, Attachment 7-A. The property owner will contract with the CNA Provider and is therefore the client of the provider. However, the owner should consult with Rural Development before contracting with a CNA Provider. (See the following section of this UL, *Guidance for the MFH Property Owner Regarding Contracting for a CNA*, along with the *Contract Addendum* referenced as Attachment B). The Rural Development CNA Reviewer will use Attachment H, *Capital Needs Assessment Guidance to the Reviewer*, to evaluate a proposed agreement or engagement letter between the owner and a CNA Provider.

As noted earlier, Attachment B, *Addendum to Capital Needs Assessment Contract*, should be made a part of the contract. The CNA Reviewer will also review the cost of the CNA contract. The proposed fee for the CNA must be reasonable for the agreement to be acceptable. The Agency’s procurement policies for a CNA service contract must be understood by all parties. If the CNA is funded by the property’s reserve account, a minimum of two bids is required if the contract amount exceeds \$3500, in accordance with HB-2-3560, section 4.17-B. If the contract is funded by another source, or will be under \$3500, a single bid is acceptable. However, the Agency recommends multiple bids in all cases. There is no requirement to select the “low bidder”. The owner may select a CNA Provider based on qualifications as well as price after reviewing his references and past work.

If the proposed agreement is acceptable, the reviewer should advise the appropriate Rural Development official, who will in turn inform the owner. If the proposed agreement is unacceptable, the reviewer must write a letter to the owner, or directly to the CNA Provider with a copy to the owner, that identifies actions necessary to make the proposed agreement acceptable to Rural Development. If the proposed provider satisfactorily corrects the proposed agreement, the reviewer should advise the appropriate Rural Development official that the agreement should be accepted.

Preliminary and final versions of the CNA report are subject to review by Rural Development. The CNA Reviewer will review a preliminary CNA report delivered to Rural Development by the CNA Provider. The reviewer should use Attachment H, *Capital Needs Assessment Guidance to the Reviewer*, which includes a checklist, to review the preliminary CNA report and Attachment I, *Sample Capital Needs Assessment Review Report*, to write the preliminary CNA review report. The preliminary CNA review report will be delivered to the Rural Development loan official, and the CNA Reviewer and the loan official should discuss the reviewer's conclusions. The loan official should then notify the owner in writing of any revisions that are necessary to make the CNA report acceptable to Rural Development. The CNA Provider should deliver a final CNA report to Rural Development. The CNA Reviewer must review the final CNA report to determine that the necessary revisions have been made and that the report is acceptable to Rural Development. The reviewer must write a final CNA review report and deliver it to the loan official. At this time, the CNA Reviewer and loan official should review the CNA together, to make sure the loan official understands the CNA requirements. If differences of opinions exist at this time, they should be addressed before the final CNA review report is delivered to the owner. To further support this discussion between the CNA Reviewer and loan official, the final CNA review report is to be signed by both the CNA Reviewer and the loan official.

During the CNA review process, the CNA Reviewer should consult with the field office most familiar with the property. Their input and knowledge of the property may be useful during the review of the CNA. The CNA review checklist now includes spaces for the CNA Reviewer and Loan Underwriter to sign the final report, approving it for Rural Development. This becomes the CNA indicating the actual condition of the property at the time of the CNA inspection – a “snapshot” in time – and will be marked “Original Property Condition”.

5. Revising a CNA

During the loan underwriting process, it is possible that changes to the “accepted” CNA will need to be made by Rural Development to address financing issues. The Loan Underwriter and the CNA Reviewer will work together to determine necessary changes that meet the financial and physical needs of the property to the best of their abilities. These may involve shifting individual repair line items, moving work from year to year, or other adjustments that will improve cash flow. This second, revised CNA will be maintained by Rural Development as documentation of how underwriting was prepared, and used in the future for the anticipated schedule of replacements. The first CNA, prepared by the CNA Provider, will be maintained as an independent third party record of the original condition of the property. Both CNAs will be maintained in the case file, clearly marked as either “Original Property Condition”, “Revised Underwriting / Replacement Schedule”, or both. (There may be cases when the CNA prepared by the CNA Provider is not revised, and is used for underwriting purposes.) Note: The CAN

Provider is not the appropriate party to “revise” a CNA during the underwriting process. The CNA Provider’s independent opinion was the basis of the “as is” CNA. The CNA developed for underwriting may only be revised by Rural Development staff.

6. Guidance for the MFH Property Owner Regarding Contracting for a CNA

The National Office has compiled a **directory of CNA Providers** that have expressed interest in writing CNAs to be used by Rural Development. This directory will be updated periodically. To be added to it, CNA Providers should fill out the form on the MPR Public Website at <http://www.rurdev.usda.gov/rhs/mfh/MPR/MPRHome.htm>, or contact Michel Mitias (michel.mitias@wdc.usda.gov; 601-965-4318, x142). Rural Development will not evaluate CNA Providers in order to add them to the directory, and CNA Providers in the directory are not approved by Rural Development. Rural Development Offices will obtain a current copy of the directory of CNA Providers and forward it to the MFH property owner at the time a CNA is to be contracted. National Office will cease maintaining the CNA **Providers List October 1, 2009**. After that date, State Offices will be responsible for maintaining a list of CNA Providers that serve their respective geographic areas.

Property owners are advised to request an information package from several CNA Providers and to evaluate the information in order to select a provider. The information package should include a list of qualifications, a list of references, a client list, and a sample CNA report.

Attachment B, Contract Addendum should be submitted to Rural Development **with the contract**, and **signed by Owner and CNA Provider**. The property owner’s proposed agreement with a CNA Provider must be consistent with Rural Development’s requirements for the qualifications of the provider and CNA scope of work, as specified in Attachment C, *Capital Needs Assessment Statement of Work*. Rural Development should review and accept the proposed agreement between the owner and the CNA provider. (See the previous section of this UL, *The CNA Review Process*.)

7. Updating a CNA

RD has used Capital Needs Assessments several years now, and some owners have requested a CNA in advance of applying for the revitalization demonstration program. A CNA should include accurate cost estimates for Rural Development loan underwriting. The policy to score points during the pre-application process for an existing CNA must comply with the Notice of Solicitation Availability for the revitalization demonstration program. A complete new CNA is not required at the time of application. When a CNA is completed by the CNA Provider, if it is more than a year old at the time of Rural Development review and approval of the CNA, it must be “updated” prior to Rural Development approving the CNA. Likewise, **if** at the time of Underwriting the **CNA is more than a year old, it must be updated**. Both of these criteria should be met. If an application is not selected for processing within a year, the original CNA should be updated prior to Rural Development approval.

In “updating” a CNA, the CNA Provider should review property changes (repairs, improvements, or failures) **with the owner, review costs and quantities, and submit a revised CNA**. However, **if the site visit for the CNA occurred more than two years prior to the**

Underwriting, the CNA Provider should perform a new site visit as a part of revising the CNA. The cost of updating a CNA is typically not included in the cost of the original CNA, and would typically be negotiated at the time of the update, or at the time of the original contract. Once the CNA has been updated, the CNA Provider will make a statement that “This is an updated CNA of the earlier CNA dated _____” at the beginning of the Narrative section. The CNA Provider should reprint the CNA with a new date for the updated CNA, and provide a new electronic copy to the owner and Rural Development.

8. Incorporating a Property’s Rehabilitation into a CNA

A CNA provides a repair schedule for the property, indicating the necessary repairs and replacements to a property over the coming 20 years. It is not an estimate of existing rehabilitation needs, or an estimate of rehabilitation costs. If a rehabilitation of a MFH development is planned, the rehabilitation repair list (also called a “Scope of Work”) should be developed outside the CNA. A copy of the rehabilitation repair list should be provided to the CNA Provider. This rehabilitation repair list may be developed by the owner, a project architect, or an outside party (such as the CNA Provider or) hired by the owner. The CNA Provider should prepare an “as is” CNA, based on existing conditions at the property. Then, if requested by the owner and approved by Rural Development, the CNA Provider would prepare a “post rehab” CNA, indicating what repairs are planned for the property in the coming 20 years based on conditions after the rehabilitation is completed. Items to be replaced during rehabilitation, such as appliances, that will need to be replaced again during the 20 years will be included in the “post rehabilitation” CNA. Items, such as a new roof, that will not need replacement during the coming 20 years will not appear in the CNA.

The owner should provide the cost information on the rehabilitation. Initially, this may be a rough estimate of the costs and the work expected. Between approval of the CNA and underwriting, the owner should provide more accurate rehabilitation cost estimates to Rural Development, from either a project architect, cost estimator, or preferably bids for the work.

The reason that repair line items can not be taken from the CNA, added up, and called a rehabilitation is because the cost data will not be accurate. The repair costs in a CNA are based on “probable costs” for the property to have selected items replaced. Typically, these costs include the labor, materials, overhead and profit. For example, for CNA purposes, its the probable cost to send a repairman out, remove an appliance, and put a new one in its place. No other “soft costs” are included. In rehabilitation cost estimates, typically a general contractor is hired to oversee and supervise the work, which is considered a “soft cost”. The cost of a rehabilitation includes the costs for that general contractor, his general requirements, the cost of a project architect (if one is used), tenant relocation (if needed), interim financing (if used), which are soft costs. So, a CNA cannot be used to get an accurate cost estimate of a rehabilitation since it does not include these soft costs.

9. Repair and Replacement Schedule

A CNA is not a formal repair and replacement schedule, and cannot be used for an exact replacement schedule. A CNA is an estimate of the anticipated replacement needs for the

property over time and their costs. If refrigerators are replaced in a rehabilitation, and have an Estimated Useful Life of 15 years, all refrigerators should not be replaced in year 15. If good quality equipment was purchased initially, they might last longer. If a refrigerator dies in year 13 and needs to be replaced, the tenant will not be forced to wait two years for a replacement refrigerator. The goal of a CNA is not to set the replacement times, it is to have funds available to replace equipment as it is needed. Hopefully, materials will be well maintained and last longer than estimated in the CNA. However, the CNA cannot be used to mandate replacement times for all building components.

Training Tool

Program Support Staff in the National Office developed a Power Point presentation that can be used to train staff, CNA Providers, or owners/managers on the CNA process. This presentation is posted to the Internet on <http://www.rurdev.usda.gov/rhs/mfh/MPR/MPRHome.htm>. Please contact William Downs (202-720-1499) william.downs@wdc.usda.gov, Meghan Walsh (202-205-9590) meghan@walsh@wdc.usda.gov or Michel Mitias (601-965-4325, x142) michel.mitias@wdc.usda.gov if you have questions on the presentation.

Handbook Updates

A Procedure Notice that will incorporate this guidance into one of the 3560 handbooks is planned. Handbook procedures regarding the Capital Needs Assessment process will be revised over time as Rural Development continues to learn how to improve it. At this time, all CNAs performed that are deemed necessary in accordance with 7 C.F.R. part 3560 will need to follow these guidelines. Any suggestions, comments, or questions on the current guidelines should be directed to Carlton Jarratt, Senior Loan Specialist with the Office of Rental Housing Preservation at 804-561-0665 carlton.jarratt@wdc.usda.gov.

REFERENCES TO CAPITAL NEEDS ASSESSMENT (CNA) IN 7 C.F.R. PART 3560 AND HANDBOOKS

A comprehensive list of references to a Capital Needs Assessment, or CNA, found in 7 C.F.R. Part 3560, HB-1-3560, HB-2-3560, and HB-3-3560 follows. These references include information on situations for which a CNA is required, suggested uses of a CNA, general requirements for a CNA, sources of funding for a CNA, and requirements for a CNA performed by Rural Development.

7 C.F.R. Part 3560

- 3560.11 – A definition of “Capital Needs Assessment” is included in the definitions section.
- 3560.103(c)(2) - A CNA is required if a borrower requests an increase in the project’s reserve replacement account. The cost of the CNA will be approved as an eligible project expense.
- 3560.103(c)(4) - Borrowers may request an increase in the amount contributed to and held in the reserve account, based on a CNA, as part of the annual budget process.
- 3560.103(c)(5) - Borrowers may request amendments to loan or grant documents to increase the amount contributed to and held in the reserve account, based on a CNA.
- 3560.306(j) - Rural Development may approve a change in the reserve account funding level, based on a CNA.
- 3560.406(d)(5) - A CNA is required to identify a project’s repair and rehabilitation needs in a transfer or a sale with an assumption of the Rural Development loan.
- 3560.656(e) - In the preservation process, when an incentive is developed, Rural Development must consider the project’s capital needs, based on a CNA.

HB-1-3560, MFH Loan Origination Handbook

- HB-1-3560, Ch. 4, Sec. 3, ¶ 4.18(C)(2) - A CNA should be included in a Stage I application as the basis for the annual contribution to the reserve account. The CNA will be reviewed to determine if the recommended reserves are sufficient to cover the projected capital needs.

HB-2-3560, MFH Asset Management Handbook

- HB-2-3560, Ch. 4, Sec. 3, ¶ 4.14 - Rural Development may approve a change in the reserve account funding level based on a CNA.
- HB-2-3560, Ch. 4, Sec. 4, ¶ 4.20(B) - The Loan Servicer will review the CNA, if available, to assess the borrower’s annual capital expenditure budget.

- HB-2-3560, Ch. 5, Sec. 2, ¶ 5.7, *Capital Needs Assessment* – A. Overview
- HB-2-3560, Ch. 5, Sec. 2, ¶ 5.7, *Capital Needs Assessment* – B. General Criteria:
 - A CNA should be prepared at a reasonable cost by a qualified provider.
 - A CNA should be prepared according to accepted industry standards.
 - A CNA should include the detailed items listed on Form RD 3560-11, *MFH Physical Inspection Report*.
 - A CNA assessment period should be between 10 and 20 years.
 - Estimated repair and replacement costs and expected useful life spans of components/systems in a CNA should be based on nationally recognized data sources (e.g., RS Means *Repair and Remodeling Cost Data*).
- HB-2-3560, Ch. 5, Sec. 2, ¶ 5.7, *Capital Needs Assessment* – C. CNA required:
 - When ownership of the project is transferred;
 - When the loan is reamortized;
 - When there is a writedown of the project loan; or
 - At the borrower's request.

HB-3-3560, MFH Project Servicing Handbook

- HB-3-3560, Attachment 7-A, *Revitalization Guidance*, Revitalization Principles (3)(a)
 - When repair and rehabilitation issues are anticipated, an independent CNA is to be obtained to determine the capital needs of the project and any necessary adjustments to the reserve account.
 - The cost of a CNA may be funded from the project's reserve or operating account if funds are available and the cost and quality of the CNA are acceptable to Rural Development.
 - To be acceptable to Rural Development, a CNA must include the following:
 - A physical inspection of the site, architectural features, common areas, and all electrical and mechanical systems;
 - A unit by unit inspection;
 - Identification of repair and/or replacement needs;
 - A cost estimate of the repair and replacement expenses;
 - An analysis, over a period of at least 10 years, of the timing and funding for identified capital needs that includes reasonable assumptions regarding inflation.
 - If the cost or availability of qualified independent CNA Providers prevents or delays the completion of a CNA, Rural Development may perform this function.
 - A contracted CNA should be financially feasible for any project over 20 units.
 - When Rural Development performs the CNA, it will be done with the participation of the State Architect or, if unavailable, a contract architect or State Architect from a neighboring State.
 - A CNA should generally be completed within 12 months prior to the revitalization transaction.
 - When substantial repair/rehabilitation issues are anticipated, the State Architect and Civil Rights Coordinator are to participate in the CNA or other on-site inspection.

- HB-3-3560, Attachment 7-A, *Revitalization Guidance*, Revitalization Principles (3)(c) - When equity is paid in a transaction, reserve account funds being transferred are one of the prioritized sources for repairs and rehabilitation. Post- transaction reserve account levels and funding must be adjusted in accordance with a CNA.
- HB-3-3560, Attachment 7-A, *Revitalization Guidance*, Revitalization Principles (3)(d) - When rehabilitation and repairs are not needed immediately at the time of a transaction, funding to the reserve account may be increased according to the capital needs identified in a CNA.
- HB-3-3560, Attachment 7-A, *Revitalization Guidance*, Effective Processing Strategies (3)(b) - A goal should be to establish a process in which only one formal CNA is used by all parties for the revitalization transaction to determine the capital needs of the project.
- HB-3-3560, Attachment 7-B-1, *Application Checklist*, Part 1(10) - The rehabilitation plan should be developed using a CNA.
- HB-3-3560, Attachment 7-B-4, *MFH Transfer and Assumption Contacts List* - The form includes space for contact information for the applicant's CNA provider.
- HB-3-3560, Ch. 10, Sec. 3, ¶ 10.22 - For work-out agreements, a CNA can be used to reassess the reserve level for a project and establish a new reserve level.

ADDENDUM
TO CAPITAL NEEDS ASSESSMENT CONTRACT

(Between Owner and CNA Provider)

This ADDENDUM to the CAPITAL NEEDS ASSESSMENT (CNA) CONTRACT between _____ (“**CNA Provider**”) and _____ (“**Owner**”) is entered into this ____ day of _____, 2009 (the “Effective Date”) for the property known as _____ (“**Property**”)

DEFINITIONS

“**Acceptance**” means the act of an authorized representative of the United States Department of Agriculture, Rural Development by which the representative approves the Agreement and this Addendum.

“**Agreement**” means the contract entered into between the Owner and the CNA Provider to provide a Capital Needs Assessment of the property. It includes the original document entered into between the parties, this addendum, and any other document incorporated by the agreement.

“**CNA Report**” means a report in general conformance with the *Statement of Work* that is attached hereto and the *Fannie Mae Physical Needs Assessment Guidance to the Property Evaluator*.

“**CNA Reviewer**” means a person assigned to review the CNA report on behalf of the U.S. Department of Agriculture, Rural Development.

“**CNA Provider**” means the person or entity entering into the Agreement with the Owner to perform all work required to provide a CNA of the property.

“**Owner**” means the person or persons who have or will have legal title and/or ownership of a property participating under the U.S. Department of Agriculture, Rural Development programs.

“**Program**” means any Multifamily Housing program administered by the U.S. Department of Agriculture, Rural Development.

“**Property**” means any structure(s), dwelling(s) and/or land that is the subject of any Multifamily Housing program administered by the U.S. Department of Agriculture, Rural Development, and for which a Capital Needs Assessment is required by U.S. Department of Agriculture, Rural Development.

“**USDA RD**” means the United States Department of Agriculture, Rural Development.

“**Work**” means the *CNA Statement of Work* as attached hereto.

RECITALS

WHEREAS, the property known as _____ (“**Property**”) is included in the Multifamily Housing Program (hereinafter referred to as the “**Program**”) being administered by the United States Department of Agriculture, Rural Development (hereinafter referred to as “**USDA RD**”).

WHEREAS, as a condition of participating in the Program, the Owner is required to obtain a CNA for the property which has been prepared in accordance with the Statement of Work; Owner and CNA Provider must agree to a contract to prepare a CNA for the property.

WHEREAS, CNA Provider and Owner are parties to that certain CNA Contract, dated, _____, _____ (hereinafter referred to as “**Agreement**”), pursuant to which Owner has retained the services of CNA Provider to provide a CNA for that property identified as _____, for the amount of \$ _____.

WHEREAS, the parties hereby wish to incorporate into the Agreement and its Exhibits certain additional provisions as set forth below.

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree to the following additional terms and conditions as follows:

ADDITIONS TO THE AGREEMENT

(Between Owner and CNA Provider)

I. OWNERS OBLIGATIONS -

a. SUBMISSION OF CONTRACT FOR CONCURRENCE BY USDA RD

Owner will promptly submit to USDA RD for review and concurrence a copy of the executed Agreement and this Addendum.

b. NOTIFICATION OF CONCURRENCE OF AGREEMENT BY USDA RD

Upon receiving notification from USDA RD of its concurrence of the Agreement, Owner will promptly furnish CNA Provider with evidence of this acceptance.

c. ACCESS TO THE PROPERTY

Owner shall allow CNA Provider and, if requested, the CNA Reviewer, complete, timely and unconditional access to the property and its premises for the purpose of conducting the inspections that are required for preparing the CNA.

d. FURNISHING PROPERTY INFORMATION

At least _____ (number) days prior to the commencement of the CNA inspection, Owner shall furnish to the CNA Provider all information on any recent and/or immediate planned capital improvements to the property, any recent and/or scheduled repairs, finalized maintenance schedules, and information on the existence of any known environmental hazards at the property. In addition, Owner shall provide any available information on any “Transition Plan” or “Self Evaluation” addressing proposals for complying with any federal accessibility requirements and other matters relevant to the CNA Statement of Work.

Specific items the Owner should provide the CNA Provider include:

1. Contact information for the Owner’s representative at USDA RD (Name, address, telephone number, email address, etc.)
2. Building-by-building breakdown of units by bedroom count and type (i.e. garden, townhouse, fully accessible) to aid in selection of units at time of inspection
3. Any available plans or blueprints of development (as-built drawings preferred)
4. Listing of capital expenditures for the property over the past three to five years and maintenance expenditures over the last 12 months.
5. Maintenance logs to help identify any significant or systemic areas of concern.
6. Copies of invoices for any recently completed capital improvements and/or copies of quotes for any pending/planned capital improvements.
7. Any available Section 504 / Accessibility Self Evaluation or Transition Plans.
8. Any available capital/physical needs assessments (CNA’s/PNA’s) that were previously completed.
9. Any available structural or engineering studies that were previously completed.
10. Any available reports related to lead-based paint testing or other environmental hazards (i.e. asbestos, mold, underground storage tanks, etc.) that were previously completed and/or related certifications if environmental remediation has been completed.
11. Reports including but not limited to: local Health Department inspections, soils analysis, USDA’s last compliance review, or USDA’s last security inspection.
12. If the Owner certifies below that (a) 3rd party funds have been committed for use in the transaction for which the CNA is required; and (b) USDA RD has communicated its acceptance or acknowledgement of the availability of these funds (whether by an award of points in a portfolio revitalization program or otherwise); and (c) these funds are to be used towards a rehabilitation program at the property, the Owner will provide the CNA Provider with a copy of the proposed rehabilitation scope and budget.

II. OWNER'S CERTIFICATIONS –

Owner hereby certifies as follows:

a. STATUS OF PROPOSED CNA (check correct box):

- Owner **has received a commitment for 3rd party funding** for the revitalization transaction for which application was made. The CNA Provider will create the **CNA based on existing conditions (“as is”)**. Owner is responsible for the scope of work and budget for the proposed rehabilitation of the property (typically obtained from a project architect), incorporating any requirements of the 3rd party lender. **The CNA Provider will then revise their CNA based on the anticipated conditions (“post rehab”) of the property after the rehabilitation.** Both CNAs will be provided to Rural Development.
- Owner **has requested or will request 3rd party funds but has no commitment.** (USDA RD will not award Owner points in the pre-application for 3rd party funds to be used towards the cost of revitalizing the property within the Multi-Family Housing Revitalization Demonstration Program unless funds are committed.) **If Owner does not have a commitment of 3rd party funds, Owner agrees that it is within USDA RD’s sole discretion to determine whether the CNA Provider should consider any rehabilitation scope of work and budget for a “post rehabilitation” CNA after conducting a CNA based on the property’s “as is” condition. USDA RD will make such a determination on the likelihood of 3rd party funds being made available.** CNA Provider should verify this decision with RD prior to performing a “post rehabilitation” CNA.
- Owner does not anticipate 3rd party funds** being utilized, or does not anticipate a rehabilitation at this time. In this case, the CNA Provider will conduct a normal review of the property, not including / anticipating any rehabilitation, and base the CNA on the existing conditions at the property.

NOTE: The Owner will not instruct the CNA Provider to perform a “post rehabilitation” CNA without approval from RD.

b. AVAILABILITY

Owner shall be available to promptly discuss any draft or preliminary CNA Report with the CNA Provider and shall address in writing to the CNA Reviewer any desired revisions, comments or concerns the Owner may have relating to such Report.

c. ADDRESSING DEFICIENCIES

Owner shall promptly furnish to the CNA Provider the USDA RD’s Capital Needs Assessment Review Report. Owner will discuss any deficiencies observed by the CNA Reviewer and request that the deficiencies be addressed within five (5) days. Should deficiencies not be addressed within five (5) working days, Owner may order the CNA Provider in writing to suspend, delay, or interrupt all or any part of the work under the Agreement that remains to be performed for such period of time until deficiencies identified by the CNA Reviewer have been satisfied.

d. PAYMENT

Upon approval by the CNA Reviewer of the CNA Provider’s final Report, Owner will promptly satisfy and pay any remaining fees and/or dues owed to the CNA Provider pursuant to the terms of the Agreement. Other payments shall be subject to the schedule identified in the Agreement.

III. CNA PROVIDER’S OBLIGATIONS -

a. CNA PROVIDER’S RESPONSIBILITY FOR WORK

The CNA Provider shall furnish all necessary labor, materials, tools, equipment, and transportation necessary for performance of the work as described in the Statement of Work, which is attached hereto. The format utilized for this report shall be _____. (Write in “USDA RD CNA Template in Microsoft Excel format” or similar electronic format.)

b. COMPLIANCE WITH STATEMENT OF WORK

CNA Provider will comply with the Statement of Work by creating and developing a CNA Report that will incorporate and meet all terms, conditions and requirements as set forth in the attached Statement of Work.

c. DELIVERY OF PRELIMINARY CNA REPORT

CNA Provider shall promptly provide to the Owner and USDA RD a preliminary CNA Report.

d. AVAILABILITY TO DISCUSS CNA REPORT FINDINGS

CNA Provider shall take any reasonable measures to be readily available to discuss and respond to any findings, concerns, comments, or revisions the CNA Reviewer may have regarding the preliminary CNA Report.

e. SUBMISSION OF FINAL CNA REPORT

After receipt of the CNA Reviewer’s Report, the CNA Provider shall promptly provide the Owner and USDA RD with a finalized CNA Report. The finalized report will incorporate observations, comments and/or changes identified by the CNA Reviewer.

IV. CNA PROVIDER’S CERTIFICATIONS

CNA Provider hereby certifies as follows:

a. LICENSING AND COMPLIANCE

CNA Provider possesses valid and current licenses and certifications necessary to comply with the Statement of Work and as regulated by all applicable state, county, and/or local laws and/or ordinances.

b. CONFLICTS OF INTEREST

CNA Provider has no identity of interest as defined in 7 C.F.R. part 3560 with Owner or Owner’s property or the management agency / company for the property.

c. PROPERLY TRAINED

CNA Provider and any Provider personnel who will have actual responsibility for the property inspection and preparation of the CNA are properly trained and experienced in evaluating site and building systems, health and safety conditions, physical and structural conditions, environmental and accessibility conditions, and estimating costs for repairing, replacing and improving site and building components.

d. PROFESSIONALLY EXPERIENCED

CNA Provider and any Provider personnel who will have actual responsibility for the property inspection and preparation of the CNA are professionally experienced in preparing and providing CNA’s for multifamily housing properties that are similar in scope and operation to those typically financed in USDA RD’s MultiFamily Housing Program.

e. KNOWLEDGEABLE OF CODES

CNA Provider and any Provider personnel who will have actual responsibility for the property inspection and preparation of the CNA are knowledgeable about applicable site and building standards and codes, including federal, state and local requirements on environmental and accessibility issues.

f. DEBARMENT AND SUSPENSION

CNA Provider is not debarred or suspended from participating in Federally assisted programs and will comply with the requirements of 7 C.F.R. part 3017, pertaining to debarment or suspension of a person from participating in a Federal program or activity.

g. SIGNED CERTIFICATION

Include a written and signed certification by the CNA Provider that it meets all of the above qualifications for the proposed agreement with the property owner for CNA services. [The CNA Provider’s execution of this Addendum will constitute it’s “written and signed certification” that it meets these qualifications.]

V. MISCELLANEOUS

a. USDA RD PROVISIONS

Upon request of the CNA Provider or Owner, USDA RD will make available pertinent project data such as the reserve replacements for the last 2-3 years, budget summary of the last two years, and copies of Physical Inspections and Supervisory visits for the property, if available.

b. ASSIGNMENT OF CONTRACT

CNA Provider shall not assign or transfer any interest in or performance of this Contract, without written authorization from the Owner and the USDA RD representative.

c. ENTIRE AGREEMENT

If there are inconsistencies between any provision in this Addendum and any provision in the Agreement, the provision in this Addendum shall govern. No oral statements or representations or prior written matter contradicting this instrument shall have any force and effect.

d. GOVERNING LAW

All matters pertaining to this Addendum (including its interpretation, application, validity, performance and breach) in whatever jurisdiction action may be brought, shall be governed by, construed and enforced in accordance with the laws of the state of _____ (location of the "Property")

e. HEADINGS

This Addendum shall be governed by and interpreted as part of the Agreement and its general terms and conditions.

f. TERMS AND CONDITIONS

Except as expressly stated herein, all other terms and conditions of the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned who are duly authorized to execute and enter into this Addendum, intending to be legally bound hereby, have executed this Addendum as of the date first written above.

Owner

CNA Provider

By its: _____
(title / position)

By its _____:
(title / position)

Concurred by:

The United States Department of Agriculture, Rural Development

Rural Development Representative

(title / position)

CAPITAL NEEDS ASSESSMENT STATEMENT OF WORK

Nature of the Work -

A Capital Needs Assessment (CNA) is a systematic assessment to determine a property's physical capital needs over the next 20 years based upon the observed current physical conditions of a property. The CNA report provides a year-by-year estimate of capital replacement costs over this 20-year period for use by the property owner and USDA Rural Development (RD) personnel in planning the reserve account for replacements and other funding to cover these costs.

Note: RD will use the CNA report as a key source of information about expected capital needs at the property and the timing of these needs. However, the CNA report is only an estimate of these needs and their timing. It should not be viewed as the formal schedule for actual replacement of capital items. Replacement of capital items should occur when components reach the end of their actual useful life, which may occur earlier or later than estimated in the CNA report.

Qualifications -

The CNA Provider must:

1. Possess valid and current licenses and certifications necessary to comply with the Statement of Work and as regulated by all applicable state, county, and / or local laws and / or ordinances.
2. Have no identity of interest as defined in 7 C.F.R. part 3560, with Owner or Owner's property. (An architectural firm performing a CNA and involved in the rehabilitation of the property would be considered an Identity of Interest.)
3. Be properly trained and experienced in evaluating site and building systems, health and safety conditions, physical and structural conditions, environmental and accessibility conditions, and estimating costs for repairing, replacing, and improving site and building components. (This applies to the CNA Provider or any Provider personnel who will have actual responsibility for the property inspection and preparation of the CNA)
4. Be professionally experienced in preparing and providing CNA's for multifamily housing properties that are similar in scope and operation to those typically financed in USDA RD's Section 515 Program. (This applies to the CNA Provider or any Provider personnel who will have actual responsibility for the property inspection and preparation of the CNA)
5. Be knowledgeable about applicable site and building standards and codes including federal, state and local requirements on environmental and accessibility issues. (This applies to the CNA Provider or any Provider personnel who will have actual responsibility for the property inspection and preparation of the CNA)
6. Not be debarred or suspended from participating in Federally assisted programs and will comply with the requirements of 7 C.F.R. part 3017, pertaining to debarment or suspension of a person from participating in a Federal program or activity.

Statement of Work -

The CNA Provider shall:

1. Perform a Capital Needs Assessment (CNA) in general conformance with the document: “Fannie Mae Physical Needs Assessment Guidance to the Property Evaluator,” except as modified herein.
2. Inspect the property. A minimum of 25% (20% if property includes 50 – 99 units, 15% if the property contains 100 or more units) of all dwelling units shall be inspected in a non-intrusive manner. Consideration shall be given to inspecting at least one unit per floor, per building, and per unit type (one-bedroom, two-bedroom, etc.) up to the threshold. CNA Provider shall ultimately be responsible for appropriate unit sampling but is encouraged to consult with site representatives to gather adequate information to help ensure that unit samples represent a cross-section of unit types and current physical conditions at the property, and are reflective of substantive immediate physical condition concerns. All site improvements, common facilities (every central mechanical room, every laundry etc.), and building exteriors shall be inspected. (ASTM guidelines, allowing for “representative observations” of major elements are not adequate in this regard. Although inspections are “non-intrusive”, CNA Provider shall include an inspection of crawlspaces and attics in a number sufficient to formulate an opinion of the condition of those spaces and any work necessary.) All units designated as fully accessible for the handicapped shall be inspected. The inspection shall include interviews with the property owner, management staff, and tenants as needed. It should also include consideration of all relevant property information provided by the owner, including -
 - Contact information for the client’s representative at RD (Name, address, telephone number, email address, etc.)
 - Building-by-building breakdown of units by bedroom count and type (i.e. garden, townhouse, handicap accessible) to aid in selection of units at time of inspection
 - Any available plans or blueprints of development (as-built drawings preferred)
 - Listing of capital expenditures for the property over the past three to five years and maintenance expenditures over the last 12 months
 - Maintenance logs to help identify any significant or systemic areas of concern
 - Copies of invoices for any recently completed capital improvements and/or copies of quotes for any pending/planned capital improvements
 - Any available Section 504/Accessibility Self Evaluation/Transition Plans
 - Any available capital/physical needs assessments (CNAs/PNAs) that were previously completed
 - Any available structural or engineering studies that were previously completed
 - Any available reports related to lead-based paint testing or other environmental hazards (i.e. asbestos, mold, underground storage tanks, etc.) that were previously completed and/or related certifications if environmental remediation has been completed
 - Reports including but not limited to: local Health Department inspections, soils analysis, USDA’s last Civil Rights compliance review, USDA’s last security inspection.
 - If the Owner certifies that (a) 3rd party funds have been committed for use in the transaction for which the CNA is required; and (b) USDA RD has communicated its acceptance or acknowledgement of the availability of these funds (whether by an award of points in a portfolio revitalization program or otherwise); and (c) these funds are to be used towards a rehabilitation program at the property, the Owner will provide the CNA Provider with a copy of the proposed rehabilitation scope and budget.

3. Prepare a report using forms developed by RD or other similar documents. The report shall be on an electronic worksheet commonly used in the industry, or as prescribed elsewhere herein. The report shall contain the following components, as a minimum:
 - a. Project Summary. Identification of the CNA Provider and property owner, and a brief description of the project, including the name, location, occupancy type (family/elderly) and unit mix.
 - b. Narrative. A detailed narrative description of the property, including year the property was constructed or rehabilitated (of each phase if work completed in multiple phases), interior and exterior elements, architectural and structural components, mechanical systems, etc. It shall also include:
 - i. Number, types, and identification of dwelling units inspected and used as a basis for the findings and conclusions in the report;
 - ii. An assessment of how the property meets the requirements for accessibility to persons with disabilities;
 - a) The report shall include any actions and estimated costs necessary to correct deficiencies in order for the property to comply with applicable federal, state, and local laws and requirements on accessibility. The report shall also include an opinion on the adequacy of any existing and approved transition plans for the property in accordance with USDA/Rural Development requirements. CNA Providers shall not assume that a property built in accordance with accessibility standards prevailing at the time of original construction is “grandfathered” on accessibility requirements.
 - b) Attached is a checklist (Attachment F) setting out those items that should be included in any accessibility evaluation. It is meant to provide guidance to CNA Providers, but is not represented to be all-inclusive (i.e., CNA Providers are expected to be familiar with applicable federal accessibility requirements and standards and are required to ensure that the accessibility evaluation is based on such requirements and standards). Also attached are some frequently asked questions and answers regarding RD policies and expectations with respect to certain accessibility matters. Finally, CNA Providers are strongly encouraged to review Appendix 5 to USDA Rural Development Handbook HB-2-3560.
 - iii. An assessment of observed or potential on-site environmental hazards (e.g., above or below ground fuel storage tanks, leaking electrical transformers);

Note: The narrative portion of the report must address and include any existing testing results for the presence of radon, lead in water, lead based paint, and other environmental concerns. CNA Providers are not expected to conduct or commission any testing themselves. However, where test results provided by the owner affirmatively point to hazards, the CNA Provider should inquire about subsequent remediation steps and include cost allowances for any identified hazards not yet remediated.
 - iv. Recommendations for any additional professional reports as deemed necessary by the CNA Provider, such as additional investigations on potential structural defects or environmental hazards;

Note: The narrative portion of the report must address each study or report necessary, why, and what expertise is needed so that the owner can alleviate that issue, including estimates for repairs, prior to underwriting. It is not the CNA Provider’s responsibility to estimate the cost of the study or repairs / remediation necessary.
 - v. Needs being or to be funded from a third party (if any), such as tax credits, including a brief description of the work, the source of funding, the year(s) the work is planned to be completed, and the total estimated costs in current dollars; and

*Note: For projects where the property owner advises the CNA Provider that **third party funding for rehabilitation is committed and the work will begin within 12 months**, the CNA should address the existing conditions at the property, and the post-rehabilitation needs at the property. An example would be a property owner who has submitted a pre-application to RD for the Multifamily Portfolio Revitalization (MPR) Demonstration where RD has awarded points to the application for third party funding, **and it has committed third party funding**. Under the MPR, an owner who has applied for third party funding for rehabilitation but does not have a commitment for this funding should have the CNA prepared based on conditions at the property “as is,” not post rehabilitation. In these cases, consult with RD as to whether a “post rehab” CNA should be done. When a property owner receives the funding commitment, and rehabilitation is planned within the next 12 months, the CNA contract must be renegotiated to indicate that rehabilitation is planned and specify that a post-rehabilitation CNA should be prepared.*

In preparing CNAs for these properties, the CNA Provider should undertake the CNA on the basis that the third party funded rehabilitation will occur as described in the scope of work for the rehabilitation project provided by the property owner and determine the property’s post-rehabilitation capital needs over the next 20 years. In these cases, the CNA Provider is expected to review and understand the scope of work for planned rehabilitation funded from third party sources, but aside from apparent substantive omissions is not required to comment on the planned rehabilitation.

*If there is no evidence that **third party funding for rehabilitation** has been committed (e.g., if rehabilitation is not indicated in the RD MPR pre-application and/or Rural Development has not awarded points for it), then the CNA Provider should verify with the RD contact prior to performing an “as improved” / post rehabilitation CNA. If no funds are committed, and RD does not agree to a “as improved” CNA, the CNA Provider may note the owner’s rehabilitation proposal in the CNA but the report should be undertaken as though there will be no immediate rehabilitation. In these cases, the CNA should be based on the CNA Provider’s independent professional opinion of current and future needs at the property. (For example, if the owner wishes for a rehabilitation, but has no funds allocated to perform one.)*

- vi. Acknowledgments (names and addresses of persons who: performed the inspection, prepared the report, and were interviewed during or as part of the inspection).
- c. Materials and Conditions. This component shall be reported on a Microsoft Office Excel © worksheet. **The following major system groups shall be assessed in the report: Site; Architectural; Mechanical and Electrical; and Dwelling Units. ALL materials and systems in the major groups shall be assessed (not every specific material used in the construction of the property), including the following items:**
 - i. Item Description;
 - ii. Expected Useful Life (EUL). Data entries must be based on the Expected Useful Life Table included in the “Fannie Mae Physical Needs Assessment Guidance to the Property Evaluator”, unless otherwise explained in the report. Any EUL entry that varies from the table must include explanation in a “Comments” column. Any EUL that varies from the table by 25% or more must be adequately supported separately from spreadsheet (for example, in the Narrative section);
 - iii. Age. The actual age of the material or system;

- iv. Remaining Useful Life (RUL). Any RUL entry that varies from the difference between the EUL and Age must be explained in the “Comments” column. Any RUL entry that varies 2 years or more must be adequately supported separately from the spreadsheet (for example, in the Narrative section). Variances of more than 25% will not be accepted;
 - v. Condition. The current physical condition (excellent – good – fair – poor) of the material or system;
 - vi. Description of action needed (repair – replace – maintain construct – none); and,
 - vii. Comments or field notes that are relevant to the report.
- d. **Capital Needs. This component shall be reported on a Microsoft Office Excel © worksheet.** This component identifies all materials and systems for each of the four major system groups to be repaired, replaced, or specially maintained. It shall include the following items for such materials or systems:
- i. Year or years when action is needed;
 - ii. Number of years to complete the needed action (duration of the repair work);
 - iii. Quantity and Unit of Measure. Any data entry that is not from a physical property measurement or observation during the inspection shall be explained in the report (contrary to ASTM guidance, lump sum allowances shall be used only for capital projects, such as landscaping, that cannot readily be quantified); and,
 - iv. Estimated repair, replacement, or special maintenance unit cost and total cost in current (un-inflated) dollars for each line item. The report shall identify the source(s) used for the cost data. Entries shall include estimated costs for materials, labor (union or non-union wages, as appropriate), overhead & profit, consultant fees, and all other associated costs likely to be incurred by the property owner. In particular, CNA Provider should be mindful of capital activities (e.g., a major landscaping or site drainage project) that are likely to involve design costs, or the involvement of general contractors, with associated overhead and profit considerations. CNA Providers using such standard cost sources shall use cost allocations that include overhead and profit.

Note: An estimated unit cost that is significantly different from an industry standard cost, such as R.S. Means or equivalent, must be adequately supported.

Generally, replacement actions shall involve “in-kind” materials, unless a different material is more appropriate, approved by the State Historic Preservation Office, if applicable, and explained in the report. Exceptions shall be made for components that are seen as inadequate (e.g. twenty gallon water heaters, prompting resident complaints) or below contemporary design/construction standards (e.g. single-glazed windows in temperate climates). RD also encourages the consideration of alternative technology and materials that offer the promise of reduced future capital and/or operating costs (more durable and or less expensive to maintain over time, reduce utility expenses, etc.). CNA Providers are not expected to conduct quantitative cost-benefit analyses but shall use sound professional judgment in this regard.

In addition to the exceptions described in the paragraph above, RD may consider the inclusion of market-comparable amenities/upgrades (e.g. air conditioning in warm climates) proposed by the owner when such features are essential to the successful operational and financial performance of the property. Such items should be identified specifically in the CNA report as “owner-recommended upgrades” and include an explanation of why these upgrades are necessary in supporting the financial and

operational performance of the property. Where included, CNA Provider comments on the feasibility and appropriateness of the upgrade are required.

- v. The capital needs shall be presented in two time frames:
- a) **Immediate Capital Needs.** All critical health and safety deficiencies (e.g. inoperative elevator or central fire alarm system, missing/unsecured railings, blocked/inadequate fire egress, property-wide pest infestation) requiring corrective action in calendar year 2009. Separately, the owner shall provide any repairs, replacements, and improvements currently being accomplished in a rehabilitation project, regardless of funding source, and anticipated to be completed within 12 months. The owner will include the budget for any planned rehabilitation (e.g., rehabilitation proposed in the property owner's pre-application to the MPR). CNA Provider can, but is not required, to offer comments about the rehabilitation budget. The CNA shall not include minor, inexpensive (aggregated costs for the material line item is less than \$1000) repairs or replacements that are part of a prudent property owner's operating budget.

Where immediate rehabilitation is proposed by the owner using 3rd party funds, the CNA Provider shall note the current condition and remaining effective useful lives of affected systems and components in an "as is" CNA.

- b) **Capital Needs Over the Term.** Such capital needs include significant maintenance, repairs, and replacement items required during calendar years 2010 through 2029 to maintain the property's physical integrity and long term marketability. It shall include repairs, replacements, and significant deferred maintenance items currently being planned and anticipated to be completed after calendar year 2009, and corrections for violations of applicable standards on environmental and accessibility issues. It shall also include the needs described in paragraph 3.b.v. above in the appropriate year(s), if any, if these will not be completed within 12 months from the closing of the program revitalization transaction. Generally, it shall not include minor, inexpensive (annual aggregated costs for the material line item is less than \$1,000) repairs or replacements, or maintenance items that are part of a prudent property owner's operating budget. Exceptions to these exclusions may be appropriate for very small properties, and/or for low cost items that may affect resident health and safety (e.g., a damaged or misaligned boiler flue). For example, in small projects (total of 12 units or less), items exempted would be for material line items less than \$250, not \$1,000. The report shall be realistic and based on due diligence and consideration of the property's condition, welfare of the tenants, and logical construction methods and techniques. The estimated unit costs and total costs to remedy the detailed needs shall be provided in current (un-inflated) dollars.

Capital Needs Over the Term shall be based on the actual remaining useful lives of the components and systems at hand. Aside from formal work that is accounted for in the Immediate Capital Needs section, capital activities shall not be "front-loaded."

Note: New components or upgrades addressed in a property's rehabilitation may have long-term capital needs implications as well. Those items with expected useful lives of less than twenty years (e.g. air conditioners) also will need to be accounted for in Capital Needs Over the Term.

- e. **Executive Summary.** This component shall be reported on a Microsoft Office Excel © worksheet. It shall include:
 - i. Summary of **Immediate Capital Needs** – the grand total cost of all major system groups (in current dollars);
 - ii. Summary of **Capital Needs Over the Term** – the annual costs and grand total cost of all major system groups (in current and inflated dollars). The inflation rate shall be 3 percent; and,
 - iii. Summary of **All Capital Needs** – the grand total costs for the immediate and over the term capital needs (in current and inflated dollars). The grand total costs (in current and inflated dollars) per dwelling unit shall also be included.
 - f. **Appendices.** This component shall include a **minimum of 10 and a maximum of 25 color digital photographs that describe:** the property’s buildings (interior and exterior) and other facilities, specific material or system deficiencies, and the bathrooms and kitchens in the units accessible for the handicapped. **Include a property location map and other documents as appropriate to describe the property and support the findings and summaries in the report.**
4. Deliver the following:
 - a. **A minimum of one electronic copy of the report shall be delivered on a compact disk, or other acceptable electronic media, e.g. e-mail, to both property owner and USDA Rural Development for their review and written acceptance. To the greatest extent possible, delivery should be made within 15 business days of execution of the agreement with the property owner.**
 - b. **If the report is not acceptable, the CNA Provider shall make the appropriate changes in accordance with the review comments.** A minimum of one electronic copy of the revised report shall be delivered on a compact disk or via e-mail to both property owner and USDA Rural Development for their review and written acceptance. The delivery should be made within 5 business days of receiving the review comments.
 - c. **If the revised report is still not acceptable, additional revisions will be made and electronic copies delivered on compact disks or via e-mail to the property owner and USDA Rural Development until the report is acceptable to both property owner and USDA Rural Development.**
 5. Be available for consultation with the property owner or USDA/Rural Development after written acceptance of the report on any of its contents.
 6. **The CNA Provider shall NOT analyze the adequacy of the property’s existing or proposed replacement reserve account nor its deposits as a result of the capital needs described in the report.**

FANNIE MAE PHYSICAL NEEDS ASSESSMENT GUIDANCE TO THE PROPERTY EVALUATOR

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- 2) Loan Reamortization;**
- 3) Loan Write-down; or**
- 4) Development of an Equity Loan Incentive or
Equity Loan for a Sale to a Non-profit Sponsor.**

Introduction

While many factors affect the soundness of a mortgage loan over time, one of the most significant is the physical condition of the property - past, present and future. A prudent lender must be concerned with the past maintenance and improvements because they may indicate owner and management practices as well as expenses to be incurred in the future. The lender must be concerned with the condition of the property at the time the loan is made, and over the term of the loan, because property condition may directly impact marketability to prospective tenants and the need for major expenditures may impact the economic soundness and value of the property. The lender must also be concerned with the condition of the property at the end of the loan term. If the property has deteriorated, the owner may not be able to secure sufficient financing to pay off the loan at maturity.

Most lenders have always given some attention to physical conditions and needs of properties in their underwriting. However, the amount of attention, the data secured, the quality and analysis of that data, and the impact of this information on underwriting has varied widely. Indeed, many properties and the loans that they secure are now in trouble because of inadequate consideration of physical needs in the underwriting coupled with inadequate attention to property maintenance which has diminished the marketability and overall value of the property.

The guidance and forms in this package, together with the guidance provided to our lenders in our Delegated Underwriting and Servicing (DUS) and Multifamily Guides, is based upon a

desire to see a more standardized approach to assessing the physical needs of properties that will be securing our loans. These documents attempt to respond to stated desires on the part of our lenders for a “level playing field” among competing lenders who may otherwise have different notions of the level of data and analysis required to assess a property’s physical condition. They also attempt to respond to the needs of property evaluators who, desiring to produce the quantity and quality of information deemed necessary, need specific guidance to avoid the appearance of glossing over problems or providing material which is too detailed or complex to be usable by the underwriters.

These documents are meant to provide useful guidance and tools to the evaluators. They cannot cover all situations and are not meant to be inflexible. They are designed to elicit the judgment of the evaluator (in a format which is useful to the underwriter), not to substitute for it. We welcome comments from evaluators in the field, as we did in developing this package, on improving either our forms or guidance so that this package can best serve the needs of both the evaluators and our lenders. If you have such comments, please contact April LeClair, Director of Multifamily Product Management, 3900 Wisconsin Avenue, N.W., Washington, DC 20016 (202-752-7439).

Specific Guidance to the Property Evaluator

Purpose

The purpose of the Physical Needs Assessment is to identify and provide cost estimates for the following key items:

- Immediate Physical Needs - repairs, replacements and significant maintenance items which should be done immediately
- Physical Needs Over the Term - repairs, replacements and significant maintenance items which will be needed over the term of the mortgage and two years beyond.

As part of the process, instances of deferred maintenance are also identified.

The assessment is based on the evaluator’s judgment of the actual condition of the improvements and the expected useful life of those improvements. It is understood that the conclusions presented are based upon the evaluator’s professional judgment and that the actual performance of individual components may vary from a reasonably expected standard and will be affected by circumstances which occur after the date of the evaluation.

This package explains how to use the set of forms provided by Fannie Mae. It is important to recognize that the forms are intended to help the evaluator conduct a comprehensive and accurate assessment. They also present the results of that assessment in a relatively standard format which will be useful to the lender in making underwriting decisions. However, the forms should not constrain the evaluator from fully presenting his or her concerns and findings. The forms should be used and supplemented in ways which facilitate the preparation and presentation of information useful to the lender regarding the physical needs of the property.

The Systems and Conditions forms may be altered and/or computerized to serve the evaluators' needs so long as information is provided on the condition and Effective Remaining Life of all components and the Effective Remaining Life is compared to the standard Expected Useful Life (EUL). The Summary forms may also be extended or computerized so long as the basic format is maintained.

Terms of Reference Form

The lender completes this form for the evaluator. It serves as a reference point for the assessment and provides the evaluator with basic information about the property and the term of the loan. Four additional topics are covered:

- *Sampling Expectations* - The lender's expectations about the number and/or percentage of dwelling units, buildings and specialized systems to evaluate may be stated. If there is no stated expectation, the evaluator should inspect sufficient units, buildings, and numbers of specialized systems to state *with confidence* the present and probable future condition of each system at the property. The evaluator should provide a separate statement indicating the sampling systems used to ensure a determination of conditions and costs with acceptable accuracy. If a Sampling Expectation is provided by the lender which is not adequate to achieve the requisite level of confidence, the evaluator should so advise the lender.

Considerations in determining an adequate sample size are age and number of buildings (especially if the property was developed in phases), total number of units, and variations in size, type and occupancy of units. Effective sampling is based on observing a sufficient number of each significant category. Using the above criteria, categories could include *buildings by age of each building* (e.g. inspect buildings in the 8 year old phase and in the 11 year old phase), *buildings by type* (e.g. rowhouse, L-shaped rowhouse, walkup, elevator) and/or *buildings by construction materials* (e.g. inspect the garden/flat roof/brick walls section and the garden/pitched roof/clapboard walls section). Dwelling units are separate categories from buildings. At a minimum, sampling is by unit size (0/1/2/3/4 bedrooms). There may be further categories if units are differently configured or equipped, or have different occupants (especially family or elderly). Generally, we would expect the percentage of units inspected to decrease as the total number of units increases. Systems which are not unit specific, such as boilers, compactors, elevators and roofs, will often have a 100% sample.

The overriding objective: SEE ENOUGH OF EACH UNIT TYPE AND SYSTEM TO BE ABLE TO STATE WITH CONFIDENCE THE PRESENT AND PROBABLE FUTURE CONDITION.

- *Market Issues* - In certain instances, market conditions may necessitate action on certain systems. Examples are early appliance replacement or recarpeting, new entry paving, special plantings, and redecorated lobbies. If the owner or lender has identified such an action, the evaluator should include a cost estimation for such action and indicate what, if any, other costs would be eliminated by such action.

- *Work In Progress* - In some instances, work may be underway (which can be observed) or under contract. When known by the lender, this will be noted. For purposes of the report, such work should be assumed to be complete, unless observed to be unacceptable in quality or scope.
- *Management-Reported Replacements* - In some instances, the property ownership or management will provide the lender with information about prior repairs or replacements which have been completed in recent years. The lender may provide this information to the evaluator to assist in the assessment of these components. The evaluator should include enough units, buildings, or systems in the sample to reasonably verify the reported repairs or replacements.

Systems and Conditions Forms

It is the responsibility of the evaluator to assess the condition of every system which is present at a property. All conditions, except as noted below, requiring action during the life of the loan must be addressed regardless of whether the action anticipated is a capital or operating expense.

To assist evaluators in reviewing all systems at a property, four Systems and Conditions Forms are provided. Each lists a group of systems typically related by trade and/or location. The four forms are Site, Architectural, Mechanical and Electrical, and Dwelling Units. While the forms have several columns in which information may be recorded, *in many instances only the first three columns will be completed*. If the condition of a system is acceptable, the Effective Remaining Life exceeds the term of the mortgage by two years, and no action is required, no other columns need to be completed.

The report is not expected to identify minor, inexpensive repairs or other maintenance items which are clearly part of the property owner's current operating pattern and budget so long as these items appear to be taken care of on a regular basis. Examples of such minor operating items are occasional window glazing replacement and/or caulking, modest plumbing repairs, and annual boiler servicing. However, the evaluator *should* comment on such items in the report if they do not appear to be routinely addressed or are in need of immediate repair.

The report is expected to address infrequently occurring "big ticket" maintenance items, such as exterior painting, all deferred maintenance of any kind, and repairs or replacements which normally involve significant expense or outside contracting. While the evaluator should note any environmental hazards seen in the course of the inspection, environment-related actions, such as removal of lead-based paint, will be addressed in a separate report prepared by an environmental consultant.

Using the Systems and Conditions Forms

Purpose

The forms can be used both to record actual observations at a specific location and for an overall summary. For example, the Architectural form can be used for a specific building (or group or identical buildings) as well as for summarizing all information for buildings at a property. The same is true for the Dwelling Unit form. An unlabeled form is included which can be used as a second page for any of the Systems and Conditions Forms.

In some instances, the evaluator will note components which, while they may continue to be functional, may reduce marketability of the property. For example, single-door refrigerators or appliances in outmoded colors may have such an impact in some properties. The evaluator should note these items, discuss them with the lender, and provide separate estimates of the cost to replace such items if requested.

Items (EUL)

Each of the four forms has a number of frequently-occurring systems and components listed. This list represents only the most frequently observed and is not meant to be all inclusive. *Every system present at the property must be observed and recorded.* Any system not listed on the form may be included in the spaces labeled Other. Note that the assessment includes the systems and components in both residential and non-residential structures. Thus, garages, community buildings, management and maintenance offices, cabanas, pools, commercial space, and other non-residential buildings and areas are included.

The Expected Useful Life (EUL) figure which appears in parentheses after the Item is taken from the Expected Useful Life Table provided. This table provides standard useful lives of many components typically found in apartment complexes. Where the parentheses do not contain a number, it is because there are various types of similar components with differing economic lives. The evaluator should turn to the Expected Useful Life Table and select, and insert, the appropriate Expected Useful Life (EUL) number. If the Expected Useful Life (EUL) will, without question, far exceed the term of the mortgage plus two years, the Expected Useful Life (EUL) number need not be inserted.

Note: It is recognized that the Expected Useful Life Tables represents only one possible judgment of the expected life of the various components. If we receive substantial material to the effect that one or more of the estimates are inappropriate, we will make adjustments. Until such changes are made, the Tables provide a useful and consistent standard for all evaluators to use. They avoid debate on what the appropriate expected life is and permit focus on the evaluator's judgment of the effective remaining life of the actual component in place, as discussed below.

Age

The evaluator should insert the actual Age of the component or may insert "OR" for original. If the actual age is unknown, an estimate is acceptable. If there is a range in Age (for example, components replaced over time), the evaluator may note the range (i.e., 5-7 years) or may use several lines for the same system, putting a different Age of that system on each line.

Condition

This space is provided to indicate the Condition of the component, generally excellent, good, fair, or poor, or a similar and *consistent* qualitative evaluation.

Effective Remaining Life

This space is provided for the evaluator to indicate the remaining life of the component as is. For standard components with standard maintenance, the Expected Useful Life Table provided

by the Lender could be used to determine Effective Remaining Life by deducting the Age from Expected Useful Life (EUL). However, this should not be done automatically. A component with unusually good original quality or exceptional maintenance could have a longer life. On the other hand, if the component has been poorly maintained or was of below standard original quality, the useful life could be shorter than expected. *The evaluator applies his or her professional judgment in making a determination of the Effective Remaining Life.*

If the Effective Remaining Life *is longer than the term of the loan plus two years, no deferred maintenance exists, and no action needs to be taken during the life of the loan, no other columns need to be filled out.* The only exception may be Diff? (Difference), as discussed below. This should be noted when the evaluator's estimate of the Effective Remaining Life varies by more than two years from the standard estimate.

Diff? (Difference)

The Age of the component should be deducted from the Expected Useful Life (EUL) in parentheses and the answer compared to the Effective Remaining Life estimated by the evaluator. Where there is a difference of over two years, the evaluator should insert a footnote number in the DIFF? (Difference) column and supply, in an attached list of footnotes, a brief statement of why, in his or her judgment, the Effective Remaining Life of the component varies from the standard estimate. This approach provides consistency among evaluators while making best of the evaluators' professional judgment.

Action

If any Action is required - immediately, over the life of the loan, or within two years thereafter - the Action should be recorded as *repair, replace, or maintain.* Repair is used when only a part of an item requires action, such as the hydraulics and/or controls of a compactor. Replace is used

when the entire item is replaced. Maintain is used where special, non-routine maintenance is required, such as the sandblasting of a swimming pool. In cases where a repair or maintenance may be needed now, and replacement or further maintenance may be needed later, separate lines may be used to identify the separate actions and timing.

Now?

If the item involves a threat to the immediate health and safety of the residents, clearly affects curb appeal, will result in more serious problems if not corrected, or should otherwise be accomplished as part of an immediate repair, maintenance or replacement program, this space should be checked. Replacements which may be needed in year one, but do not require immediate attention, need not be checked.

DM (Deferred Maintenance)

The DM (Deferred Maintenance) space is marked in any instances where current management practice is clearly inadequate and the owner's attention should be called to the item, even if no major expenditure or significant labor may be required.

Quantity

For items requiring action, the evaluator should note the Quantity of the system, with the applicable unit of measure entered (each, unit, square feet, square yards, linear feet, lump sum, etc.).

Field Notes

This space, as well as attachments may be used to record the type of component (16cf, frost. free, Hotpoint), the problem (valves leaking) or other information (consider replacement for marketing purposes, replace 30% per year, work in progress, etc.) that the evaluator will need to complete the Evaluator's Summary.

Sample Form

The following example from the Dwelling Unit Systems and Conditions form illustrates how this form is properly used. The example presumes an 11 story building containing 1 and 2 bedroom units. There are 100 units. The age of the building is 9 years. The term of the proposed loan is 7 years.

ITEM (EUL)	AGE	COND	ERL	DIFF?	ACTION	NOW?	DM?	QUANTITY	NOTES
Countertop/Sink (10)	9	EX	10+	1	-	-	-	- ea.	Corian Stainless Steel
Refrigerator (15)	9	Good	6	-	REPL	-	-	100ea	Hot point 16cf. ff 20%/yr @ YR 5
Disposal (5)	0-9	Good	0-5	-	REPL	-	-	100ea	20%/yr. @ YR. 1 OPTE
Bath Fixtures (20)	9	Good	11+	-	-	-	-	-	Dated Looking Repair - Now
Ceiling 04 stack ()	9	Hater Damage	-	-	Repair	Yes	-	10ea	Plumbing Leak

Countertop/sinks are 9 years old. (The entry could also be "OR"). Condition is excellent, with an Effective Remaining Life of 10 years. This is significantly different from the anticipated Effective Remaining Life of 1 (an EUL of 10 years minus an Age of 9 years). Therefore, there is a footnote entry "1" in the Diff? (Difference) column. The footnote will indicate that this item is made of an exceptionally durable material (Corian), along with a top quality stainless steel sink. The evaluator's estimate of an Effective Remaining Life of 10 years + is beyond the term of +2. No capital need would be reported.

Refrigerators are also original, reported as 16 cf frost free Hotpoint. Replacement is expected around the Effective Remaining Life, noted as 20% annually and beginning in the 5th year of the loan when the refrigerators are 14 years old.

Disposals range from new to original (Age = 0-9). 20% per year replacements will be needed starting in year 1. The evaluator notes that disposals appear to be replaced as part of the project's normal operations.

Bath fixtures are original, and in good condition. No replacement is expected to be required during the term +2 years. The note indicates that they are "dated looking," which may prompt a market consideration for replacement.

Ceiling is a special entry. The "04" stack of units has experienced water damage to ceiling from major plumbing leak. This is noted for repair NOW. As this apparently occurs in all 10 units in this stack and therefore is likely to have more than a modest cost, this action would be reported on the Immediate Physical Needs summary form.

Evaluator's Summary Forms

Two separate forms are used to summarize the evaluator's conclusions from the Systems and Conditions Forms. One summarizes Immediate Physical Needs and the other summarizes the Physical Needs Over The Term +2 years.

Evaluator's Summary: Immediate Physical Needs

All of the items for which Now? is checked are transferred to this form. This form provides for the listing of Items, Quantity, Unit Cost and Total Cost of each. The Item and Quantity are transferred directly from the Systems and Conditions Form.

Unit Cost - This is the cost per unit (sf, ea, lf, etc.) in current dollars to implement the required action. The source of the cost estimate should be listed in a separate attachment. The sources may include a third-party estimation service (e.g., R.S. Means: *Repair and Remodeling Cost Data*), actual bid or contract prices for the property, estimates from contractors or vendors, the evaluator's own cost files, or published supplier sources.

Total Cost - This is the result of multiplying the quantity times the unit cost. It is expressed in current year dollars.

DM (Deferred Maintenance) - If the item evidences deferred maintenance, this column is checked.

Comments - the comments column, or an attachment, should clearly provide information on the location and the nature of problem being addressed for each item. The information should be adequate for the owner to begin to implement the action.

Evaluator's Summary: Physical Needs Over the Term

Those items not listed on the Immediate Physical Needs form, but for which action is anticipated during the term of the loan plus two years, are listed on the form. The item and Quantity are transferred directly from the Systems and Conditions Form. The Unit Cost is calculated in the same manner as on the Immediate Physical Needs Form. An attachment should be provided which gives any necessary information on the location of action items and the problem being addressed for each item. The information should be adequate for the owner to begin to implement the action.

Cost by Year - the result of multiplying the quantity times the unit cost, in current dollars, is inserted in the column for the year in which the action is expected to take place. Generally, the Effective Remaining Life estimate provided by the evaluator on the Systems and Conditions will indicate the action year. For example, if the evaluator has indicated that the Effective Remaining Life of the parking lot paving is 4 years, the cost, in current dollars, is inserted in Year 4. If the items are likely to be done over a number of years, the costs, in current dollars should be spread over the appropriate period. For example, if the Effective Remaining Life of the Refrigerators is estimated to be 4 years, or 3-5 years, one third of the cost of replacing the refrigerators may appear in each of Years 3, 4, and 5.

Total Uninflated - After inserting all of the appropriate action items, the evaluator should total the items for each year.

Total Inflated - The evaluator should multiply the Total Uninflated times the factor provided to produce the Total Inflated.

Total Inflated All Pages - On the last sheet, the evaluator should include the Total Inflated Dollars for that page and all prior pages.

Cumulative Total All Pages - On the last sheet, the evaluator should insert the Total Inflated Dollars of that year and all prior years.

Special Repair and Replacement Requirements

While performing a property inspection, the evaluator must be aware that certain building materials and construction practices may cause properties to experience (or to develop in a short time period) problems that can be corrected only with major repairs or replacements. The following identifies some specific construction related problems; however, the evaluator must be aware that other construction related problems may be found in any property and should be identified. If any of the following requirements are not met or if the evaluator determines that the following conditions (or others) are present, *the evaluator must contact the lender immediately to discuss the timing as well as the cost of the repairs or replacements.* The evaluator should ensure that any of these conditions are thoroughly addressed in the Physical Needs Assessment.

Minimum Electrical Capacity - Each apartment unit must have sufficient electrical capacity (amperage) to handle the number of electrical circuits and their use within an apartment. Therefore, the evaluator must determine, based on referencing the National Electric Code as well as local building codes, what is the minimum electrical service needed. In any event, that service must not be less than 60 amperes.

Electrical Circuit Overload Protection - All apartment unit circuits, as well as electrical circuits elsewhere in an apartment complex, must have circuit breakers as opposed to fuses as circuit overload protection.

Aluminum Wiring - In all cases, where aluminum wiring runs from the panel to the outlets of a unit, the evaluator's inspection should ascertain that the aluminum wiring connections (outlets, switches, appliances, etc.) are made to receptacles rated to accept aluminum wiring or that corrective repairs can be done immediately by the owner.

Fire Retardant Treated Plywood - While performing the roof inspection, the evaluator should investigate whether there is any indication that fire-retardant treated plywood was used in the construction of the roof (primarily roof sheathing). This inspection should focus on sections of the roof that are subjected to the greatest amount of heat (e.g., areas that are not shaded or that are poorly ventilated) and, if possible, to inspect the attic for signs of deteriorating fire-retardant treated plywood or plywood that is stamped with a fire rating.

Our concern is that certain types of fire-retardant treated plywood rapidly deteriorate when exposed to excessive heat and humidity or may cause nails or other metal fasteners to corrode. Common signs of this condition include a darkening of the wood and the presence of a powder-like substance, warping of the roof and the curling of the shingles. Fire-retardant treated plywood is most likely to be in townhouse properties or other properties with pitched, shingled roofs that were constructed after 1981 and that are located in states east of the Mississippi River and some southwestern states.

Narrative Conclusion and Attachments

A complete narrative summary of the property and its components is not required. However, the evaluator should supply a concise summary of the conclusions reached concerning the overall condition of the property, its future prospects, and the quality of the current maintenance programs. *Any items affecting the health and safety of residents should be clearly flagged.*

The summary should include a discussion of the sampling approach used, discussed above, and any market issues which the evaluator believes it may be appropriate to address or which were noted by the lender.

The narrative, the forms use and the attachments (footnotes explaining Differences, information regarding sources of costs, and, if necessary, information needed to identify the location and type of problem addressed in the Evaluator's Summary: Physical Needs Over the Term) should be supplied.

EXPECTED USEFUL LIFE TABLES

Forms and Expected Useful Life Tables developed for Fannie Mae
by On-Site Insight of Needham, MA

EXPECTED USEFUL LIFE TABLE			
	Family Development	Elderly Development	Action
SITE SYSTEMS			"Action" equals replace unless other wise noted
NOTE: 50+ "long-lived" systems: EUL based on location and use specific conditions			
Basketball Courts	15	25	
Built Improvements (playgrounds/site furniture)	20	20	
Catch Basin	40	40	
Cold Water Lines	40	40	
Compactors	15	15	
DHW/Supply/Return	30	30	
Dumpsters	10	10	
Dumpster Enclosure	10	10	Fence Only
Earthwork	50+	50+	
Electrical Distribution Center	40	40	
Emergency Generator	15	15	
Fencing			
Chain Link	40	40	
Wrought Iron	50+	50+	
Stockade/Basinweave	12	12	
Post and Rail	25	25	
Gas Lines	40	40	
Heating Supply/Return	40	40	
Incinerators	50+	50+	
Irrigation System	30	30	
Lift Station	50	50	
Mail Facilities	10	10	
Landscaping	50+	50+	
Parking			
Asphalt	25	25	Resurface
Gravel	15	15	Resurface
Pedestrian Paving	15	15	Resurface
Bimminors	15	15	
Concrete	30	30	
Retaining Walls			
Concrete	20	20	Fill Cracks/Repoint
Masonry	15	15	Fill Cracks/Repoint
Wood	15	15	Replace
Stone	15	15	Fill Cracks/Repoint
Roadways			
Asphalt (Sealing)	5	5	Seal
Asphalt	25	25	Resurface
Gravel	15	15	Resurface (grade and gravel)
Sanitary Treatment	40	40	
Site Electrical Main	40	40	
Site Gas Main	40	40	
Site Lighting	25	25	
Site Power Distribution	40	40	
Site Sanitary Lines	50+	50+	
Site Sewer Main	50+	50+	
Site Water Main	40	40	
Storm Drain Lines	50+	50+	
Swimming Pool - Deck	15	15	Resurface Deck
Mechanical Equipment (filter/pump/etc.)	10	10	
Tennis Courts	15	15	Resurface
Transformer	30	30	
Water Tower	50+	50+	

EXPECTED USEFUL LIFE TABLE			
	Family Development	Elderly Development	Action
BUILDING ARCHITECTURE			
NOTE: 50+ = "long-lived" systems: EUL based on location and use-specific conditions			
Appurtenant Structures			
Porches	50	50	Paint at 5 years
Wood Decks	20	20	Paint at 5 years
Storage Sheds	30	30	Paint at 5 years
Greenhouses	50	50	
Carports	40	40	
Garages	50+	50+	
Basement Stairs	50+	50+	
Building Mounted Exterior Lighting	6	10	
Building Mounted HID Lighting	6	20	
Bulkheads	30	30	
Canopies			
Wood/Metal	40	40	Replace
Concrete	20	20	Re-roof
Ceilings, Exterior or Open	5	5	Paint
Chimney	25	25	Point
Common Area Doors (fire/hall/closet/etc.)	50+	50+	
Common Area Floors			
Ceramic/Quarry Tile/Terrazzo	50+	50+	Replace
Wood (strip or parquet)	30	30	Replace Portion/Sand and Finish
Resilient Flooring (tile or sheet)	15	15	Replace
Carpet	7	7	Replace
Concrete	50+	50+	Replace
Common Area Railings	50+	50+	
Common Area Ceilings			
Concrete/Drywall/Plaster	50+	50+	Replace (paint 5-8 years)
Acoustic Tile	20	20	Replace
Common Area Countertop & Sink	20	20	
Common Area Dishwasher	15	15	
Common Area Disposal	5	5	
Common Area Walls	50+	50+	Replace (paint 5-8 years)
Exterior Common Doors			
Aluminum and Glass	30	30	Door only
Solid Core (wood or metal)	25	25	Door only
Amo	15	30	Door and mechanism
Exterior Stairs			
Wood	30	30	Replace
Filled Metal Pan	20	20	Replace
Concrete	50+	50+	Replace
Exterior Unit Doors	25	25	
Exterior Walls			
Aluminum Siding	15	15	Prep and Paint
Brick or Block	40	40	Repoint
Brownstone/Stone Veneer	20	20	Waterproof and Caulk
Glass Block	15	15	Recaulk
Granite Block	40	40	Repoint
Metal/Glass Curtain Wall	10	10	Recaulk
Pre-cast Concrete Panel	15	15	Recaulk
Vinyl Siding	30	30	Replace
Wood shingle, Clapboard, Plywood, Stucco	5	5	Prep and Paint/Stain
Fire Escapes	40	40	Resecure
Foundations	50+	50+	

EXPECTED USEFUL LIFE TABLE

	Family Development	Elderly Development	Action
Hatches/Skylights			
Access Hatch	30	30	
Smoke Hatch or Skylight	50+	50+	
Insulation/Wall	50+	50+	
Interior Lighting	25	25	
Interior Railings	50+	50+	
Kitchen Cabinets	20	20	
Local HVAC			
Electrical Fan Coil	20	20	
Electric Heat/Electrical AC	15	15	
Gas Furnace With Split DX AC	20	20	
Heat Pump w/ Supplementary Electrical	15	15	
Heat Pump, Water Source	20	20	
Hydronic Fan Coil	30	30	
Hydronic Heat/Electrical AC	20	20	
Mail Facilities	10	30	
Parapet Wall	50+	50+	
Penthouse	25	25	New Door and Pointing
Public Bathroom Accessories	7	7	
Public Bathroom Fixtures	15	15	
Radiation			
Hydronic (baseboard or freestanding)	50	50	
Electric Baseboard	25	25	
Electric Panel	20	20	
Railings Roof	10	10	Paint
Refrigerator, Common Area	15	15	
Residential Glass Doors			
Sliding	15	15	
Atrium/French	30	30	
Roof Covering			
Aluminum Shingles	40	40	
Asphalt Shingles	20	20	
Built-up (BUR)	20	20	
Membrane	20	20	
Metal (pre-formed)	40	40	
Slate, Tile, Clay, or Concrete Shingles	50+	50+	
Wood Shingles	20	20	
Roof Drainage Exterior (gutter and fascia)	25	25	New Gutters
Roof drainage Interior (Drain Covers)	50+	50+	
Roof Structure	50+	50+	
Slab	50+	50+	
Service Doors	25	25	
Soffits			
Wood / Stucco / Concrete	5	5	Paint
Aluminum or Vinyl	25	25	Replace
Stair Structure	50+	50+	
Storm/Screen Doors	7	15	
Storm/Screen Windows	20	20	
Waterproofing Foundation	50+	50+	
Window Security	40	40	
Windows (Frames and Glazing)	30	30	
Wood Floor Frame	50+	50+	

EXPECTED USEFUL LIFE TABLE			
	Family Development	Elderly Development	Action
DWELLING UNITS			
NOTE: 50+ = "long-lived" systems: EUL based on location and use-specific conditions			
Bath Accessories	10	15	
Bath Fixtures (Sink, toilet, tub)	20	20	
Closet Doors	10	20	
Countertop and Sink	10	20	
Dishwasher	10	15	
Disposal	5	8	
Electric Fixtures	20	20	
Hallway Door	30	50	Door Only
Heat Detectors	20	20	
Interior Door	30	50	Door Only
Interior Stairs	50+	50+	
Kitchen Cabinets	20	25	
Living Area Ceilings			
Concrete/Drywall/Plaster	50+	50+	Replace (Paint at 5-8 years)
Acoustic Tiles	20	20	
Living Area Floors			
Ceramic/Quarry Tile/Terrazzo	50+	50+	Replace
Wood (strip or parquet)	30	30	Replace Portion/Sand and Finish
Resilient Flooring (tile or sheet)	15	20	Replace
Carpet	7	10	Replace
Concrete	50+	50+	Replace
Living Area Walls	50+	50+	Replace (Paint at 5-8 years)
Local HVAC			
Electric Fan Coil	20	20	
Electric Heat/Electric AC	15	15	
Evaporative Condenser ("swamp cooler")	20	20	
Gas furnace With Split DX AC	20	20	
Heat Pump w/ Supplementary Electric	15	15	
Heat Pump, Water Source	20	20	
Hydronic Fan Coil	30	30	
Hydronic Heat/Electric AC	20	20	
Range	15	20	
Rangehood	15	15	
Refrigerator	15	15	
Smoke/Fire Detectors	10	10	
Unit Air Conditioning (Window)	15	15	
Unit Electric Panel	50+	50+	
Unit Level Boiler	25	25	
Unit Buzzer/Intercom	20	30	
Unit Level DHW	10	10	
Unit Level Hot Air Furnace	25	25	
Unit Radiation			
Hydronic or Steam (baseboard or freestanding)	50	50	
Electric Baseboard	25	25	
Unit Vent/Exhaust	15	15	
Unit Wiring	99	99	
Vanities	20	20	
Window Covering	3-20	3-25	Material/User Specific

EXPECTED USEFUL LIFE TABLE			
	Family Development	Elderly Development	Action
MECHANICAL/ELECTRICAL			
NOTE: 50+ = "long-lived" systems: EUL based on location and use specific conditions			
Central Unit Exhaust, Roof Mounted	15	15	
Chilled Water Distribution	50+	50+	
Chilling Plant	15	25	
Compactor	15	15	
Cooling Tower	25	25	
Electrical Switchgear	50+	50+	
Electrical Wiring	50+	50+	
Elevator, Controller/Dispatcher	15	20	
Elevator, Cab	15	20	Rebuild Interior
Elevator, Machinery	30	30	
Elevator, Shaftway Doors	20	30	Replace Gibs and Rollers
Elevator, Shaftways			
Hoist Rails, Cables, Traveling Equipment	25	25	
Hydraulic Piston and Leveling Equipment	25	25	Re-sleeve Piston
Emergency Call Alarm System, Station	15	15	
Emergency Generator	35	35	
Emergency Lights	10	10	Battery operated
Evaporative Cooler	15	15	
Fire Pumps	20	20	Pump Motor
Fire Suppression	50+	50+	Piping
Gas Distribution	50+	50+	Piping
Heat Sensors	15	15	
Heating Risers and Distribution	50+	50+	
Heating Water Controller	15	15	
Hot and Cold Water Distribution	50	50	
HVAC			
Cooling Only	15	15	
Heat Only	15	15	
Heating and Cooling	15	15	
Master TV System	15	15	
Outdoor Temperature Sensor	10	10	
Sanitary Waste and Vent System	50+	50+	
Sewage Ejectors	50	50	
Buzzer/Intercom Central Panel	15	15	
Smoke & Fire Detection System, Central Panel	15	15	
Sump Pump			
Residential	7	7	Replace
Commercial	15	15	Replace Motor
Water Softening and Filtration	15	15	
Water Tower	50+	50+	
Boiler Room Equipment			
Blowdown and Water Treatment	25	25	
Boiler Room Pipe Insulation	With Boiler	With Boiler	
Boiler Room Piping	With Boiler	With Boiler	
Boiler Room Valves	15	15	Repack Valves
Boiler Temperature Controls	With boiler	With boiler	
Boilers			
Oil-fired Sectional	22	22	
Gas or Dual-fuel-fired Sectional	25	25	
Oil Gas or Dual-fuel-fired Package, Low MBH	30	30	

EXPECTED USEFUL LIFE TABLE			
	Family Development	Elderly Development	Action
MECHANICAL/ELECTRICAL (continued)			
Oil Gas or Dual-fuel-fired Package, High MBH	40	40	
Gas-fired Atmospheric	25	25	
Electric	20	20	
Bottled Gas Storage	20	20	
Building Heating Water Temperature Controls			
Residential	12	12	
Commercial	15	15	
Combustion Air			
Duct with Fixed Louvers	50+	50+	Replace
Motorized Louver and Duct	25	25	Replace Motor
Make-up Air	25	25	Replace Fan/Preheater
Compressors	15	15	
Condensate and Feedwater			
Feedwater Only (Hydronic)	10	10	
Condensate and Feedwater (Steam)	With Boiler	With Boiler	
DHW Circulating Pumps	By Size	By Size	
DHW Generation			
Tank Only, Dedicated Fuel	10	10	
Exchanger in Storage Tank	15	15	
Exchanger in Boiler	15	15	
External Tankless	15	15	
Instantaneous	10	10	
DHW Storage Tanks			
Small (up to 150 gallons)	12	12	Replace
Large (over 150 gallons)	7	7	Point Tank Lining
Domestic Cold Water Pumps	15	15	
Fire Suppression	50+	50+	
Flue Exhaust	With Boiler	With Boiler	
Free Standing Chimney	50+	50+	
Fuel Oil Storage	25	25	
Fuel Transfer System	25	25	
Heat Exchanger	35	35	
Heating Water Circulating Pumps	By size	By size	
Line Dryers	15	15	
Motorized Valves	12	12	
Outdoor Temp Sensor	10	10	
Pneumatic Lines & Controls	30	30	
Purchased Steam Supply Station	50+	50+	
Solar Hot Water	20	20	Replace Collector Panels

Accessibility Laws and Standards

Law and Regulation References	Act/Section Application	Accessibility Standard	Accessibility Requirements
<p>Public Law 90-480 (42 USC 4151-4157)</p> <p>(not referenced in regulations)</p>	<p>The Architectural Barriers Act of 1968 requires certain facilities financed with Federal funds be designed and constructed as to be accessible to the physically handicapped. These include rental properties with on-site offices.</p> <p>Rural Development projects financed with Federal funds include:</p> <ul style="list-style-type: none"> • Section 515 Rural Rental Housing • Section 514 / 516 Farm Labor Housing grants and loans. 	<p>Uniform Federal Accessibility Standard (UFAS)</p>	<p>All areas open to the public must be fully accessible to persons with disabilities. (For a MFH development, this would apply to the rental office. Other spaces - such as laundries, community rooms, etc. – are generally “common areas” for the use of tenants and their guests, and are not considered public spaces.)</p> <p>(Requirements of the Architectural Barriers Act are met when meeting Section 504 of the Rehabilitation Act.)</p>
<p>Public Law 93-112 (29 USC sections 790-794)</p> <p>7 C.F.R. 15b also 7 C.F.R. 3560.60(d))</p>	<p>Section 504 of the Rehabilitation Act of 1973 requires programs and facilities receiving Federal financial assistance be designed and constructed as to be accessible to the physically handicapped.</p> <p>Rural Development projects receiving Federal financial assistance include:</p> <ul style="list-style-type: none"> • Section 515 Rural Rental Housing • Section 514 / 516 Farm Labor Housing grants and loans 	<p>Uniform Federal Accessibility Standard (UFAS)</p>	<p>Substantial Alteration (7 C.F.R. 3560.60(d)(2)):</p> <ul style="list-style-type: none"> • Substantial alteration defined as 50% or more of the full and fair cash value of the building. (See UFAS.) • Buildings undergoing substantial alteration are treated as “new construction” in UFAS due to the level of rehab. <p>Properties ready for occupancy after 6/10/82:</p> <ul style="list-style-type: none"> • At least 5% of all dwelling units, or a minimum of one dwelling unit (DU) must meet <u>mobility impairment requirements</u>. (Always round up. 5% of 21 units = TWO fully accessible units.) • The mix of accessible units is to be comparable to the variety of other project units (ie. 1, 2, and 3 bedrooms). • Public and common use areas must be accessible per UFAS. <p>Properties ready for occupancy on or before 6/10/82:</p> <ul style="list-style-type: none"> • Borrowers are encouraged to make 5% of units fully accessible. If a unit undergoes extensive repair, it will be made accessible to the extent possible, up to the 5% requirement. (7 C.F.R. 3560.60(d)(2)) • Borrowers must conduct self-evaluations, and if needed develop transition plans • Borrowers must make common areas accessible when financially and structurally

Law and Regulation References	Act/Section Application	Accessibility Standard	Accessibility Requirements
	Section 504 of the Rehabilitation Act (con't)		<p>feasible (Common areas include mailboxes, office, community room, trash areas, playgrounds, laundry facilities, etc.)</p> <ul style="list-style-type: none"> When a qualified individual with a disability applies for admission, borrowers must make the unit accessible and usable to the individual. <p>Other Considerations:</p> <ul style="list-style-type: none"> For existing facilities, accessibility must be provided to the maximum extent feasible. If structurally impractical, a referral agreement may be used in lieu of making the facility accessible. An applicant / tenant may request “reasonable accommodation” at owner / project expense at any time.
<p>Public Law 90-284 (42 USC sections 3601 et seq)</p> <p>24 C.F.R. Part 100 and 54 C.F.R. Part 3232 (HUD’s regs implementing FHAA)</p> <p>7 C.F.R. section 3560.60(d)</p>	<p>The Fair Housing Amendments Act to the 1964 Civil Rights Act requires all “covered dwellings” to be adaptable. “Covered dwellings” are all ground floor units (or all units in an elevator building) in buildings with four or more units constructed after 3/13/91. This law applies to all Multifamily Housing, regardless of financing (public or private).</p> <p>Rural Development projects include:</p> <ul style="list-style-type: none"> Section 515 Rural Rental Housing Section 514 / 516 Farm Labor Housing grants and loans 	Fair Housing Act / Accessibility Guidelines	<p>Properties ready for occupancy after 3/13/91:</p> <ul style="list-style-type: none"> At least one building entrance must be on an accessible route unless impractical due to terrain. (24 C.F.R. 100.205(a)) (Unless terrain does not permit and “site impracticality” test performed, all ground level units or all units in an elevator building on an accessible route.) Townhouses and buildings less than 4 units exempted from requirements. All public and common use areas must be accessible. (24 C.F.R. 100.205(c)(1)) All external and internal doors must be wide enough to accommodate wheel chair access. (24 C.F.R. 100.205 (c)(2)) All “covered dwellings” must contain the following features of adaptable design: <ul style="list-style-type: none"> ◇ Accessible route into and through the DU (24 C.F.R. 100.205 (c)(3)(i)) ◇ Light switches in accessible locations (24 C.F.R. 100.205 (c)(3)(ii)) ◇ Reinforcements in bathroom walls for grab bars and , (24 C.F.R. 100.205 (c)(3)(iii)) ◇ Usable kitchens and bathrooms for persons in wheelchairs (24 C.F.R. 100.205 (c)(3)(iv)) Applicant / tenant may request “reasonable accommodations” to the unit, at the tenant’s expense. <p>Properties ready for occupancy on or before 3/13/91:</p> <ul style="list-style-type: none"> Fair Housing has no accessibility requirements for projects constructed prior to this date.

Law and Regulation References	Act/Section Application	Accessibility Standard	Accessibility Requirements
<p>Public Law 101-336 (42 USC sections 12111 et seq.)</p> <p>28 C.F.R. Parts 35 and 36</p> <p>7 C.F.R. part 3560.60(d)</p>	<p>The Americans with Disabilities Act of 1990 requires all places of public accommodation and commercial facilities be accessible to persons with disabilities. Applies to all new construction and any repair / rehab. This law applies to all public spaces, regardless of financing (public or private).</p> <p>Rural Development projects include:</p> <ul style="list-style-type: none"> • Section 515 Rural Rental Housing • Section 514 / 516 Farm Labor Housing grants and loans 	<p>Americans with Disabilities Act Accessibility Guidelines for Buildings and Facilities (ADAAG)</p>	<p>All areas open to the public must be fully accessible to persons with disabilities. (For a MFH development, this would apply to the rental office. Other spaces - such as laundries, community rooms, etc. – are generally “common areas” for the use of tenants and their guests, and are not considered public spaces. Exceptions would be a community room used for poling, training, etc. or a dining room serving outsiders.)</p> <p>Properties ready for occupancy after 1/26/93:</p> <ul style="list-style-type: none"> • Public areas must be accessible per ADAAG standards. • Once UFAS requirements are met, typically the additional ADAAG requirement is for a “van accessible” parking space at the office. <p>Properties ready for occupancy on or before 1/26/93:</p> <ul style="list-style-type: none"> • When public areas are altered, they must be altered to ADAAG standards. (Public areas are those areas used by individuals other than tenants and their guests. This includes offices used to pay bills or to inquire about rentals, public restrooms, and spaces used for voting, public meetings, or meals for outsiders.)

Existing Property Accessibility Checklist

DISCLAIMER	This information was developed to assist CNA Providers in developing repair lists for existing MFH properties financed through USDA Rural Development's Section 515 program, as part of a Capital Needs Assessment (CNA). This analysis was not intended to address all accessibility requirements of any Federal, State, or local laws or regulations nor should this information be relied on for that purpose. To ensure full compliance, borrowers, architects, loan officials, CNA Providers, contractors, and other interested persons should refer to the Uniform Federal Accessibility Standards, the HUD Fair Housing Accessibility Guidelines, the Americans with Disabilities Act Accessibility Guidelines, and all other applicable Federal, State, and local standards. Please be aware that the owner(s) of this building are responsible for compliance of all applicable accessibility regulations.
SITE -	(For each item, enter "Y" for "Yes", "N" for "No", or "NA" for "Not Applicable" in the first column. For each "N", transfer into the CNA a cost estimate for correction. Include details, notes, or photographs as appropriate to explain the situation.)
Parking:	1. Proper number of accessible spaces? (min. 1 / accessible unit + 1 visitor / office space – UFAS 4.1.(5)(d)) (min. 2% of parking - DM 2.23) (must meet both)
	2. Proper width (8' wide min.) and access aisle adjacent? (5' wide min.) (UFAS 4.6.3) (DM 2.21)
	3. Correct slope of accessible parking / access aisle (2%). (No ramp projecting into access aisle or parking space.) (UFAS 4.6.3)
	4. Visible designation sign? (not obscured by vehicle due to height of sign post) (UFAS 4.6.4) (DM 2.21)
	5. Shortest distance (closest space to accessible apartment, office, laundry, or site amenity) (UFAS 4.6.2) (DM 2.20)
Accessible Route:	
	1. Curb cuts with flared sides (1:10 max) from parking to sidewalk, and where accessible route crosses pavement (UFAS 4.7.1 and 4.7.5) (DM 2.22)
	2. Sidewalk adjacent to parking provides minimum 36" width accessible route beyond car's overhang (UFAS 4.3.3)
	3. Accessible route links all elements on site (min. 36" wide, 8% slope max.): accessible units (UFAS), adaptable units (DM), common areas, mailboxes, trash areas, common laundry, amenities, etc. (DM 1.6, 2.8, 2.9, 2.16) (UFAS 4.1.1, 4.3.2, 4.3.3, 4.34.7.1)
	4. Accessible route includes no changes in level greater than ½" unless beveled or ramped (UFAS 4.3.8)
	5. If accessible route slope exceeds 5%, constructed as a ramp (UFAS 4.8) (DM 1.7-1.8)
	6. Ramps provided have max. 1:12 (8.3%) slope, min 36" width, and cross slope max. 1:50? (UFAS 4.8.2, 4.8.6) (DM 1.7, 1.8)
	7. Ramps with greater than a 6" rise or 72" length, handrails on both sides (UFAS 4.8.6) (DM 1.8)
	8. Ramps with drop-offs have curbs or edge protection min. 2" high (UFAS 4.8.7)
	9. Handrails extend 12" beyond both ends of ramp (UFAS 4.8.5) (DM 1.8) (May be omitted only if extension would obstruct a path of travel, no matter how designed.)
	10. If stair in circulation path and open underneath, protect stair bottom below 80" headroom with stair protection up to 27" high maximum (UFAS 4.4.2) (DM 2.18)
	11. Exterior stairs or interior common use stairs do not have open risers (at least partially closed) (UFAS 4.9) (DM 2.17)
COMMON AREAS - (halls, community rooms, laundries, lobby, etc.)	
	1. Entrance threshold max, 1/2" at entry (UFAS 4.13.8) (DM 1.11)
	2. Doorways 32" min. clear width (UFAS 4.13.5) (DM 1.11)
	3. Lever hardware required (UFAS 4.13.9) (DM 1.11)
	4. Floor covering is stable, firm, slip resistant. Carpeting, if provided, is low pile (UFAS 4.5.3)
	5. Switches / outlets / thermostats / controls within reach range? (typically 15" - 48") (UFAS 4.27) (DM 5.3-5.9)
	6. If provided, restrooms fully accessible: 18" clearance on pull side of door; maneuvering room (5' circle or T-shape); correct grab bars; bottom of mirror 40" max. above floor; lavatory 34" max. high, open beneath, lever faucets, & pipes covered. (UFAS 4.19 & 4.22, fig 28,29 & 30) (DM 2.28-2.30) (NOTE: maneuvering room not required if restroom is one lavatory and one water closet and provides a 30" x 60" clear space outside swing of door) *(See note)
	7. If common kitchen provided, accessible route into, sink accessible: 34" or less high, open beneath, lever faucets, & pipes covered (UFAS 4.1.1, 4.24) (DM 2.14)

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	8.	Laundry - at least one front loading washer and dryer, located in laundry nearest each accessible unit(s) (UFAS 4.34.7.2)
	9.	Washer / dryer controls within reach and 30' x 48" clear space at door / washer / dryer / sink (UFAS 4.2, 4.13, 4.24) (DM 2.26 - 2.27)
	10.	Playground - if provided, must be on an accessible route (accessible play equipment not required) (UFAS 4.1.1) (DM 2.9)
	11.	Mailboxes - 30" X 48" clear space, some boxes within 9" - 54" reach range (UFAS 4.1.1, 4.2) (DM 1.6 and 2.10)
	12.	Dumpster / trash areas – on accessible route, opening within reach range (typically 9" - 54") (UFAS 4.1.1)
PUBLIC AREAS - (onsite office, community room / etc. if open to more than tenants and guests)		
	1.	Meet all COMMON AREAS requirements (see above)
	2.	Van accessible parking space with proper width (8' wide min. or 11' wide universal space) (ADAAG 4.6.3) (DM 2.6 and 2.8)
	3.	Access aisle adjacent to van space (8' wide for 8' space, 5' wide for 11' universal space) (ADAAG 4.6.6) (UFAS 4.6.3) (DM 2.8)
	4.	Visible designation sign and "Van-accessible" sign (not obscured by vehicle) (UFAS 4.6.4) (ADAAG 4.6.4) (DM 2.21)
	5.	Correct slope of accessible parking / access aisle (2%). (No ramp projecting into access aisle or parking space.) (ADAAG 4.6.3)
	6.	Van accessible parking located on shortest accessible route (closest space to office or public space) (ADAAG 4.6.2)
ACCESSIBLE UNITS - (5% of total units required if constructed after 6/10/82 per USDA Departmental Regulations at 7 C.F.R. 15b)		
General:	1.	Minimum 5% of total units fully accessible (NOTE: Always round up. A 20 unit project requires 1 fully accessible unit. A 21 unit development requires 2 fully accessible units.) (7 C.F.R. 15b) (UFAS 4.1.4) (UFAS 4.1.4(11)).
	2.	Unit mix of accessible units reflects unit mix of all apartments (NOTE: If only one accessible unit provided, it would be the prevalent bedroom mix in the complex, usually a 2-bedroom unit. If a second accessible unit is provided, it would be the next prevalent bedroom size, usually a 1 bedroom unit.) (7 C.F.R. 15b) *(See note)
	3.	Entrance threshold max. 1/2" at entry (UFAS 4.13.8) If sliding glass doors provided, threshold beveled to max. 3/4" (UFAS 4.13.8)
	4.	All rooms on a 36" wide accessible route (min. 32" clear at door openings) (UFAS 4.3.3 and 4.34.2(3))
	5.	Lever type hardware on entrance door (UFAS 4.13.9)
	6.	Switches / outlets / thermostats / controls in reach range? (typically 15" - 48") (UFAS 4.27.3)
	7.	Clothes closets - rod within reach (max. 54" height) (UFAS 4.2.5, 4.25.3)
	8.	Storage (linen, etc.) - some shelving within reach (between 9" and 54" above the floor; for side approach, between 9" and 48" for front approach) (UFAS 4.2.5, 4.25.3)
	9.	Floor covering is stable, firm, and slip resistant. If carpet provided, low pile (UFAS 4.5.3)
Kitchen:	1.	Minimum 40" clearance between opposing sides (60" in U-shaped kitchens) (UFAS 4.34.6.1)
	2.	30" X 48" clear space at appliances (UFAS 4.34.6.2)
	3.	Work surface - counter 30" wide min., no more than 34" above floor (with clear knee space or removable cabinet) (UFAS 4.34.6.4)
	4.	Wall cabinet storage above work surface 48" max height for at least one shelf (UFAS 4.34.6.10)
	5.	Sink space 34" max. above floor (with clear knee space or removable cabinet), 30" wide min. (UFAS 4.34.6.5)
	6.	Accessible sink controls (lever or push type controls) (UFAS 4.34.6.5(4))
	7.	Sink pipes insulated / covered (UFAS 4.34.6.5(8))
	8.	Cabinet hardware accessible (UFAS 4.34.6.10)
	9.	Front mounted range controls (UFAS 4.34.6.6) Oven self cleaning or adjacent to 30" clear open work space. (UFAS 4.34.6.7)
	10.	Separate switch for rangehood / light within reach range (UFAS 4.34.6.3, 4.27,4.1.2(12))
	11.	Refrigerator meets requirements (50% of freezer space in reach range) (UFAS 4.34.6.8)

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Bathroom:	1.	30" x 48" clear floor space at door (UFAS 4.34.5.1) *(See note)
	2.	Knee / toe clearance under 34" maximum height lavatory (or removable cabinet) (UFAS 4.34.5. and 4.19.2)
	3.	Lavatory pipes insulated / covered (UFAS 4.34.5.3, 4.19.4)
	4.	Mirror 40" max. off floor (UFAS 4.22.6)
	5.	30" x 48" clear floor space at toilet (UFAS 4.34.5.2(1)) *(See note)
	6.	Grab bars in place and anchored securely (at toilet and tub / shower) (UFAS 4.34.5)
	7.	30" x 48" clear floor space at tub / shower (UFAS 4.34.5.4, 4.34.5.5) *(See note)
	8.	Tub controls located properly (UFAS 4.34.5.4(4))
	9.	Secure tub seat provided? (if not built in as part of unit) (UFAS 4.34.5.4(2))
	10.	Hand held shower nozzle, 60" min. long (UFAS 4.34.5.4(5))
ADAPTABLE UNITS - (Remaining ground level in buildings with 4+ units first occupied after 3/13/91)		
General:	1.	All ground level units on accessible route, or site / building impractical to achieve that accessibility (DM 1.40-1.55)
	2.	Low (max ¾") threshold at primary entry door, max. 4" step other exterior doors (DM 3.10)
	3.	36' accessible route to all rooms (entry door min. 32" clear opening, passage doors min. 31 5/8" clear opening) (DM 3.3, 3.5, 4.3)
	4.	Switches / outlets / thermostats / controls in reach range? (typically 15" - 48") (DM 5.1-5.9)
Kitchen:	1.	30" X 48" clear floor space at each fixture and appliance (DM 7.2)
	2.	31 5/8" min. clear opening into kitchen (DM 3.3, 3.5, 4.3)
	3.	Min. 40" between facing counters (in "U" kitchen, min. 60" if any fixture at bottom of "U" OR 40" min. if sink has removable front) (DM 7.2, 7.7-7.16)
Bathroom:	1.	Blocking for grab bars in place (DM 6.1-6.16, 7.33)
	2.	31 5/8" min. clear opening door to bath (DM 7.33)
	3.	30" x 48" clear space for wheelchair to enter, close door, and exit, outside of the door swing (DM 7.33)
	4.	30" x 48" clear space for wheelchair at each fixture (DM 7.33)
COMMENTS -		Note if project has water fountains, public telephones, or other site amenities that require accessibility, and if they comply or not. (Per UFAS, or UFAS and DM if built after 3/13/91.)
		Include details, notes, or photographs as appropriate to explain the situation for accessibility shortcomings.
NOTE -		The CNA process indicates work with an existing building. RD recognizes that it may not be possible to make an existing structure as accessible as new construction. Items marked "(See note)" particularly may be difficult or impossible to achieve without great expense. For those items, provide as much accessibility as possible without moving walls or relocating units. Relocating walls in bathrooms may be necessary if it is impossible to provide space for a wheelchair outside the swing of the door, and / or a useable bathroom will not result. Always when working with an existing building, seek accessibility "to the extent possible".
		With multiple accessibility requirements, the more restrictive code or regulation applies.
KEY -		UFAS = Uniform Federal Accessibility Standard (implements Section 504 of the Rehabilitation Act of 1973) (Implementation date for Rural Development was 6/10/82. Projects funded after that date must have accessible common areas and 5% fully accessible units.) See http://www.access-board.gov/ufas/ufas-html/ufas.htm
		ADAAG = Americans with Disabilities Act Accessibility Guidelines. (Implementation date 1/26/93. Projects funded after that date, or performing repairs after that date must comply.) See http://www.access-board.gov/adaag/html/adaag.htm
		DM = HUD's Fair Housing Act Design Manual (implements the Fair Housing Act Accessibility Guidelines) (Implementation date was 3/13/91. Projects funded after that date must provide adaptable ground level units, or all units in elevator buildings, in buildings of four or more units. Common areas must be accessible.) See http://www.huduser.org/publications/pdf/fairhousing/fairintro.pdf

Accessibility Requirements for Rural Development Financed Existing Multi-Family Housing

Supplemental Questions & Answers

As part of its Multi-Family Portfolio Revitalization (MPR), Rural Development (RD) is providing additional guidance specifically to assist CNA Providers understand the level of accessibility requirements for properties with RD funding.

The primary source for guidance on accessibility requirements is available from Rural Development's MFH Asset Management handbook, HB-2-3560, Appendix 5 on Civil Rights requirements. See <http://www.rurdev.usda.gov/regs/handbook/hb-2-3560/AM%20Appendix%205.pdf>

Pages 9-20 include Frequently Asked Questions and Answers to a range of accessibility issues found in existing MFH properties. Those questions have been included here.

Some additional situations / interpretations that are specifically relevant to the MPR have developed over time, which have not yet been incorporated into Appendix 5. Information about these topics are covered in the questions and answers below along with the FAQs from Appendix 5 which deal with the physical environment.

1. **How do borrowers meet 7 C.F.R. 15b numerical requirements for fully accessible units?**

In MFH projects ready for occupancy after June 10, 1982, 7 C.F.R. 15b standards require:

- At least 5 percent or one unit, whichever is greater, must be fully accessible. To meet the 5 percent minimum, borrowers must round up to the next whole unit. For example, a 24-unit MFH project must have at least two fully accessible units (8.3 percent) rather than one (4.2 percent).
- Fully accessible units must be comparable in variety to other project units. For example, in a 24-unit project with 12 one-bedroom units and 12 two-bedroom units, one of the fully accessible units should be a one-bedroom unit and the other should be a two-bedroom unit.
- Rents for fully accessible units must be comparable to other same sized project units.
- If a project has more than one site, fully accessible units may not be clustered at one site, unless only one fully accessible unit is required.
- When a project has a wide variety of units (one, two, three or four bedrooms), borrowers are not required to exceed the 5 percent requirement simply to have a fully accessible unit of each type.

2. **What are the requirements for van accessible parking?**

The requirements vary based on when a project became ready for occupancy. The parking lot of all projects with public areas such as an on-site office, ready for occupancy after January 26, 1993, must be properly striped for van accessible parking and access aisles. All projects

with public areas ready for occupancy before January 26, 1993, must be striped for van accessible parking and access aisles whenever the parking lot is re-striped. This includes either an 11' wide space and 5' access aisle (preferred), or an 8' wide space and 8' wide access aisle.

3. **If accessible parking is located across the drive from the building it serves, must a crosswalk be painted on the drive?**

No, it's not required. However, having a crosswalk is a good idea since it would indicate a crossing exists, and hopefully would signal a driver to slow down. There is no requirement for a painted crosswalk in the accessibility standards. Further, there is no requirement for the color of paint to be used. White is most commonly used, and sometimes blue or yellow. Curb ramps from the drive to the site are required.

4. **What is the concept of "visitability," what is required, and when does it apply?**

The concept of "visitability" is that **a disabled person should be able to visit every apartment on site**. If that is not possible (due to a lack of elevators), the disabled person would like to visit every ground floor unit. The Fair Housing Amendments Act (FHAA) greatly furthered the concept of visitability by **requiring an accessible entrance to all ground floor units in buildings of 4 or more units, constructed for first occupancy after 3/13/91**. FHAA further requires those units to be "adaptable" to persons with disabilities. This is greatly improving accessibility in MFH throughout the nation, since the FHAA requirements apply to all multi-family housing, whether financed by the federal government or not.

Buildings constructed prior to 3/13/91 do not have to comply with the requirement for an accessible route to each ground floor unit. Section 515 and Section 514/516 properties built prior to 3/13/91 must comply with the Section 504 requirement for 5% fully accessible units, but there is no requirement for all ground floor units to be on an accessible route. Borrowers may incorporate the concept of "visitability" if they so choose, but Rural Development cannot require such modifications in properties built before this date.

5. **What does it mean that MFH playgrounds must be accessible?**

As a site amenity, playgrounds or "tot lots" must be accessible. **"Accessible" for a playground means that the playground must be on an accessible route.** A disabled parent or child must be able to get "to" the playground. A concrete or asphalt sidewalk to the playground meeting the requirements of an accessible route is sufficient. It is recommended that there be a turnaround at the end of that route, so a disabled individual does not have to "back out". If the playground has a defined edge (railroad ties, change in surface material, etc.), that is where the accessible route would end. If the playground is merely "in the grass", the accessible route does not have to go to any, or every, piece of equipment. It should end "reasonably close" to the equipment.

Accessible play equipment is only required for a "public" playground. The playground on a MFH site is for "tenants and their guests". It is a "common" area, not a "public" area.

6. **At existing properties with very hilly sites, does RD expect an accessible route between every building and common facility?**

For properties built after 3/13/91, under the FHAA requirements, an accessible route to common areas and all ground level units in buildings with four or more units was required. (Even under those requirements, a “site impracticality” test was allowed to reduce accessibility throughout the site for hilly sites.) For properties built prior to that date, there is no requirement for an accessible route throughout the site. The requirement is that the office, 5% fully accessible units, and one common area of each type (laundry, trash enclosure, mailbox area, playground, etc.) be on an accessible route. In sites where a pedestrian accessible route cannot be provided, an accessible route using a vehicle is permitted.

For example, if an accessible route cannot be provided from the fully accessible unit(s) to the playground using sidewalks and ramps, an accessible parking space can be provided near the playground with an accessible route from the parking space to the playground. The tenant would then wheel out to their parking space, drive to the playground, and wheel to the playground. Obviously, this is not ideal, but is acceptable in situations where site constraints warrant it.

Bear in mind that there may be situations where “more than one” of a common site amenity must be on an accessible route. For example, if the site has two accessible units at opposite ends of the site, the laundry nearest each accessible unit should be on an accessible route and available for their use. In this situation, more than one accessible laundry room would be required.

7. **Are “open risers” on common area stairs permitted?**

No. Stairs are not part of an accessible route. That said, UFAS provides requirements for “accessible stairs” at UFAS 4.9. What / where are “accessible stairs”? **Stairs required to be accessible are any stair that serves more than one unit, or any exterior stair serving a single unit.** The only stairs on a RD financed MFH site that would not be “accessible stairs” would be an interior stair that serves only one unit – where you open the door, do directly up the stairs, and typically end up in the unit’s living room. All exterior stairs and all interior stairs serving more than one unit are common use stairs.

Because of their common use, UFAS has greater accessibility requirements for those stairs. The stairs will be used by tenants and their guests. The tenant, or their guests, could be mobility or visually impaired. If they are, the possibility of a foot going through the open riser of a stair exists.

Due to that possibility, UFAS requires some form of “blocking” for the open riser. Note that UFAS does not say “closed risers are required”. UFAS 4.9.2 reads “Open risers are not permitted.” Vertical or horizontal strips (wood or metal), decorative wire mesh, or other materials may be used. Many owners choose not to fully enclose the risers due to water, rain, light, ventilation, and security issues.

8. **What is RD's expectation regarding existing developments that feature split foyer design, with all units below or above entry grade?**

Where an architect or engineer has determined that it is structurally impractical to make physical changes, a referral agreement to another nearby property with a fully accessible unit

is an acceptable solution. However, cost alone should not be viewed as a basis to ignore physical modifications that achieve accessibility at the subject property, particularly if it is undergoing major rehab. For example, a split foyer design with all units below or above entry grade, it may or may not be structurally impractical to provide accessibility, depending on site and building conditions.

9. What are the requirements for accessibility for a community room kitchen / kitchenette?

In many situations, the requirements for an accessible dwelling unit kitchen have been applied to a common use kitchen or kitchenette. The Fair Housing Act Accessibility Guidelines and UFAS have similar requirements.

- The community room must be accessible, including an accessible route into the space, accessible doors, switches and outlets at proper height, etc.
- The kitchen area must have an accessible sink per UFAS 4.24. This includes a mounting height no higher than 34”, knee clearance underneath, clear floor space at the sink, insulated piping, and an accessible faucet.
- UFAS 4.25 and 4.1.2(11) further requires that a portion of the storage provided (shelves, drawers, and cabinets) have clear floor space and be within the reach range. This requirement is normally met with standard kitchen base cabinets.
- The kitchen must have a 60” turning circle or “T” turn around for maneuverability. Space in the community room or a hallway immediately outside the kitchen may be used to meet this requirement.
- There is no requirement in a common use kitchen for an accessible work surface, range or cooktop with accessible controls, self cleaning wall oven, or an accessible refrigerator (with 50% of freezer space within reach ranges). These requirements appear in UFAS 4.34, and only apply to an accessible dwelling unit.

These requirements for a common use kitchen or kitchenette are minimums. Provision of additional accessibility in a common use kitchen or kitchenette is encouraged, but not required.

10. For an existing Section 515 property built after 6/10/82 with only townhouse units, what can be done to provide an accessible unit?

For existing Section 515 units meeting the above criteria, there are three possible actions:

- a) Construct a new fully accessible single story unit (often not financially possible);
- b) Convert an existing townhouse to be accessible “to the extent possible” (the next best solution);
or
- c) Develop a “referral agreement” (the choice when neither Action “a” nor Action “b” are feasible).

Consultation with the State Office Program, Technical, and Civil Rights staff will be necessary to determine the best solution, on a case by case basis. The financial status of the property will be a major determining factor on what choice is made. If conversion is selected, the best possible solution is usually to add a bedroom and bath on the first floor. In that way, a disabled parent or child could utilize the bedroom and bath, and access the first

floor. No access to the second floor would be added. This is not an ideal solution, but for a property that cannot afford to add a new fully accessible unit, it may be an acceptable solution. A “referral agreement” is the last possible choice in all cases of accessibility. It requires finding a similar property (similar bedroom mix, amenities, subsidy, assistance, etc.) within the area with accessible units that will accept applicants from this property. Since the subject property would be without accessible units, a “referral agreement” provides access to the “program” (providing housing) without providing an accessible unit on site.

11. What are the requirements about the height of wall cabinets in “fully accessible” units?

In cases of repair / rehabilitation / creation of a fully accessible unit in an RD financed property, confusion exists over the height of wall cabinets. Unfortunately, UFAS is not clear on the requirements for the height of the wall cabinet. In one place, UFAS 4.34.2(8) requires cabinets to be accessible, but requirements are unclear. In UFAS 4.34.6.4 it refers to Figure 50. Figure 50 shows a maximum height to the bottom shelf of the wall cabinet over the work space of 48”.

In consultation with the Access Board (the writers of UFAS), RD received guidance that the requirement for a lowered wall cabinet was intended only over the work space, not throughout the kitchen. All wall cabinets may be lowered, to provide an even plane. If no wall cabinets have been lowered in a unit, or if no workspace has been provided, then the wall cabinet over the work space as a minimum must be lowered to comply with Figure 50. Figure 50 shows the UFAS preferable (not required) method of lowering all wall cabinets. Remaining wall cabinets at standard height allows use of a microwave or coffeemaker under the wall cabinet, on the countertop.

12. Does installation of a wall shelf at 48” in lieu of re-positioning wall cabinets satisfy RD requirements?

The Access Board has indicated that a shelf between base cabinets provides “equivalent” accessibility when it is not possible to lower wall cabinets. The shelf should not become the standard solution, but can be considered on a case-by-case basis. For example, if funds for rehabilitation are limited, the shelf may be a less expensive solution to removing and relocating the wall cabinet over the work space. If funds are available, the wall cabinets should be relocated. Although deemed “equivalent,” the shelf does not have doors to cover the storage space and should not be used if relocating wall cabinets is possible.

13. Is a 30" x 34" high workspace required in an accessible dwelling unit kitchen? While UFAS 4.34.6.4 requires this, it is not included in the list in Attachment B or added to the MFH Physical Inspection Form.

Yes, it's required. The list in Attachment B was not intended to be all inclusive of UFAS standards, but to hit the big issues.

14. Where are grab bars required?

Grab bars are required in the 5 percent of units that are “fully accessible.” UFAS 4.34.5 uses the language “If provided, grab bars will ...” Rural Development has taken the position that grab bars will be installed in order to make the “fully accessible” unit ready for a person with disabilities. Grab bars are also provided in those units in which a tenant has requested them

as a “reasonable accommodation.” In those ground floor units constructed since 1991, FHA/AG required blocking for “adaptability.” In those units, grab bars may be installed later as a form of “reasonable accommodation” when requested.

15. An item on the MFH Physical Inspection form refers to a “functional emergency call system.” Are emergency call systems required in all fully accessible units?

If the fully accessible unit presently has an emergency call system, it must be functional. If no emergency call system is in place, the borrower does not have to provide one at this time.

It may be necessary to add one as a “reasonable accommodation” per a tenant request in future. In such a case, a portable unit may suffice. There has been considerable confusion on this issue, and we realize that this may be a different answer than you have received in the past. HUD’s old Minimum Property Standard (MPS) required an emergency call system in elderly housing. This standard was dropped in the 1980’s, but has led to the confusion.

16. Is a 5’ turning circle in a dwelling unit bathroom required?

Some Transition Plans are indicating a need to enlarge the bathroom in an accessible unit to provide a 5' turning circle, which UFAS requires in a common use bathroom. Writers of Transition Plans are incorrectly applying this requirement to a dwelling unit. Rural Development staff should understand that an accessible dwelling unit bathroom must have clear floor space at the tub/shower and commode, but a 5’ turning circle is not required within a dwelling unit bath. Also, UFAS provides an exception in 4.22.3 for public toilets with only one lavatory and commode. In those common use toilets, a 5’ turning circle is not required.

17. We have an existing MFH property with multiple laundry rooms. Must each laundry room be made accessible?

Not necessarily.

- For a property constructed for first occupancy after March 13, 1991 and subject to the Fair Housing Amendments Act design requirements, laundries for the covered units must be on an accessible route, and the space must be accessible. This would apply to all ground floor laundries (or all laundries in a building with an elevator).
- In addition, for properties constructed, or with substantial alterations, after June 10, 1982, UFAS also applies. UFAS 4.1.3(3) states “Common Areas: At least one of each type of common area and amenity in each project shall be accessible and shall be located on an accessible route to any accessible dwelling unit.” This sets a minimum of one accessible laundry. If accessible units are located near one another, the nearest laundry must be made accessible. If accessible units are located on opposite ends of the property, it may be necessary to make more than one laundry room accessible, depending on location and site topography. In such a situation, the nearest laundry room to each accessible unit must be made accessible.
- Regardless of when a property was constructed, it is the policy of RHS that, to the extent possible, barriers to common use areas that prevent any mobility impaired person from having full access will be removed. This does not, however, require borrowers to exceed the above standards unless it is necessary to do so in response to a request for a reasonable accommodation from a person with disabilities.

In addition, UFAS 4.34.7.2 states that washing machines and clothes dryers in common use laundry rooms shall be front loading.” RHS has taken the position that this requirement is met if at least one washer and one dryer is front loading in every laundry room that is required to be accessible by UFAS. This position is taken, in part, in recognition that there may be some increase in cost to provide front loading washers and dryers.

18. How quickly must owners correct deficiencies in meeting accessibility requirements?

USDA regulations at 7 C.F.R. 15b describe the use of a Self Evaluation and Transition Plan. The information in HB-2-3560, Appendix 5 further defines the process. In essence, a Self Evaluation is conducted to determine what accessibility shortcomings exist on a property. If physical issues arise (beyond their “policies and procedures”), a Transition Plan is required to remedy those issues. Each item must be identified, a corrective action proposed, with a cost associated with it, and a schedule for implementing the correction. RD recognizes that typically a property cannot afford to fix everything at once.

A Transition Plan allows the property up to three years to schedule corrections. That gives the property time to raise money through it’s normal operating budget, find an outside source (loan, grant, owner’s contribution, transfer, assumption, rehabilitation, MPR process, etc.). If the items can be corrected during the three year timeframe, the process is complete. If the list is extensive, or finances are such that the repairs cannot be completed in three years, the Transition Plan may be amended to continue for an additional three years. The concept is that a Transition Plan will be used to continue the property on schedule providing additional accessibility, until all items are completed. A Transition Plan should never be used to “postpone” or “avoid” accessibility. **As part of the Rural Development Multifamily Portfolio Revitalization, Rural Development anticipates that accessibility issues should be corrected. Ideally, accessibility issues would be included in the property’s rehabilitation.** Remedy the accessibility issues that can be funded during rehabilitation / through the MPR process, and capture the remaining items either in year 1 or in a Transition Plan, to be continually repaired until complete.

Owners should understand that a Transition Plan is not a one time process. If one is done and completed, there is no guarantee that a future Transition Plan will not occur. For example, if sidewalks settle over time and provide a greater than ½” level change on an accessible walk, field staff may point that out, and request a new Self Evaluation / Transition Plan to correct the problem. (If sufficient funds in maintenance cannot correct it “now”.) Likewise, trash enclosures may change over time. With a new trash service company, larger dumpsters without side openings may be used. Without a side opening, the dumpster may no longer be within the reach ranges. A change in the trash enclosure area would be required to adapt to the new equipment. So, changes in the site or buildings over time may effect accessibility, and require changes. What is accessible today is not guaranteed to be accessible tomorrow.

19. In common areas, such as corridors, lounge or dining areas, are “visual” and “audio” alarm systems required in an existing property?

The correct answer: it depends. If the property does not presently have a smoke or fire alarm system in place, or if the property is not receiving a rehabilitation as part of the servicing tools being used, there is no requirement from RD to add an alarm or revise any

existing alarm system. However, if the locality or state law requires that an alarm system be added, the new alarm system must meet the requirements for both “visual” and “audio” signals. (See UFAS 4.28.) If the property is being rehabbed and an alarm system added, the Access Board has advised us that an alarm system that is both “visual” and “audio” must be added to the common areas.

Please note that these comments are directed to alarm systems in common areas. The only dwelling units that would be required to have a “visual” alarm are the fully accessible units.

Capital Needs Assessment Guidance to the Reviewer**AGREEMENT TO PROVIDE CAPITAL NEEDS ASSESSMENT**

	GENERAL NOTES:
A	Reviews of proposed agreements for Capital Needs Assessments (CNA) should be based on Rural Development and other Rural Development -recognized guidelines.
B	If all review items are answered “NO”, the reviewer should advise the appropriate Rural Development official that the Agreement should be accepted.
C	Any review items answered with a “YES” should be explained in writing to the proposed Provider in sufficient detail for clarity and appropriate actions to be taken.
D	If all review items answered with a “YES” are satisfactorily addressed or corrected by the proposed Provider, the reviewer should advise the appropriate Rural Development official that the Agreement should be accepted.
E	If any review items answered with a “YES” cannot be satisfactorily addressed or corrected by the proposed CNA Provider, the reviewer should advise the appropriate Rural Development official that the Agreement should NOT be accepted.

	REVIEW ITEMS:	YES	NO
1	Does the proposed Agreement omit Rural Development’s Addendum to Capital Needs Assessment Contract?		
2	Does the proposed Agreement omit Rural Development’s Capital Needs Assessment Statement of Work?		
3	Is there any evidence or indication that the proposed CNA Provider has an identity of interest, as defined in 7 C.F.R. part 3560?		
4	Is there any evidence or indication that the proposed CNA Provider is NOT trained in evaluating site and building systems, and health, safety, physical, structural, environmental and accessibility conditions?		
5	Is there any evidence or indication that the proposed CNA Provider is NOT trained in estimating costs for repairing, replacing, and improving site and building components?		
6	Is there any evidence or indication that the proposed CNA Provider is NOT experienced in providing CNAs for MFH properties that are similar to those in the Section 515 Program?		
7	Is there any evidence or indication that the proposed CNA Provider is NOT knowledgeable of site, building and accessibility codes and standards?		
8	Is there any evidence or indication that the proposed CNA Provider is debarred or suspended from participating in Federally-assisted programs?		
9	Does the proposed fee appear to be unreasonable?		

CAPITAL NEEDS ASSESSMENT REPORT

	GENERAL NOTES:
A	Reviews of preliminary Capital Needs Assessment (CNA) reports should be based on: <ol style="list-style-type: none"> 1. The Statement of Work referenced in the written agreement with the provider 2. Rural Development case file, such as property records and inspection reports 3. Latest available cost data published by RS Means 4. Rural Development guidelines 5. Fannie Mae guidelines
B	The reviewer should give special attention to the line items with the highest total costs.
C	The reviewer should be careful to note whether all systems or components that should be included have indeed been included in the report.
D	If all review items are answered "YES", the Provider should be advised to finalize the CNA with no or only a few minor changes.
E	Any review items answered with a "NO" should be explained in writing to the Provider in sufficient detail for clarity and appropriate actions taken.
F	The final report should be reviewed to verify that any minor changes and items answered with a "NO" in the first review have been satisfactorily addressed or corrected.
G	When item "D" is completed, the CNA Reviewer should advise the appropriate Rural Development official that the CNA should be accepted as the final report.

	REVIEW ITEMS:	PRIMARY BASIS *	YES	NO
1	Is the report in the required format?	1		
2	Does the report fully describe the property?	1		
3	Are photographs provided to generally describe the property's buildings and other facilities?	1		
4	Does the report identify who performed the on-site inspection?	1		
5	Does the report identify who prepared the report?	1		
6	Was an adequate number of dwelling units inspected?	1		
7	Is the length of the study period adequate?	1		
8	Is the list of property components complete?	5		
9	Is the list divided into the appropriate major system groups?	1		
10	Are the existing property components accurately described?	2		
11	Are the expected useful lifetimes of the components reasonably accurate?	5		
12	Are the reported ages of the components reasonably accurate?	2		
13	Is the current condition of each component accurately noted?	2		
14	Are the effective remaining lifetimes of components correctly calculated?	5		
15	Are proposed corrective actions appropriately identified?	1		
16	Are critical immediate repairs appropriately identified?	1		
17	Are items being replaced with "in-kind" materials when appropriate?	1		
18	Are the component quantities reasonably accurate?	2		
19	Are photographs provided to describe deficiencies?	1		

	REVIEW ITEMS:	PRIMARY BASIS *	YES	NO
20	Does the report adequately address environmental hazards and other relevant environmental issues?	1		
21	Does the report adequately address accessibility issues?	1		
22	Does the report address any existing accessibility transition plans and their adequacy?	1		
23	Are photographs provided to describe existing kitchens and bathrooms in the fully accessible units?	1		
24	Are the proposed years for repair or replacement reasonable?	5		
25	Are the repair/replacement durations appropriate and reasonable?	5		
26	Are the detailed estimated repair and replacement costs calculated in current dollars?	1		
27	Are the estimated repair and replacement costs reasonable?	3		
28	Are the sources for cost data explained in the report?	1		
29	Is the projected inflation rate appropriate?	1		
30	Have the costs in current and inflated dollars been totaled for each year?	1		
31	Have the costs for each year and grand totals been correctly calculated?	5		
32	Does the data in the report narrative and summary charts match?	5		
33	Does the report exclude routine maintenance, operation, and low cost expenses?	4		
34	Does the report include all deficiencies known to Rural Development?	2		
35	Does the report include all other relevant data or information known to Rural Development?	2		

- = see General Note "A"

COMMENTS:

Sample Capital Needs Assessment Review Report

SAMPLE CAPITAL NEEDS ASSESSMENT REVIEW REPORT

[REVIEW OF PRELIMINARY / FINAL CNA REPORT]

Property Name and Location:

CNA Provider:

CNA Reviewer:

Date of Preliminary / Final CNA Report:

Date of Review:

Reviewer's Comments:

-
-
-

Purpose / Intended Use / Intended User of Review:

- The purpose of this CNA review assignment is to render an opinion as to the completeness, adequacy, relevance, appropriateness, and reasonableness of the work under review relative to the requirements of Rural Development.
- The intended use of the review report is to help meet Rural Development loan underwriting requirements for permanent financing under the Section 515 Revitalization Demonstration. The review is not intended for any other use.
- The intended user of the review is only Rural Development.

Scope of Review:

The scope of the CNA review process involved the following procedures:

- The review included a reading/analysis of the following components from the CNA report and the additional due diligence noted. The contents from the CNA work file were not reviewed.
 - Date of the Report
 - Narrative
 - Description of Improvements
 - Photographs of the Subject Property
 - Capital Needs Summary
 - Systems and Conditions Forms
 - Critical Needs Forms
 - Capital Needs Over the Term Forms
- This is a desk review, and the reviewer has not inspected the subject property.
- The reviewer has/has not confirmed data contained within the CNA report.

Review Conclusion:

In the reviewer's opinion, given the scope of the work under review:

- The subject CNA *meets / does not meet* the reporting requirements of Rural Development.
- The data *appears / does not appear* to be adequate and relevant.
- The CNA methods and techniques used *are / are not* appropriate.
- The analyses, opinions, and conclusions *are / are not* appropriate and reasonable.
- This is a review report on a *preliminary / final* CNA report. The *preliminary / final* CNA report is subject to review discussions between Rural Development and the owner of the subject property and between the owner and the CNA provider. The owner is the CNA provider's client, and only the client can instruct the CNA provider to revise the *preliminary / final* report. To be acceptable to Rural Development, the final CNA report should address any errors or deficiencies identified in the *Reviewer's Comments* section of this review report.

Signed by:

(CNA Reviewer)

(Underwriter / Loan Official)

(Please note: For the CNA Review Report of the preliminary CNA, only the CNA Reviewer needs to sign the report on behalf of Rural Development. For the CNA Review Report of the final CNA, the CNA Reviewer and the Underwriter / Loan Official are to sign the report. This is to encourage discussion between the Agencies parties, so that both the CNA Reviewer and the Underwriter are involved in the process of accepting the final CNA for the property.)

Capital Needs Assessments “CNA 101”

**Larry Fleming
Michel Mitias
Bill Downs**



**Program Support Staff
USDA / Rural Housing
February 2009**

Our Objectives Today

- Not intended as training on complete CNA process
- Focus on basics of a CNA
- Basics of how the RD CNA Template works
- Understand the purpose, items, and comments typically associated with a CNA



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Capital Needs Assessments

What is a CNA ?

- A written report which identifies the repair, replacement, and improvement needs of a property over an extended period of time.
 - (Necessary data for underwriting process)
- For RD purposes, these costs are associated by year over a 20 year period.
 - (HUD uses “remaining life of loan + 2 years”)
- Intention/Goal is to make the property financially “self sufficient”, to support itself.



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Capital Needs Assessments

WHEN ARE THEY REQUIRED?

1. New Construction Loans
2. Rehabilitation Loans
3. Transfer of project ownership
4. Loan Servicing:
 - a. Loan Reamortization.
 - b. Loan Write-down.
5. MultiFamily Housing Preservation and Revitalization program (MPR)



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Capital Needs Assessments

What Documents to Use?

- Until replaced with new UL, use Unnumbered Letter from last year's MPR program as guidance
 - Include Attachment B, CNA Contract Addendum
 - Include Attachment C / SOW
 - Attachments on Accessibility (help for CNA Providers, Reviewers)
 - Accessibility Checklist
 - Accessibility Q&A document
 - Underwriter and CNA Reviewer sign final report



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The CNA Process

Updating a CNA

- If cost data is more than 1 year old, a CNA update will be required
 - Complete new CNA is not necessary
 - Common if CNA gotten before application for points
- Provider can revise the CNA based on a review of property changes with the owner
 - Consult with owner on changes, replacements or repairs made since initial site visit
 - Review and, if necessary, revise cost information
 - Revise and reprint RD Template *with notation*
- If 2 years since site visit, new inspection



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The CNA Process

Owner selects CNA Provider

- RD provides Owner and CNA Provider copy of U.L., Contract Addendum, SOW, etc.
- HB-2-3560, Chapter 4.17.B
 - If owner (or new owner) pays, they pick
 - If operating budget pays, they pick
 - If reserves & under \$3500, they pick
 - If reserves & over \$3500, 2 bids required
 - If reserves & over \$3500 & IOI, 3 bids required
 - “Low bidder” not required, “reasonable” price
 - Not construction procurement, treat like professional services (architect, engineer)
 - “Get what you pay for....”



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The CNA Process

DIRECTORY OF PROVIDERS:

- Maintained by RD National Office.
- List of interested contractors.
- NOT a list of approved contractors.
- Contractors NOT required to be on the list.
- This Directory is NOT all-inclusive.
- Directory updated from time to time.
- Plan to terminate 10/1/09 (after this FY)



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The CNA Process

The CNA Contract Addendum

- Page B-4 of Attachment B to U.L. on CNAs
 - Status of CNA:
 - committed 3rd party funds,
 - requested 3rd party funds, or
 - no 3rd party funds
 - Note: Owner will not instruct CNA Provider to do “as improved” / post rehab CNA without RD approval
- Page B-5
 - Format for CNA report (our “RD CNA Template in Microsoft Excel format” best)



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The CNA Process

The CNA Statement of Work

Says CNA Provider Shall:

- Perform a Capital Needs Assessment
- Inspect the property
 - Minimum of 25% of all dwelling units
 - 20% if 50-99 units; 15% if 100 or more units
 - All accessible units inspected (or explain why not)
 - Responsible for consulting with property manager for appropriate unit sampling
 - Inspect Site improvements, Architectural (common areas, and building exteriors), Mech & Elec, Dwellings
- Interviews with property owner, management, staff, and tenants as needed



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The CNA Report

Prepare a report using RD CNA Template or similar (our template is preferred)

- Project Summary
 - Identification of provider, owner, and project.
- Narrative
 - Description of property: rehabilitated? Family or elderly? 1 or 2 story? Crawlspace or slab?
 - Health and Safety issues?
 - Site, Architectural and structural elements, Mechanical and Electrical systems, Dwelling Units.
 - Compliance with Accessibility requirements (see next slide)



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The CNA Report

Accessibility requirements
(see Attachment F & G of U.L. on CNAs)

- If available, Owner to provide copy of Self Evaluation / Transition Plan to CNA Provider
- CNA Provider uses information from SE/TP
- If none available, CNA Provider to use the Checklist in U.L Attachment F



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The CNA Report

- Narrative cont.
 - Environmental concerns (LBP, mold, etc.)
 - Recommendations
 - any professional reports necessary?
 - 3rd party funds committed / rehab:
 - Description of work, funding source, completion year, and total estimated costs
 - CNA based on “post rehab” needs if work will begin within 12 months
 - Remember to include rehab items in 20 year CNA if appropriate
 - Verify rehab items against owner’s info
 - If no 3rd party funds or no rehab, “as is” CNA



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The CNA Report

- Inspected Units
 - List of units inspected
 - Percentage correct?
 - HC units visited? If not, why not?
- Site
- Architectural
 - Building exteriors, common areas, etc.
- Mechanical & Electrical
- Dwelling Units
- Executive Summary
 - Sums repair expenses from previous sheets
- Photos
 - Pictures of apartment complex



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The CNA Report

- Materials and Conditions
 - Item description
 - Use drop down menu, or create own
 - Expected Useful Life (EUL)
 - Pre-filled from Fannie Mae tables, or create own
 - Age of item, material, or system
 - Remaining Useful Life (RUL)
 - (RUL=EUL minus Age)
 - Condition
 - menu: Excellent, Good, Fair, or Poor
 - Needed action
 - menu: Repair, Replace, Maintain, Construct, or No Action)



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The CNA Report

- Materials and Conditions cont
 - Duration
 - Number of years work will take
 - Quantity
 - How many of the item?
 - Unit (of measurement)
 - Each? Square foot? Linear foot?
 - Unit Cost
 - Cost of that quantity (each, sq ft, lf)
 - Total Cost
 - Multiply: Quantity x Unit Cost
 - Comments or field notes relevant to report
 - Explanations / Information



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The CNA Report

- Capital Needs tables

- Located on sheets labeled Site, Architectural, Mech & Elec, Dwelling Units, to right of repair items
- Pulls data entered by CNA Provider
- Calculates costs of each line item
- Places cost in appropriate year(s)
- Totals costs for that sheet

- Executive Summary

- Totals costs from all Capital Needs tables
- Costs sorted by year

- Photos

- 10-25 digital photos of property

- Change History

- Used by programmer to track changes / versions



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The CNA Report

- Calculating Reserves

- Provider shall NOT analyze the adequacy of the property's existing or proposed reserve account nor its deposits
- This will be addressed during underwriting

- Delivery

- pdf file = electronic, can print, but can't change
- you want "RD CNA Template in Microsoft Excel format"
- good change Agency will "revise" the CNA as a part of the underwriting process, and will need the Excel version to be able to manipulate



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CNA Questions

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Capital Needs Assessment

Questions & Answers



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TRANSFERRING RA [7 CFR 3560.259]

A. Cases in which RA May Be Transferred

The Agency may transfer RA in the following instances:

1. At Project Transfer

When a project is transferred to an eligible borrower, the transferee may assume the transferor's unliquidated RA obligation(s).

2. Following Voluntary Conveyance or Foreclosure Sale

When a project with RA is voluntarily conveyed to the Agency or acquired by foreclosure sale, the RA obligation will be automatically suspended under the borrower's name. The RA for these units will be held in suspension until the final disposition of the acquired property has been determined, at which time the RA will be transferred to a different Agency-financed project. During the inventory period, tenants will pay 30 percent of their incomes for rent. Tenants entitled to reimbursement for utilities will be paid from project income.

3. Following Liquidation or Prepayment

The Fiscal Year 2006 appropriations language requires that units from prepaid projects be used for other Section 542 (Vouchers) and Section 502 (Preservation/Incentives) purposes. Therefore, RA from prepaid projects is not available for transfer and will be held outside of the Administrator's Reserve. These units cannot be moved to other properties.

4. When Not Being Used After Initial Rent-Up

RA that is not being used may be transferred with or without the borrower's consent or request. When RA is unused after initial rent-up (following the construction period) and not needed, all or a portion of the unused units may be transferred under the following conditions:

- The agency recommends the RA transfer; and
- Available RA units remain unused after a one-year period since initial availability.

5. When Not Being Used 6 Months or Later After the Initial Year of the Agreement

If, after the end of the initial year of an RA agreement, the borrower has not used a portion of the RA units for any ensuing consecutive 6-month period, the Agency may transfer the number of unused units to another project without the borrower's request. If the remaining unit(s) remains unused after an additional 6-month period, the Agency may authorize its transfer to another project. This would apply when:

- The agency has determined there is no apparent RA need in the project;
- The agency has notified the borrower at least 30 days in advance of the Agency's intent to transfer the RA units and has given the borrower appropriate appeal rights;
- If the borrower appeals the decision, the appeal is resolved in accordance with 7 CFR Part 11 before any transfer action is taken; and
- The transfer will take place in accordance with agency procedures.

B. Disposition of State Recaptured Unused Rental Assistance Units

The Agency may designate unused RA units to be used in conjunction with new construction, rehabilitation, transfers, or incentive loans that are expected to be used in the next quarter. Unused units should be used within the allotted timeframe or will become subject to national office recapture.

1. Prioritization of State Recaptured Unused R/A's

- a. National Emergency
- b. State Emergency
- c. Preservation
- d. Agency Credit Sales
- e. Ownership Transfer
- f. Agency Rehabilitation loan
- g. Other Rehabilitation funding
- h. New Construction
- i. Workout Plan
- j. Rent Overburdened Tenants