



United States Department of Agriculture  
Rural Development

APR 28 2015

TO: State Directors  
Multi-Family Housing Program Directors

FROM: Tony Hernandez  
Administrator  
Housing and Community Facilities Programs

A handwritten signature in blue ink, appearing to read "Tony Hernandez", is written over the printed name and title.

SUBJECT: Management of Loan Payoffs in Multi-Family Housing Properties

This Unnumbered Letter (UL) clarifies and provides more specific direction on several issues. This UL supersedes the UL issued on January 16, 2015.

The UL includes a new "*Borrower Notification Letter*," a sample "*Tenant Notification Letter*," and an "*Addendum to Lease or Rental Agreement*," for Borrowers to use in certain situations.

Rural Development (RD) Multi-Family Housing (MFH) Direct Loan programs began in the 1970s, and many loans are now coming to their natural maturity date. In addition, some Borrowers have loans that appear to be paid ahead of the Promissory Note's scheduled maturity date. The intent of this UL is to provide additional guidance to Agency staff, owners and managers of Section 515 and Sections 514/516 properties reaching their maturity date naturally or through "Paid Ahead" status, and to discuss possible efforts to retain properties in the RD portfolio.

Below are the steps that Servicing Offices need to take to review any accounts that are within 25 months of naturally maturing:

1. Review Loan Status

The National Office will periodically update the Multi-Family Information SharePoint site with a link to the "List of MFH Projects – Remaining Terms". This posting will be a list of those properties with loans currently scheduled to pay off ahead of their regular payment/amortization schedule, and/or those that will be reaching their natural maturity date. Upon issuance of this

EXPIRATION DATE  
April 30, 2016

FILING INSTRUCTIONS  
Housing Programs

1400 Independence Ave, S.W. · Washington DC 20250-0700  
Web: <http://www.rurdev.usda.gov>

Committed to the future of rural communities.

"USDA is an equal opportunity provider, employer and lender."  
To file a complaint of discrimination, write USDA, Director, Office of Civil Rights,  
1400 Independence Avenue, S.W., Washington, DC 20250-9410 or call (800) 795-3272 (Voice) or (202) 720-6382 (TDD).

UL, Agency staff should review this list and identify any properties that may have 25 or fewer months remaining before the loan may be expected to be paid in full. The list can be found at: <https://rd.sc.egov.usda.gov/teamrd/hcfp/mfh/MultiHousing%20Family%20Information/Forms/AllItems.aspx>. State Office and field office staff may also review the RC 545 Report, "Analysis of Delinquent Loan Receivable Accounts All Projects AMAS," to determine if the unpaid balance/installment is fewer than 25 installments.

Please note that the list does *not* account for time periods associated with loans held in suspense, or for processing delays that may have been incurred on foreclosure. These types of loans require individual attention. Servicing Officials should review this list at least annually and take appropriate action with regard to such Borrowers.

Loan status may consist of A) loans in Paid Ahead status due to the application of extra and regular payments which may result in a last payment date prior to the loan maturity date in the Promissory Note; or B) Final Payoff status of loans that have reached their natural maturity date.

#### A. Paid Ahead Status

##### I. Extra payments Application

Offices may encounter instances in which a Borrower's account reflects a last payment on the loan due prior to the maturity date as a result of "extra payments" being applied. Circumstances which may have created this situation include:

- Proceeds from partial sale of property secured by Rural Development per 7 CFR §3560.54(a)(11)(ii).
- Remission to the Agency of any fees collected in excess of operating expenses to the loan account as an extra loan payment under 7 CFR §3560.53(e)(2).
- Application of surplus funds to reduce the debt service on the Borrower's loans per 7 CFR §3560.306 (d)(2).

##### II. Regular Payment Application

There are instances in which annual installment Borrowers submit their payments on a monthly payment schedule (seen typically in Off-Farm Labor Housing accounts), and/or other instances where application of a regular monthly installment results in a "Paid Ahead" schedule.

In no case will the Agency accept a final payment from Borrowers in Paid Ahead status if it would result in a prepayment of the mortgage prior to the maturity date in the Note. Borrowers seeking to prepay their loan(s) are governed by 7 CFR §3560.653(a).

If a payment is received that may pay off the indebtedness in advance of the Promissory Note maturity date (i.e., prepayment), the National Finance and Accounting Operations Center



(NFAOC) will follow-up with the RD State Office for approval documentation. If NFAOC does not receive an approval or it is denied, NFAOC will refund the cash back to the Borrower.

Some Borrowers have loan accounts under the Predetermined Amortization Schedule System (PASS). If a PASS account is paid in full with a regular payment, NFAOC will contact the State Office for appropriate disposition.

## B. Final Payoff Status

### I. Promissory Note Naturally Maturing

These are accounts that have reached their natural maturity based on the maturity date in the Promissory Note and the loan's amortization schedule. For a payment to be final, it must include repayment of all outstanding obligations to the Agency.

## 2. Notify Borrowers of Options

Servicing Officials should notify Borrowers with 25 or fewer months remaining until the loan maturity date utilizing Attachment 2, "*Borrower Notification*" and provide the following:

- Current account information: expected date of loan payoff/mortgage maturity;
- Tenant notification requirements, including Attachment 3: "*Tenant Notification*";
- Advise that the end of the RD mortgage will result in the end of Rental Assistance (RA) and interest credit subsidy; and,
- Procedures to follow in requesting a Reamortization and provide RD Form 3560-15, "*Reamortization Request*".

All requests to reamortize must be initiated by the Borrower through Form 3560-15. Requests determined acceptable by the Servicing Office will be submitted to the National Office utilizing Attachment 4, *Request for Exception to Avoid Loan Maturity*.

Borrowers in Paid Ahead or Final Payment status with loans maturing prior to calendar year (CY) 2019 should be strongly encouraged to immediately request a reamortization of the existing loan balance to a date up to 20 years beyond the original Promissory Note date. This is a "Re-Am Lite" and is explained further in this UL. In exchange for this action, RA and interest credit will remain available to the property.

Borrowers in Paid Ahead or Final Payment status with loans maturing prior to CY 2019, who decline to request an extended reamortization and have more than 6 months remaining until the loan maturity date, should be strongly encouraged to submit an application to request debt deferral under the Multi-Family Preservation and Restructuring (MPR) program. Such applications will be given additional points under the Notice of Solicitation of Applications (NOSA) scoring system.

Borrowers in Paid Ahead or Final Payment status with loans maturing prior to CY 2019, who decline to request an extended reamortization, decline to submit an application under MPR, and who have at least 12 months remaining until the loan maturity date, should be strongly encouraged to submit a request to prepay the loan, if eligible, in accordance with 7 CFR 3560, Subpart N. Tenants in properties that prepay the RD mortgage in accordance with statutory and regulatory requirements are eligible for the offer of an RD Voucher.

At a minimum, Borrowers in Paid Ahead status who have not formally requested to prepay the RD mortgage must be advised that under statutory and regulatory requirements, no early prepayment can be accepted. In order to match loan payoff with the Note maturity date, the Borrower should request a loan reamortization at least up to the Promissory Note maturity date. This is not an adverse action by the Agency; rather, the action ensures that the loan terms comply with the original Promissory Note maturity date. If the Borrower declines to reamortize the remaining balance to the original Promissory Note date, then the Borrower must be advised that the final payment, if submitted, cannot be accepted or processed until the maturity date is reached. Form 3560-29, Notice of Payment Due, (Project Worksheets) requesting RA will be handled on a case by case basis. Servicing Officials will contact the National Office for additional guidance in processing RA for the period until the loan maturity date is reached

Borrowers who decline all reamortization or debt deferral offers should be provided with Attachment 5, Addendum to Lease or Rental Agreement. The addendum should be used in situations where a Borrower has fewer than 12 months remaining on the RD loan. The addendum alerts tenants to the impact of termination of program participation and the ability to transfer RA to another RD property.

### 3. Processing a “Re-am Lite”

For Borrowers with loans maturing prior to CY2019, a “Re-am Lite” is intended to speed processing of the reamortization request to retain as many properties as possible coming up on imminent loan maturity. This streamlined process requires a request from the Borrower, review and recommendation by the State Office, and National Office approval of an exception request to current MFH regulations.

The Borrower shall submit Form RD 3560-15, “*Reamortization Request*” to their Agency Servicing Official. Upon receipt of the *Request*, the Servicing Official’s review should determine the suitability of the property in accordance with HB 3 3560, CH 6, and whether it should remain in the program. If determined suitable, the State Office must submit to the National Office, Attachment 4, *Request for Exception to Avoid Loan Maturity*. This is a request for an exception to §3560.455(b) concerning conditions and required documentation for approving a loan reamortization. This exception applies only to properties where the loan is expected to mature before CY 2019. All other reamortization requests should be processed in accordance with HB-3-3560, Chapter 11.

For this special reamortization category:



- No appraisal will be required;
- Servicing Officials should process up to a 20-year term;
- No change in current year budget or current year rents is required.

*However*, when the proposed budget is submitted for the following year, the Borrower will submit an adjusted budget, addressing implications of the reamortization. This could require a rent decrease. Additionally, if the change in annual debt service is more than 50 percent, the Borrower may be required to obtain a capital needs assessment at that time to identify long-term capital needs of the property and the Reserve Account may be re-sized, if warranted.

If the term is extended past the original mortgage, a new mortgage will need to be prepared and filed. No additional Restrictive Use Provisions (RUP)s will be required for these properties.

#### 4. Tracking Borrower and Tenant Notifications

For Borrowers whose loans are expected to mature within 25 months, Servicing Officials will provide the attached Borrower Notification (Attachment 2).

The Borrower Notification letter includes information on the current status of the Borrower's loan account, offers options for the Borrower to remain in the RD program including continuing to receive the benefits of RA and interest credit, and sets out specific Tenant notification requirements.

Borrowers are required to notify tenants immediately if the date of maturity is less than 12 months from the date of the tenant notice; or no later than 12 months prior to the date of maturity; and the Borrower must follow all applicable state and local laws. If the Borrower is leaving the RD program and the property has Rental Assistance, then the tenants must be advised that they may be able to transfer their RA unit to another RD property (under circumstances stated in the notification letter) for up to 4 months from the date of loan maturity.

Borrowers should utilize Attachment 3, "*Tenant Notification*". Note that in the Borrower Notification letter, the Borrower is required to provide RD with a copy of the dated Notice provided to each tenant.

Servicing Officials will be required to input the date of notification to the Borrower, and the Borrower's Notification to Tenants, on the "List of MFH Projects – Remaining Terms" file on the Multi-Family information share-point site referred to at the beginning of this UL. Having this information will enable RD to identify which Borrowers have been notified and which have properly and timely notified their tenants.

Attachment 1 summarizes the steps involved in the management of the subject loans. Questions regarding this process should be directed to the MFH Portfolio Management Analyst assigned to your State.

Attachment 1 – Flow Chart of Process

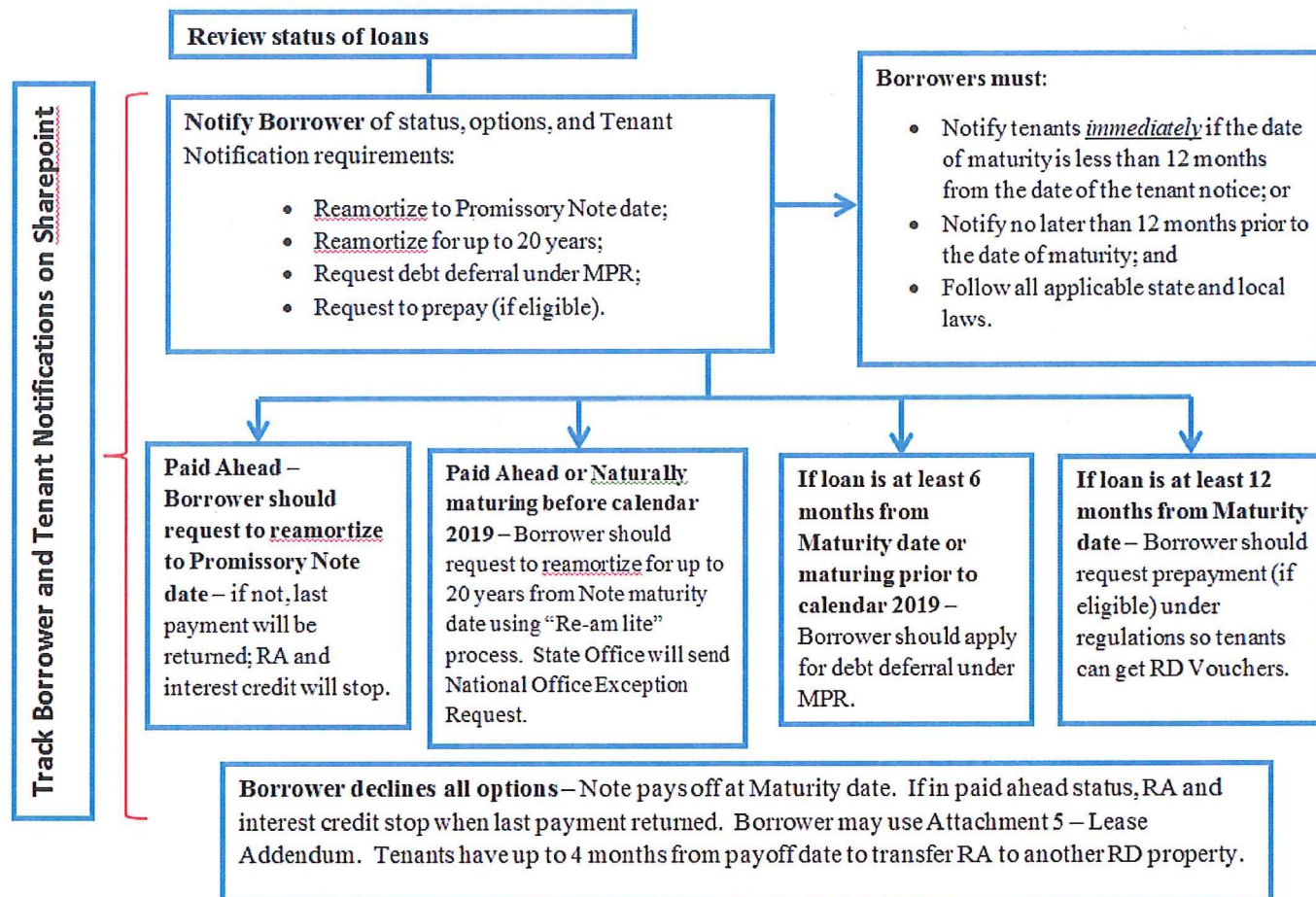
Attachment 2 – Borrower Notification letter

Attachment 3 – Sample Tenant Notification letter

Attachment 4 – Format of the *Request for Exception to Avoid Maturity*

Attachment 5 – Lease Addendum for Borrowers with less than 12 months before maturity date.

# FLOW CHART FOR MANAGEMENT OF LOAN PAYOFFS IN MULTI-FAMILY PROPERTIES





## BORROWER NOTIFICATION LETTER

Date

[Address Block]

RE: Payment status of [Insert project name/case #]

Dear [Insert recipient]:

We are writing to notify you that a review of your loan account(s) has been completed.

Your loan(s) is/are evidenced by a Promissory Note and/or Assumption Agreement received through the Rural Housing Service, USDA. One of the following situations applies to your loan(s):

\_\_\_\_\_ Your loan is expected to 'payoff' within the next 24 months, which is prior to the maturity date of \_\_\_\_\_, as stated in the Promissory Note and/or Assumption Agreement.

\_\_\_\_\_ Your loan is expected to reach maturity on \_\_\_\_\_ as identified in the Promissory Note and/or Assumption Agreement.

If your loan is expected to reach maturity prior to the date in the Promissory Note/Assumption Agreement, whether due to extra principal payments applied to the account, or the application of regular monthly installments on an annual installment note, or installments which have resulted in an "Ahead of Schedule" status, then please be advised the Agency cannot accept final payment from Borrowers whose loans are in a Paid Ahead status, if it would result in a prepayment of the mortgage prior to the maturity date in the Note.

The Agency is offering the following options to ensure affordable housing is retained and to avert early payoff of your loan:

- 1) As the Agency is unable to accept a final payment prior to the natural maturity date in the Note, the Agency is strongly encouraging Borrowers with loans in Paid Ahead status to reamortize the remaining balance on the account to the date of maturity identified in the Promissory Note/Assumption Agreement. Please complete the enclosed Form RD 3560-15, "*Reamortization Request*", and submit the form to the address below no later than 10 days from receipt of this letter.
- 2) The Agency is strongly encouraging Borrowers with loans in Paid Ahead status or with a maturity date prior to CY 2019, and for which a determination of continued suitability is made, to reamortize the balance remaining on the loan for up to an additional 20 year period



under a streamlined reamortization process known as a “Ream Lite”. This reamortization will ensure that interest credit and rental assistance subsidies, if applicable, will remain available to the property for the period of the reamortization, and there will be no negative impact to tenants or potential for displacement. Please complete the enclosed Form 3560-15, “*Reamortization Request*” and submit the form to the address below. Please indicate the maximum term for which you are requesting a reamortization (i.e. 5 years, 10 years, etc.) not to exceed 20 years. Contact the servicing office for additional information regarding the “Re-am Lite”.

- 3) If your loan is maturing prior to CY 2019 and has more than 6 months remaining until the loan maturity date, then you are strongly encouraged to submit an application to request debt deferral under the Multi-Family Preservation and Restructuring (MPR) program. Such applications will be given additional points under the Notice of Solicitation of Applications (NOSA) scoring system.
- 4) If you decline any of the efforts above and have at least 12 months remaining until the loan maturity date, then you should submit a request to prepay the loan, if eligible, in accordance with 7 CFR 3560, Subpart N. Tenants in properties that prepay the RD mortgage in accordance with statutory and regulatory requirements are eligible to receive offers of an RD Voucher, which is a housing voucher to assist payment of rent.
- 5) If you decline any of the options identified in this letter, and you are within 12 months of paying off your indebtedness to the Agency, then you are required to immediately notify tenants of the impact of leaving the RD program, as once the loan is paid in full, the project no longer benefits from interest credit subsidies or rental assistance (if applicable), and tenants may be displaced. Additionally, tenants will not be eligible for the Agency’s RD Voucher Program, which is only available for tenants in properties that prepay in accordance with 7 C.F.R. part 3560, Subpart N.

Tenant notifications must occur:

- 1) Immediately, if the date of maturity is less than 12 months from this notice; or
- 2) No later than 12 months prior to the date of maturity; and,
- 3) In accordance with all applicable state and local laws.

At a minimum, notices to tenants must include:

- Expected date of mortgage maturity;
- Information that the end of the RD mortgage will result in the end of Rental Assistance (RA) subsidy, if applicable;
- Information regarding any potential rent increase that may be instituted after the loan is paid off;
- Tenants receiving RA should be informed that they may be able to transfer their RA to another RD property to which they move after payoff of the mortgage. Tenants have up to 4 months after mortgage payoff to use the RA, as per 7 CFR 3560.259(c);

- Location and contact information about other RD properties in the county or locality. A current list is attached. Other property and contact information can be found at:  
[http://rdmfhrentals.sc.egov.usda.gov/RDMFHRentals/select\\_state.jsp?home=YES](http://rdmfhrentals.sc.egov.usda.gov/RDMFHRentals/select_state.jsp?home=YES)
- Information about other housing subsidies that may be available through federal, state, or local resources, including contact information for such agencies.
- Attachment 5 to this letter, "*Addendum to Lease or Rental Agreement*".

Attachment 3, *Sample Tenant Notification Letter*, is available for your use. Upon providing the required notification to tenants, please provide a copy of the dated letter sent to each tenant to your Servicing Office. In addition, a copy of the Notification is to be posted in the common areas of the property and a copy provided to tenants moving into the property after the date of posting.

RD staff is available to assist you in explaining mortgage payoff implications to your tenants or providing information to help them make informed decisions. Please feel free to contact me should you have any questions or need further information, *[Insert staff name and contact information]*

Sincerely,

*[Insert staff name and title]*

cc: *[insert Area Office Servicing Specialist information]*

Enclosures

## TENANT NOTIFICATION

## OWNER LETTER TO TENANTS – NOTIFICATION OF MORTGAGE PAYOFF

To: The Tenants of \_\_\_\_\_

Subject: Notice of Rural Development Loan Payoff

Your apartment was developed with assistance from a loan provided by the U.S. Department of Agriculture (USDA), Rural Development, an Agency of the U.S. Government. This loan is expected to be paid off on \_\_\_\_\_. When the loan is fully paid, Rural Development will no longer oversee the apartment's management, leases, and rents. The Rental Assistance (RA) subsidy will no longer be available, and as a result, rents at the apartment could go up and those tenants receiving RA, if provided, will no longer receive reduced rents.

**{Owner to provide additional information here on the rent increases, including timing and new rents}**

If you are currently receiving Section 8 assistance or other subsidy to help with paying for all or part of your rent, such assistance should continue. Only Rental Assistance provided by Rural Development will no longer be available at this property after the loan has been paid off.

**FOR PROPERTIES WHERE THE OWNER HAS DECLINED TO REMAIN IN THE RD PROGRAM:**

Attached to this letter is an “*Addendum of Lease or Rental Agreement*”. This Addendum will acknowledge that \_\_\_\_\_ (*Project Name*) \_\_\_\_\_ obtained financing to provide affordable housing from the U.S. Department of Agriculture, Rural Development, and that the owner's obligation and participation in the Section 515/Section 514 Multifamily Housing program will cease on the date cited above. Commencing effective *\_(1<sup>st</sup> day after payoff)* \_\_\_\_\_, the amount you pay toward rent will change per the schedule indicated above, for the remainder of your initial one-year lease term. RA, if applicable, will not be available to subsidize your rent, and you will be responsible for full payment of the rent. Per the Addendum, you will have the right to terminate the Lease by written notice within the established timeframe.

If you are receiving RA at the time of loan payoff and choose to move to another Rural Development financed property, you are entitled to transfer that RA to the new property. You will have up to four (4) months after the loan is paid off to move into another Rural Development financed property to be eligible to transfer the RA. There are some situations in which you cannot transfer the RA. For example, if you are going to a property that is already 100 percent subsidized with Rural Development RA or HUD Section 8; or, if the housing is not financed by Rural Development. Included with this letter is a listing of other Rural Development properties



located nearby to your community. You can access additional information about other Rural Development properties by going to:

[http://rdmfhrentals.sc.egov.usda.gov/RDMFHRentals/select\\_state.jsp?home=NO](http://rdmfhrentals.sc.egov.usda.gov/RDMFHRentals/select_state.jsp?home=NO)

***FOR PROPERTIES IN WHICH THE OWNER HAS SUBMITTED A PREPAYMENT REQUEST IN ACCORDANCE WITH 7 CFR 3560, Subpart N.***

If you are a tenant of this property at the time the loan is paid off through prepayment (as processed and approved by Rural Development), you may be eligible for a Rural Development housing Voucher (RD Voucher). This voucher will pay the difference between the comparable market rent for your current apartment and the amount of tenant contribution you are now making towards rent. This RD Voucher may be used in any apartment property.

\_\_\_\_\_ ***Your current property owner is willing to accept the RD Voucher, and you can remain in your current apartment;***

\_\_\_\_\_ ***Your current property owner is not willing to accept the RD Voucher. You can remain in your current apartment, but you cannot use the RD Voucher to help pay your rent at your current property. If you wish to use the RD Voucher, you would have to move to another apartment at a different property that accepts the RD Voucher.***

To qualify for the Rural Development Voucher program, you must:

1. Be a tenant of the property at the time the loan is paid off;
2. Have an income level at or below 80 percent of the area median income; and
3. Be a U.S. citizen, a U.S. non-citizen national or a qualified alien.

Upon payoff of the loan, you will receive a letter offering you an RD Voucher. This will indicate the amount of the Voucher for which you may qualify, and will list the required documents that must be submitted in order to obtain the RD Voucher. The offer of a Voucher is good for up to ten (10) months after the loan is paid off, should you not want to make a decision immediately. Additional contact information will be included in the letter to guide you through the process. More information about the RD Voucher program and your eligibility will be sent to you as the payoff date approaches.

Information about housing subsidies that may be available from other federal, state, or local resources, including contact information for such agencies is included with this letter.

If you have any questions about this letter or the information in it, please feel free to contact the property manager at:

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

Or, you may also contact the Rural Development staff at:

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Sincerely,

Attachments:

Addendum to Lease or Rental Agreement

Listing of Rural Development-Financed properties

Listing of Housing Authorities and other Agencies that may be able to assist with rental subsidies

TO: Tony Hernandez  
Administrator

FROM: (State Director)  
State Director  
Rural Development State Office

SUBJECT: *Request for Exception to Avoid Loan Maturity*

In accordance with the Unnumbered Letter “Management of Loan Payoffs in Multi-Family Properties” dated \_\_\_\_\_, 2015, and, in accordance with 7 CFR 3560.8, this is a request for an exception to the requirements of 7 CFR 3560.455(b).

In order to avert loss of the affordable housing in rural communities through loan payoffs due to maturation of the Rural Development mortgage, an exception is requested to process a reamortization of the outstanding loan balance for the loan account listed below. The reamortization will be for an additional \_(term as identified in Borrower’s Request to Reamortize not to exceed 20 years)\_ at the (same rate or new rate).

[Insert Borrower Name/Project Name]

[Insert Loan Information; indicate if a change in rent level or CNA will be required and the rates/terms that were agreed upon.]

[Insert Requesting Office Information]



## Addendum to Lease or Rental Agreement

**Addendum to Lease or Rental Agreement**

This is an Addendum to the lease or rental agreement dated \_\_\_\_\_ between \_\_\_\_ (Project Name) \_\_\_\_\_ (Landlord) and \_\_\_\_\_ (Tenant(s)) regarding property located at \_\_\_\_\_ (the Premises”).

1. This addendum is incorporated as part of the Rental Agreement and/or Lease between Landlord and Tenant.
2. Tenant acknowledges and accepts that Landlord obtained financing and participated in the Section 515 or Section 514 Multi-Family Housing Program administered by the Rural Housing Service of the United States Department of Agriculture, and that Landlord’s obligation and participation in the Section 515 or Section 514 program will cease on \_\_\_\_\_, the scheduled date of payment in full of the project mortgage note. On that date, all Rural Housing Service supervision and financial assistance, including Rental Assistance rent subsidy, will end **and the USDA lease shall be non-renewable.**
3. If Tenant receives the benefit of Rental Assistance, Tenant may be able to transfer RA to another RD property and continue receiving the benefit at that property. The Landlord included this information in the Tenant Notification notice dated \_\_\_\_ (insert date of Notice) \_\_\_\_\_. The Tenant has up to four months after the date of RD loan payoff to use the RA.
3. Commencing effective \_\_\_\_\_ (first day after payoff of note) \_\_\_\_\_ Tenant’s rent shall be \$\_\_\_\_ (Borrower established Market Rent) \_\_\_\_\_ per month for the remainder of the **initial one-year** lease term. Rental Assistance will not be available to continue subsidizing tenant’s rent and tenant will be responsible for full payment of the rent at that time.
4. Landlord may institute other lease requirements after payment in full of the Department of Agriculture debt.
5. From \_\_\_\_\_ until the end of the **initial one year** term of this lease, Tenant may terminate this lease by giving Landlord written notice at least \_\_\_\_\_ # of days (not to exceed twenty 20 (\_\_\_\_) days before Tenant’s next rent payment is due; provided that if both Tenant and Landlord agree to a mutual termination of this lease, then advance notice of termination is not required.
6. Landlord shall provide a reminder notification of the increase at least 60 days prior to the effective date of this Addendum.

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 Borrower

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 Tenant