

January 22, 2016

TO: State Directors
Program Directors
Rural Development
Multi-Family Housing

FROM: Tony Hernandez /s/ *Tony Hernandez*
Administrator
Housing and Community Facilities Programs

SUBJECT: Allowable Expenses in Multi-Family Housing Properties

PURPOSE

The purpose of this Unnumbered Letter (UL) is to remind Loan Specialists and Servicing Officials of the allowable expenses that can be charged against income of a Rural Development (RD) multi-family property financed under the Section 515 Rural Rental Housing, and Section 514 Farm Labor Housing direct loan programs, and those expenses which are unallowable. Allowable and unallowable expenses are itemized in 7 CFR 3560.

This guidance is intended to clarify the program regulation 7 CFR 3560 with respect to administrative expenses, specifically “parties”, and whether those costs may be paid from project operating income.

BACKGROUND

RD’s Multi-Family Housing (MFH) program provides decent, safe, and sanitary rental units for very low-, low-, and moderate-income households in rural areas. Regulations provide guidance regarding the types of expenses that can be charged to a project’s operating account.

The Office of the Inspector General recently completed an audit of expenses charged to properties financed under the MFH direct loan programs. Their review revealed inappropriate charges to property operating accounts for: 1) party expenses for management company employees, and 2) inappropriate costs charged to property accounts during allowed staff training.

EXPIRATION DATE:
January 31, 2017

FILING INSTRUCTIONS:
Housing Programs

MFH program requirements in 7 CFR 3560 provide a listing of allowable expenses that may be charged to project operating budgets, and those expenses which are not allowed. The expense lists appear in two places in the regulation: at 3560.102(i)(3) and (4); and 3560.303(b). Although the language is somewhat repetitive, the key paragraph regarding parties appears at 3560.102(i)(4)(ii), which states:

“(i) Certain expenses are not allowed such as legal fees, association dues, bonuses or monetary performance awards, parties, computer hardware and some software, and telephone purchases.”

RD interprets the regulation at 3560.102(i)(4)(ii) as prohibiting parties as an allowable expense.

However, §3560.303(b)(1)(vi)(N) does permit the charge to a property operating account for public relations expenses, which includes “...sponsorship of tenant activities...”. If management wishes to sponsor a tenant activity for tenants and use project income for the expense, it is permitted by regulation. These activities, however, must be held within the guidelines of both 3560.102(i)(4)(vi) and 3560.303(b)(2)(viii) [noted above], which states: “...*Billing the project for parties that are large or unreasonable, such as renting expensive party halls or hotel rooms and payment for alcoholic beverages or gifts to management agent staff are also inappropriate.*”

IMPLEMENTATION

Loan Specialists and Servicing Officials should continue to closely review proposed and actual operating budgets to ensure that property operating expenses in compliance with 7 CFR 3560, are reasonable and necessary, and follow the guidance in HB-2-3560, Chapter 4. In addition, all Servicing Officials are to bring this guidance to the attention of MFH borrowers and management agents to ensure they understand the program regulations concerning the allowable costs of parties charged to MFH-financed properties.

If you have any questions regarding the guidance in this UL, please contact the Multi-Family Portfolio Management Division at (202) 720-1615.