



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

April 8, 2008

MEMORANDUM FOR: All Multifamily Hub Directors
All Multifamily Program Center Directors
All Multifamily Operations Officers

FROM: Beverly J. Miller, Director, Office of Asset Management, HTG

SUBJECT: Reminder: Rent Increase Procedures for Section 202/811
– Project Rental Assistance Contracts (PRACs)

This memorandum serves to reiterate HUD's policy regarding rent increase procedures for PRAC projects. As you know, the PRAC provides payments to cover operating expenses. The "operating rent" is the amount estimated to cover operating expenses for the unit and includes an estimate for all utilities even when paid by the tenant. Under normal circumstances, HUD provides sufficient funding for PRAC project operations. However, on occasion there may be cash flow deficiencies in operating expenses which may necessitate an owner's request for a rent increase. These requests may only be considered after the Minimum Capital Investment has been exhausted and if the owner submits a timely request once the cash flow deficiency has been determined.

The owner is responsible for establishing an adequate budget for operating expenses and, when warranted, submitting timely rent increase requests to the local HUD office for review and approval. In situations where the owner fails to request a rent increase and has advanced funds to the project, the owner may not receive a retroactive rent increase. In addition, advances may not be carried as short term loans and included in the rent increase request. Advanced funds by the owner may only be recouped if a residual receipts note was previously established, which is based on available residual receipts funds and is also not a guaranteed repayment process.

The owner is responsible for monitoring the operating budget and failure to request a rent increase when necessary may be due to poor management; disinterested ownership, etc. Therefore, retroactive rent increases may not be approved unless HUD or HUD's Contract Administrator caused the deficiency/delay or in rare circumstances beyond the owner's control (e.g., natural disaster, etc.) In such cases, the request should be forwarded to Headquarters, along with a clear recommendation and explanation of events which precipitated the problem(s) for review and approval.

As part of routine asset management procedures, the Project Manager is responsible for reviewing, analyzing, and monitoring the financial condition of the project. Where the PM's analysis reveals cash flow shortages or trends leading toward a shortage, they must take steps to

determine what the owner is doing to correct the issues causing the shortages. When a negative cash flow is identified by the Project Manager, the owner should be contacted and advised that a rent increase request should be submitted. All requests for rent increases may be approved at the HUD field office level in accordance with this policy.

If you have questions regarding this guidance, please contact your Desk Officer.