

July 16, 2015

Administrator Tony Hernandez
Rural Housing Service
United States Department of Agriculture
Room 5014, Mailstop 0701
1400 Independence Avenue, S.W.
Washington, DC 20250

Dear Administrator Hernandez:

The undersigned groups represent companies that manage the Rural Development (RD) rural rental housing portfolio. Our members acknowledge that RD recognizes the crucial role property managers perform in ensuring a strong loan portfolio that also meets the needs of the residents who live in these multifamily communities. We also appreciate that RD understands that property managers should be properly compensated.

Over the past several years RD and the industry have conferred on several iterations of management fee adjustments. Management fee adjustments have been an unsettled issue since the advent of the 3560 Regulations in 2004. The 3560 Regulations implemented a national survey and adjustment system. RD did not perform that survey in most years. RD adopted the OCAF method in certain years. But from 2010 to 2014 RD made no adjustment. Thus, we appreciate and are grateful for the adjustments in 2015 and 2016, but this has left a lot of lost ground in the process. Management agents face substantial challenges as a result.

The structure that RD representatives rolled out on an industry call on May 4th this year, and further explained at several industry conferences, provides a solid framework for the future. However, there are a few remaining details and questions that we and our members have raised. Our members believe that the OCAF adjustment should occur for every property as a form of catch up. Indeed, that OCAF should include all the OCAFs for the years that were missed.

The timing for the implementation of the OCAF should be applied to the current year. There may be a problem, in that the Department of Housing and Urban Development (HUD) may issue its OCAFs after the RD budgets are due (HUD tends to issue OCAFs in October or later in the year, and RD budgets are due in September). RD should clarify which OCAF is effective. One suggestion is to use the OCAF and property rating in place after the anticipated HUD OCAF. RD could then use both the OCAF and property rating in place on June 1 of each year so calculation of management fees for the next year can be completed in time to start the next year's budget. Properties would be notified no later than July 1 of the management fee for the next year, and management companies could appeal the fee no later than August 1 if the rating was incorrect, with a decision by RD no later than September 1. This would then give time to complete an October 1 rent increase budget. To simplify, there would be no mid-year increase because a property rating changed.

Administrator Tony Hernandez

July 16, 2015

Page 2

We would appreciate specific guidance on what if the property changes classification in 2017. For example, if in 2016 a specific property is classified as a “C” property but in 2017 it becomes an “A” property, is the full OCAF applied or is the property increased to the same level as other A properties in its state? Is there any catch up at any point when the property has multiple A years after one bad year or is it RD’s intent that the property always has a lower management fee? We understand that a form of weighted averaging of the letter score would be implemented but it is not clear as to how that would work.

We continue to be concerned that there is a lot of old data in RD’s MINC system that gives an unduly negative report of many properties. We appreciate RD’s advice for owners to be vigilant and to remind RD staff to update data, but that is not always practical. It would be more efficient if RD has an internal check or report to the owner. For example, it would help if the data were periodically swept and removed unless the RD staff affirmatively entered or notated that the data was still active.

Finally, there should also be additional fees for projects with several sources of funding. Multiple funding sources require additional management functions, multiple inspections and multiple tenant qualification procedures. The different programs have different requirements, so more supervision and file reviews are necessary to assure compliance with all properties. Each program requires its own annual report, and sometimes monthly reporting. More training is needed for both on site staff and management company staff – usually training that is completed by a third party.

Please contact Colleen Fisher, Executive Director for the Council for Affordable and Rural Housing at ((703) 837-9001 cfisher@carh.org) to arrange any meeting or additional discussion.

Sincerely,

Council for Affordable and Rural Housing
National Affordable Housing Management Association