United States Department of Agriculture
Rural Development

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

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FROM: Tony Hernandez
Administrator
Housing and Community Facilities Programs

Tony Hernandez

SUBJECT: Rental Assistance Obligation Tool

This Unnumbered Letter (UL) is issued to describe a change in procedure for obligating and estimating the Rental Assistance (RA) funding needed for Multi-Family Housing (MFH) Properties

**BACKGROUND**
Rural Development (RD) started utilizing a new RA Obligation Tool (Obligation Tool) to obligate funds and estimate RA funding at the beginning of fiscal year (FY) 2016. The Obligation Tool was developed to address the following needs:

1. Create an efficient and automated time-saving obligation process to speed funds to the borrower and reduce field work time;
2. To obligate renewal funds at a project level instead of State-wide per unit values;
3. Provide for out-year projections for the RA budget request.

**IMPLEMENTATION**
The Obligation Tool streamlines and automates the obligation process, which substantially reduces the administrative burden on staff working in the MFH program. The National Office held a webinar October 15, 2015, with MFH State Offices to train staff on the new process of obligating funds in the Automated Multi-housing Accounting System (AMAS). The webinar described the allocation and obligation process. The training materials from that webinar are on the RA SharePoint site. Any new AMAS Coordinators should review this material and contact the State's Portfolio Management Analyst with any questions.

EXPIRATION DATE:
March 31, 2017

FILING INSTRUCTIONS:
Housing Programs

The Obligation Tool establishes the renewal RA obligation based on using a weighted average of the project's usage rate over that past 12 month period. The Obligation Tool was implemented in October 2015 with funding from the FY 2016 RA appropriation.

How the Obligation Tool Calculates the RA Agreement Cost

The Obligation Tool uses tenant/project data currently available in the Multi-Family Information System (MFIS) database that is provided by the borrower on the amount of RA that was requested from RD over the prior 12 months. The Obligation Tool then "weights" each of the preceding 12 months to ensure that the most recent data is given greater consideration, as it is more likely that future RA need is more similar to the past month's need than last year's need. The factors used in the calculation are the amount of RA requested by the borrower, and the number of active RA units.

The Obligation Tool then identifies any rent increases that were implemented during the prior 12 months and those that are planned (approved by RD) in the upcoming 12 months. In order to ensure that the impact of these prior and future rent increases are fully accounted for in out-year forecasting, increases are apportioned based on where in the 12-month cycle they were, or are, expected to fall.

Annual RA usage estimates are re-calculated on a daily basis for every project to provide the most accurate information possible for RA allocation and obligation activities. The amount of RA used monthly by a property is affected by many factors that cannot be predicted and are generally outside of the control of the borrower. These factors include tenant income changes, changes in tenant contribution to rent, unit turnover, unit vacancies, and unplanned increases in property assessment or insurance expenses. Changes in ownership structure and additional project debt are other factors that, in addition to those noted, impact the amount of income needed to offset expenses. The source of this additional income is higher usage of RA.

The Obligation Tool has several built-in functions that provide flexibility to forecasting, including selection of an inflation factor and determining if renewals should occur prior to, or in the month of, funds depletion. To figure the RA need for out-years beyond 12 months, the Obligation Tool relies on today's RA need, projected over the upcoming 12 months, and then applies an inflation factor.

RD believes this estimating enhancement, which incorporates routine rent increases as well as those associated with property preservation, will improve our capability to better predict a property's RA utilization over the duration of the 12-month funding period.

If you have any questions regarding this UL, please contact your Portfolio Management Analyst.