

January 16, 2015

TO: State Directors
Rural Development

ATTN: Multi-Family Housing Directors
Regional Program Support Managers
Rural Development Appraisers

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

SUBJECT: Multi-Family Housing Programs
Guidance for Rural Development to Complete Area Market Rent
Studies for the Rural Development Voucher Program

Purpose

The purpose of this Unnumbered Letter (UL) is to provide guidance on the statutory and regulatory requirements to estimate a fair market rental rate for the sole use in estimating the amount to assist the tenants within the Rural Development Voucher Program (RDVP). It provides additional guidance to comply with Rural Development (RD) regulations and for use in rural areas where it is not practicable to use guidance previously issued to determine the comparable market rent for a Section 515 apartment unit. The Area Market Rent Study (AMRS) does not establish a rental rate for a specific property or unit and is not intended to be used as such by the owner of the property that is subject to prepayment or foreclosure and for which an AMRS is being conducted.

Introduction

In fiscal year 2006, the U.S. Department of Agriculture established a demonstration program, the RDVP, as authorized under Section 542 of the Housing Act of 1949, as amended. The purpose in establishing the demonstration program was to assist tenants in their transition into the conventional rental market after owners of Section 515 RD-financed multi-family properties have been discharged of their loan either through prepayment or foreclosure action, prior to the loan's maturity date. Congress' intent was to ease the potential burden on the tenants if rental subsidies ceased to exist and rents were raised in their resident property. The RDVP was intended to supplement the tenant's payment toward rent. To calculate the amount of the

EXPIRATION DATE:
January 31, 2016

FILING INSTRUCTIONS:
Housing Programs

voucher to offer the tenants, each Section 515 property that is subject to prepayment or foreclosure must have an AMRS performed of the housing market-wide estimates of rents that will provide opportunities to rent standard quality housing throughout the geographic area in which rental housing units are in competition.

Below is guidance for the RD Appraiser Staff to follow in providing the AMRS to RD servicing officials.

Implementation Requirements

Section 542 of the Housing Act of 1949, as amended states “the Secretary may provide assistance using a payment standard based on the fair market rental rate established by the Secretary for the area.” Within the Rural Housing Service (RHS), RDVP Notice of Funding Availability, it states that RHS should, “to the maximum extent practicable, administer such vouchers with current regulations and administrative guidance applicable to section 8 housing vouchers.” These requirements are generally based on the housing choice voucher program regulations of the of the U.S. Department of Housing and Urban Development (HUD) set forth at 24 CFR part 982 and for the methodology in estimating Fair Market Rents at 24 CFR part 888.

Implementation Procedures

To implement procedures that are consistent with HUD regulations that are practicable for use in the rural areas supported by RD, the following changes need to be utilized. These changes are necessary as the quantity and quality of rental data in rural areas are not available to the extent found in urban areas.

RD will use the following definition for RD AMRs;

AMRs. The rent, as established by RD for units of varying sizes (by number of bedrooms), that must be paid in the housing market area to rent privately owned, existing, decent, safe and sanitary rental housing of modest (non-luxury) nature with suitable amenities.

HUD regulations 24 CFR part 888 sets the basis for estimating market rents and describes data sources that are acceptable along with inclusion of any other valid data source.

RD will use the following basis and methodology;

Basis for setting AMRs, AMRs are housing market-wide estimates of rents that provide opportunities to rent standard quality housing throughout the geographic area in which rental housing units are in competition. Adjustments are made to exclude public housing units, newly built units and substandard units.

RD will use the following changes to methodology as described in 24 CFR part 888;

888.113(a) – RD will use a weighted average instead of the 40th or 50th percentile rent as described by HUD, and can consider all rental units of standard quality, not just those that are occupied by recent movers.

888.113(d) – HUDs Fair Market Rent (FMR) areas as described by HUD are typically urban areas. RD staff will determine what geographic area will be considered, including neighboring communities if necessary, to arrive at an AMR that is reasonably supported considering the rural nature of RD financed properties.

888.113(e) - RD may use the data sources as described by HUD, or any other source that they determine applicable.

The following information will be provided by the Servicing Official when requesting the AMRS:

- The address to be used to determine the geographic area of the AMRS
- Unit sizes (by number of bedrooms) requested for AMRS

Any additional information required for the AMRS will be provided with the assistance of the RD staff located in the area that would service the geographic area requested.

The completed AMRS should contain:

- Address that was used to determine the geographic area of the AMRS
- Description of the geographic area that is used in the AMRS
- The AMR for each unit size (by number of bedrooms) requested
- The date of the AMRS
- Name of the person preparing the AMRS

RD weighted average method

As stated in the methodology above, RD will use the weighted average of the rental units to estimate the AMR in the geographic area that applies. The following method will be used;

Data used for example;

- 20 - 2 bedroom apartments that rent for \$450 per month (\$450 x 20 = \$9,000)
- 10 - 2 bedroom apartments that rent for \$425 per month (\$425 x 10 = \$4,250)
- 2 - 2 bedroom apartments that rent for \$400 per month(\$400 x 2 = \$800)

$\$9,000 + \$4,250 + \$800 = \$14,050 / 32 \text{ units} = \439.06 , rounded to the nearest dollar renders an estimated FMR of \$439 for a 2 bedroom apartment.

Requesting an ARMS

Requests by Servicing Officials to have Agency Appraisers perform an AMRS will be processed within the RD Regionalization Hub. The Standard Operating Procedure for the AMRS process can also be found within the Appraiser Service Request tab via the link below:

https://ems-team.usda.gov/sites/RD_rHUB/pss/assign/default.aspx

This guidance in this Unnumbered Letter supersedes all previous issuances. The RDVP Guidebook will be revised to conform to the AMRS guidance. For additional guidance concerning the AMRS procedures described above, please contact Thomas Ale, National Office Appraiser at (202) 720-1620. For RDVP assistance, please contact Joan Atkinson, Finance and Loan Analyst at (813) 752-1474, extension 103.