



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

ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

June 21, 2007

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

FROM: Charles H. Williams, Deputy Assistant Secretary for
Multifamily Housing Programs, HT

SUBJECT: Previous Participation Certificate (PPC) Operating Procedures
Submission Reviews and Controls

The President recently signed into law the Preservation Approval Process Improvement Act of 2007. This law requires the Department to take certain actions in regard to the Previous Participation operating procedures until HUD submits the new rule to the House and Senate authorizing committees for review. The proposed new rule is undergoing review and will be published and implemented as soon as possible.

In summary, the law requires HUD to suspend immediately all filing requirements for limited liability corporate investors who own, or expect to own, an interest in entities which are allowed or are expected to be allowed low-income housing tax credits under section 42 of the Internal Revenue Code. The law also directs HUD to suspend mandatory electronic filing of previous participation certificates.

This memorandum relates to control and review of a Previous Participation Certificate (PPC). All field staff and managers are required to read and ensure strict compliance with these procedures. Staff and managers must review the contents of this memorandum and follow standards for receipt, review and approval of all PPC submissions, without exception. Routine procedures are restated in this memorandum to assure clarity and consistency among the various field offices. In implementing the law, the Department must continue to receive, review and take action on all PPC submissions, whether in paper or digital formats. This requires careful and consistent handling by every field office.

Control and Review of PPC Submissions

1. Until HUD submits the new rule to the House and Senate authorizing committees for review, the Preservation Approval Process Improvement Act of 2007 provides that HUD will allow participants to file paper or digital submissions of the Previous Participation Certificate (PPC).
2. **Program Center/Hub Controls:** While all Program Center staff and managers are now familiar with both methods of submission, the statute provides the option of which venue to choose (paper or digital) to the participant. This will likely cause some confusion as in any transaction some participants may choose paper, while others choose digital submissions. This requires Program Center Directors and Supervisors to use specific controls to assure fair treatment of both varieties of submission. HQ recommends that a "first in – first out" review procedure be instituted for submissions wherever practical. In any event, control methods for processing paper and digital submissions are required.
3. **Hub Reports:** APPS provides adequate reporting and control over incoming digital submissions. However, HQ requires specific information about each paper submission and the Hubs must supply this information on a monthly basis; on the attached spread sheet. The spreadsheet must be forwarded from each Hub via e-mail on the 20th of the month and include all paper submissions up to the end of the work week ending prior to the 20th of each month (this should allow time for Hub personnel to consolidate Program Center reports into the single report to be sent to Headquarters). Subsequent reports will cover the period from the last report through the reporting deadline. The Hub Director should identify a Hub contact and alternate to address any questions regarding the spreadsheet. Please provide the contact name(s) and the first report for the period ending July 1, 2007 to James E. Collins in the Policy and Participant Standards Division in the Office of Asset Management at James.E.Collins@hud.gov. Please make the subject of the e-mail:

Previous Participation Certificate Report for INSERT DATE.

4. **Review All Paper Submissions For Accuracy:** In the past, participants were less than precise when they completed the paper HUD Form 2530. Field staff was not always as careful as need be to assure each paper form was complete and accurate.

The following discusses the paper Form HUD 2530 review requirements and common errors and omissions for your review:

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- a. **Part I, Reason for Submission** (Upper Left Hand Corner, no number):

This section was often not completed. Field staff may either complete this section if left blank by the submitter or return the form to the participant for correction. Field staff is to initial the paper form in all cases where they change or alter this section. APPS controls for this by preventing a submission without entering a reason for submission.

b. Section Numbers 1 – 6:

These sections are often left blank or have erroneous information entered by the participant. Field staff may either correct/complete this section if left blank by the submitter or return the form to the participant for correction. Field staff is to initial the paper form in all cases where they change or alter this section. APPS controls data quality for these areas by preventing a submission without all data elements being entered.

Sections 4 a and 4 b immediately above are administrative in nature and are unique to a given PPC submission. It is not uncommon, as an example only, for the participant to not know the Section of the (Housing) Act that is entered in Section 5, while all lenders should know this fact without exception.

c. General; Sections Numbers 7 – 10, The Certification Lines, The Preparer Information And Schedule A:

Each section must be completed in full and without error by the participant. Field staff is not permitted to alter or add information in these sections. Each data element in these sections forms part of the basis for the participant certification. Alterations, no matter how slight, will void the participant's certification. Enforcement of the certification becomes impractical or impossible if altered by other than the participant or their authorized representative.

Therefore, if any data is incomplete or staff determines that errors are present, return the entire submission to the participant or their preparer.

APPS prevents a participant from filing a submission that is incomplete, but there may be errors or omissions that field staff recognizes in the digital version of the PPC as well (for example the previous participation may not be complete or the organization structure is in error). These also must be returned to the participant or their preparer (contact).

There are generally no exceptions.

d. Specific Review; Incomplete disclosures and errors and omissions in data required to complete Sections 7 – 10, the certification lines, the preparer information and Schedule A:

Section 7: One of the valuable aspects of full implementation of the APPS digital PPC was the imposition of high levels of consistency and accuracy of disclosures. However, APPS implementation highlighted that some principals were not identified in paper submissions as required by regulation. Field staff must take active precautions to **assure full disclosure of all participants, principals and affiliates in each entity that is required to submit a PPC.** This is true whether the PPC is submitted in paper or digitally. All modern real estate transactions are complex and Handbook 4065.1 provides the following guidance to obtain additional information in all cases where a complex organization exists:

The Handbook states; "In situations where complex ownership (multiple tiered) structures exist, a description of the ownership structure should be submitted along with the HUD-2530. This description should preferably be provided by an attorney representing the principal. The attorney should supply this information on his or her stationery and be signed by the attorney. ***For example***, the ownership entity is a Partnership. All principals in this Partnership must be listed on the HUD-2530 -- this is tier one. If any of these principals are Corporations or Partnerships, the principals in these entities must also be listed on the HUD-2530 -- this is tier two. If any of the principals listed in tier two are Corporations or Partnerships, the principals in these entities must be listed on the HUD-2530 -- this is tier three. Principals in a Partnership are all its General Partners, and its Limited Partners with a 25 percent or greater interest."

Therefore, it is required that each applicant provide a clear organization chart or description to the Program Center with each PPC submission. APPS generally controls for this by requiring disclosure of the organization array (see APPS Tier Report). The tier report should be reviewed for accuracy and completeness especially for participants' early digital submissions.

The Handbook requires the organization chart/description be provided by the attorney representing the principal, but you may also accept this data from the principal on principal's stationery.

e. **Section 8:** Role of Each Principal in Project

This must be completed by the participant. If the role does not make sense within the confines of the transaction as it is understood, then have the participant explain. If the Project Manager and Program Center Director are satisfied with the explanation, attach the explanation to the Form HUD 2530 for the record. If necessary have the Form HUD 2530 returned for correction. A listing of roles is in the Form HUD 2530 instructions. APPS requires this data be entered before the PPC can be submitted.

f. **Section 9: Expected % ownership in the Project**

This section must be completed as it provides basic data for review of each identified participant under the regulations. The instructions on Form HUD 2530 also require the participant to specify if the participant is a general or limited partner (or other appropriate identifier as is customary for the business organization; LLC's, for example, have members and managing members). APPS requires this data be entered before the PPC can be submitted. The Program Center must assure the percentages are accurate.

g. **Section 10: Taxpayer Identification Numbers (TIN) Must Be Provided For All Individuals And Entities:**

Sometimes in the past, field office staff accepted paper form PPC's without Taxpayer ID's; most often this occurred when the TIN had been applied for, but not received. The TIN must be presented at the time of submission; there are no exceptions. APPS controls for this by preventing a submission completion without a TIN for all participants.

h. **Signatures Must Be "Live" And Not Out Of Date:**

All individuals and entities must certify different aspects of the data presented in the PPC. The signatures are to be original and dated within 6 months of the date of submission. Field staff must return any PPC submitted that does not meet these standards. APPS controls for this by requiring new certifications with each on-line submission.

i. **Explanatory Letter Required if Any Certification Language is altered by the Participant:**

Please remember to obtain a letter signed by the participant in every case where the certifications have been altered in any way. APPS controls for this by requiring an explanation entered in APPS prior to submission for any "NO" answer to the certification parts.

j. **Preparer Information (Bottom of Page)**

The preparer's name and telephone contact information must be provided and be legible.

Page 2 – Schedule A

Schedule A has 6 columns, Column 5 has three sections. In every case where the previous participation of any principal or entity is not identical, then it is most efficient if each participant has its/his/her own Schedule A. Do not allow mixing of

principals on a single Schedule A unless all their respective previous participation is identical. In the event of incomplete and/or erroneous data in Schedule A, it is recommended that Field staff return the submission (either digital or paper) and require the participant correct the data.

Column 1 identifies the name of the principal and if there are several parties with identical previous participation the names must be listed in alphabetical order for ease of review.

Column 2 lists all properties in which the principal in Column 1 has participated in the past. There is specific information (property ID (e.g., FHA or Section 8 contract number), property name, city location and government agency involved, if other than HUD) to be provided for each project and when that information is not provided, the Program Center staff must review the omissions with the principal. The Program Center staff must return the entire PPC (either paper or digital) to the participant or their representative for completion. **For paper forms only**, the Program Center Director may agree to accept and review replacement paper pages, although this is not recommended.

Column 3 lists the role the principal identified in Column 1 plays in the property identified in Column 2. The participation period from and to dates must also be presented. When all information is not provided, the Program Center staff must review the omissions with the principal. The Program Center staff must return the entire PPC (either paper or digital) to the participant or their representative for completion. **For paper forms only**, the Program Center Director may agree to accept and review replacement paper pages, although this is not recommended.

Column 4 must be completed for all insured, HUD held, and 202/811 loans. This is where the Program Center staff will be alerted to significant events that require review in HQ, PPSD¹. This column must be completed for each HUD and FHA related loan on the property identified in Column 2. The choices are: current, in default, assigned and foreclosure at the time of the PPC submission². For properties without a HUD/FHA loan, the proper entry is NA. When all information is not provided, the Program Center staff must review the omissions with the principal. The Program Center staff must return the entire PPC (either paper or digital) to the participant or their representative for completion. **For paper forms only**, the Program Center Director may agree to accept and review replacement paper pages, although this is not recommended.

¹ Every default, assignment, and foreclosure should have an associated Previous Participation Flag in APPS

² If the principal's period of participation as shown in Column 3 ended prior to the date of the present PPC submission, the status in column 4 is as of the last date in the participation period.

For each indication of default, foreclosure, assignment the project manager must review the APPS flag report and determine if the flag was placed and if the flag was resolved or absolved. If the flag was placed and either resolved or absolved, the Project Manager may treat that single event as a non-critical finding. Otherwise follow the instruction in the Handbook and on the 2530 form.

Column 5 deals with all property defaults at any time during the participation period in column 3. All defaults are to be reported, not just those associated with a HUD or FHA loan; contract and regulatory defaults are included. For each indication of default, foreclosure, assignment, the Project Manager should review the APPS flag report and determine if the flag was placed and if the flag was resolved or absolved. If the flag was placed and either resolved or absolved, the Project Manager may treat that single event as a non-critical finding. Otherwise, follow the instruction in the Handbook and on the 2530 form.

Column 6 lists the last physical inspection and management review of record. The "or" in the column heading is only operative where both monitoring tools have not been performed. In most cases, there should be both an inspection and management review rating. If not provided, the Program Center staff must review the omissions with the principal. The Program Center staff must return the entire PPC (either paper or digital) to the participant or their representative for completion. **For paper forms only**, the Program Center Director may agree to accept and review replacement paper pages, although this is not recommended.

Finally at the bottom of page 2, there is an area for HUD processing, this must be completed and signed as prescribed. There are no exceptions.

If there are questions concerning this memorandum, please email your questions to the APPS mailbox AppsF24P@hud.gov and make the subject line read:

Previous Participation Certificate (PPC) Operating Procedures Submission Reviews and Controls

Attachment

Participant Entity Name (sample) ABC LLC	Entity Signatory Bob Smith	Entity Role Owner/mortgager	Date received 6/31/2006	Date approved NA	Date Sent to PPSD 6/1/2007	Project Name Anywhere Towers	Project REMS ID 800000000x	Transaction type (a.k.a. Reason for Submission 202 Refinance
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