

Office of Multifamily Housing Assistance Restructuring



Deal Profile: Rural Portfolio, Transfer to Non-Profit, Tax Credits, Bonds, and FHA Claim Payment. OMHAR fixed the claim amount, allowing the properties to benefit from the additional funds.

Overview

OMHAR has developed and implemented solid policies that encourage owners to bring additional funds to a restructuring, resulting in a better outcome for residents at no additional cost to the insurance fund.

Characteristics

This transaction consisted of a portfolio of 350 units spread throughout seven rural and suburban assets, originally owned by a for-profit, and transferred to the new non-profit owner as part of the recapitalization.

The Solution

A Mark-to-Market payment of claim on the FHA insured first was combined with a bond financed 223(a)(7) first mortgage and tax credits to achieve the needed rehab and recapitalization. Particulars included:

- OMHAR permitted the payment of claim to be fixed at a 'baseline' amount, derived from the economics of a conventional first mortgage. The application of bond-rate financing created a larger supportable first. When coupled with the fixed claim payment, this resulted in higher sources at closing, which were applied to the needed rehab.
- \$3.4 Million in rehab, 18% funded by OMHAR and the remainder paid for from tax credits.
- \$6.8 Million in unsupportable debt was reduced to \$3.6 Million in new bond-financed FHA-insured first mortgage debt.
- State affordable housing funds enabled the existing owner to exit the program; a new non-profit was able to step in.

The Consequences

Although preservable solely through the FHA claim payment, the marriage of credits and bond financing with the FHA payment of claim allowed for a more substantial rehab than would otherwise have been possible. These seven properties now have conservative underwriting, new ownership, and an infusion of needed capital for repairs and upgrades.