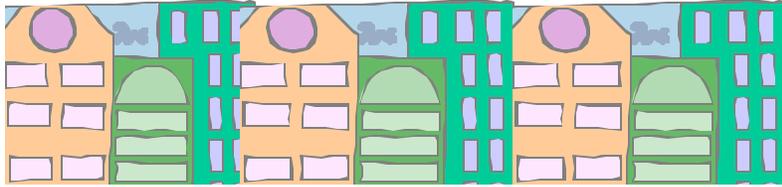


## Office of Multifamily Housing Assistance Restructuring



**Deal Profile:** *Urban Garden Community, Section 236, \$2.6 Million in Future Interest Reduction Payments (IRP)*

### Overview

OMHAR has developed new guidance expanding the options for re-use of Interest Reduction Payments (IRP) when properties with 236 financing enter the Mark-to-Market program. The IRP may now be re-used to support debt payments on a new first that includes two separate amortization/payment schedules (a bifurcated loan) in addition to the previous options of applying all IRP to the Reserve for Replacement Account or all IRP to debt on a 223a7/236 over term of new first.

The presenter will introduce the changes to the M2M Operating Procedures Guide for re-use of IRP and introduce how the upcoming revision to the underwriting model will easily incorporate a bifurcated loan scenario.

### Characteristics

- 300 Units (1, 2 and 3 Bedrooms)
- Garden Community built in 1974; Average Physical Condition
- Section 236; Approximately \$2.6 Million in Future IRP
- Contract Rents 13% higher than Market Rents

This deal was originally modeled with all IRP going to the Reserve for Replacement Account. We compared the impact on the FHA Claim and Savings if the deal was modeled instead with (1) all IRP applied to debt service over that same 22 year term and (2) new takeout financing with a bifurcated first - all IRP applied directly to debt service on a new first with a B Piece of 12 years and debt service on the A piece amortized over 22 years, payable out of project operations.

### The Results

All three re-use scenarios result in viable restructuring, meet project rehabilitation needs, cover projected operating expenses and build a R4R fund adequate for future capital improvement needs. This deal was ultimately modeled with a bifurcated mortgage. Advantages over the other re-use options included:

- Lower FHA Claim; Significantly more Savings to the Government
- Larger, supportable 223(a)(7); Lower Interest Rate on the B piece
- Smaller M2M subordinate debt