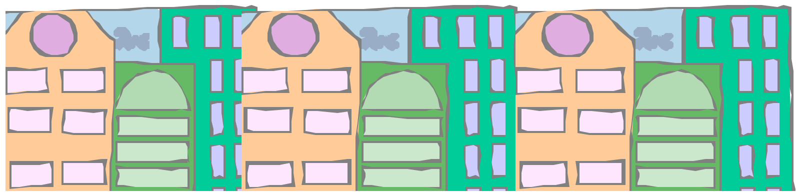
Office of Multifamily Housing Assistance Restructuring



Deal Profile: **_Reduced Number of Section 8 Units, Conventional Financing_**

Overview

Creative restructuring and significant stakeholder involvement produced a viable deal preserving affordable housing for the elderly population in this isolated community.

Characteristics

- 40 Units; Housing for the Elderly in small, rural community
- High project vacancy rate (30%), but stable community
- 1978 Rehab of 4-story hotel built in 1918
- Contract Rents 31% higher than Market Rents
- Moderate Rehab Needs ($100,000 or $2,500 per unit)
- NOI does not support a new FHA insured 1st Mortgage

The Solution

The challenge was to find a way to overcome the vacancy problem, generate enough cash flow to cover both expenses and long term physical needs, and find a lender for a relatively small, new first mortgage that could provide a source of funds for the Rehab Needs of the property.

There was considerable interaction and consultation between the PAE, Owner, OMHAR, local HUD office, and elected government representatives. In order to provide a stable housing future for the elderly in this isolated, rural community, the deal was structured with the number of Section 8 units reduced by one third, and the units on the top floor of the building effectively shut down. This resulted in a reduction of overall expenses and relatively small, but positive Net Operating Income.

The Owner found a local bank that would finance a new first mortgage of approximately $110,000. This amount was sufficient to allow the Rehab needs of the property to be addressed.

The Consequences

Project Based Section 8 is preserved for the population that needs it in this rural community, the project's physical needs are addressed for the long-term, and the restructuring produces savings for the government.

March 25, 2002