

U.S. Department of Housing and Urban Development

1

“PARTNERS IN HOUSING” ADVANCED PRESERVATION TRAINING



Lesson 1: Introduction

2



Arthur Capper Senior Housing Washington, D.C.

Welcome

3

Over the next 3 days, we'll be working together to explore scenarios for greater understanding of :

- Rental Assistance Tools to preserve Section 8 projects
- Rental Assistance Demonstration (RAD)
- Tools for Preserving Rent Supplement and RAP projects
- Section 202 and 236 properties refinancing with:
 - 223(f) loans
 - Low Income Housing Tax Credits (LIHTC) and 221(d)4 loans

Getting Started

4

Housekeeping

- Introductions
- What do we have in common?
- Logistics
- Ground Rules

Pre-Assessment

5

- Please help us track learning during this course by completing the Day 1 Pre-assessment and turning it in
- We will be measuring the difference between pre-class knowledge and post-lesson knowledge
- Work alone for the pre-assessment

Lesson 2: Goals for Advanced Course and Review

6



Course Goals

7

- Identify and practice using tools to obtain a long-term rental assistance contract at predictable rents that will allow the property to be sustainable
- Identify and practice using tools and programs available to Section 202 and Section 236 properties for refinancing
- Identify opportunities that apply to your own or team member's properties

Lesson 2: Objectives

8

Using available resources, you will:

- As a class, review relevant topics covered in the HUD Multifamily Preservation Training (Basic Course)
- Identify tools available for one's team
 - Reference Guide with materials for Case Studies
 - Participant Guide

Refresher:

Topics Covered in Basic Course

9

- HUD's Mission
- HUD's Affordable Rental Housing Programs
- Benefits and Challenges of Preservation
- Prepayment Requirements
- Tools for Preservation of FHA-Insured Properties
- Long-Term Affordable Housing Preservation
- Preserving Section 8 Rental Assistance Through Long-Term 20-Year Contract Renewal
- Refinancing and Low Income Housing Tax Credits (LIHTC)
- Other Rental Assistance Preservation Issues and Tools
- Asset Management Issues

Lesson 3: Rental Assistance Tools to Preserve Section 8 Projects

10



Lesson 3: Objectives

11

Using available resources, you will:

- Review Section 8 Renewal Options
- Discuss benefits of 20-year HAP Contract renewals
- Identify recent Renewal Policy Guide and Related Changes
- Compare Mark-Up-To-Market (MU2M) and Mark-Up-To-Budget (MU2B) options

Topic 3.1 : Renewing Section 8 Rental Assistance Contracts

12



Refresher

Section 8 Renewal Policy Guide

13

- The Section 8 Renewal Policy Guide provides comprehensive guidance for renewing expiring Section 8 project-based contracts. It is available at (www.hud.gov/offices/hsg/mfh/exp/guide/s8renew.pdf).
- Each Section 8 contract is renewed pursuant to the Multifamily Assisted Housing Reform and Affordability Act (MAHRA).
- Rents are adjusted either with an Operating Cost Adjustment Factor (OCAF), a budget-based rent adjustment, or (for some LIHPRHA or ELIHPA properties) an Annual Adjustment Factor (AAF).

Refresher

Section 8 Renewal Policy Guide

14

- You may be familiar with “Options 1 through 6” of the Renewal Guide. Each property is eligible for different renewal options that set the terms for how rents may be adjusted.
- The chart on the next slide summarizes the various renewal options.

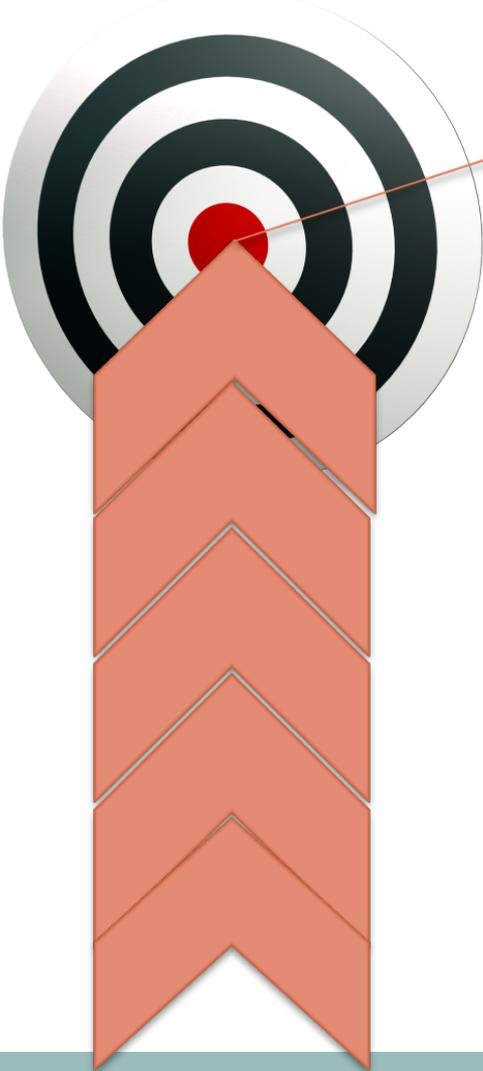
Section 8 Renewal Options

Option	Description	Initial Rents	Annual Adjustments Years 2-5	Typical Owner/Property
1	Mark-Up-To-Market	Market (determined by Rent Comp Study – RCS)	OCAF	For Profit
2	Other Renewals with Rents at/below Market	Greater of Budget-based rents or OCAF	Greater of Budget or OCAF-Adjusted RCS	Non Profit (including 202, 236)
Ch. 15	Mark-Up-To-Budget	Budget, capped at market rents (determined by RCS)	Lesser of Budget or OCAF-Adjusted RCS	Non Profit
3	Referral to OAHP	Market (determined by RCS)	OCAF	Mark-to-Market (M2M) Projects
4	OAHP Exempt Renewals	Lesser of Budget or Current Rents + OCAF	Lesser of Budget (constrained by market) or Current Rents + OCAF	202 Direct Loans, HFA Financed
5	Early M2M (Pre) / Preservation	Market Subject to RCS	OCAF or Plan of Action rents	LIHPHRA, ELIPHA (221d3/236)
6	Opt-Outs	N/A	N/A	None of you!

Refresher

Twenty-Year Contract Renewal Benefits

16



Sustainable Property

Preserves Long-Term Affordability of Section 8 Properties

Reduced Processing Time and Annual Paperwork. New: Auto-OCAF procedure

Annual Rent Increases and Potential to Receive Increased Distributions

Able to Secure Financing for Needed Repairs & Remodeling

Stable Long-Term Income Stream

Required Documents for HAP Contract Renewals

17

1. Owner's cover letter stating the purpose of the proposal.
2. Supporting documents:
 - a. Attachment 3A- Contract Renewal Request Form HUD 9624, owner's option
 - b. Owner's rent comparability study (if applicable)
 - c. A budget worksheet, form HUD 92457-A and explanation for increase in expenses over 5% or \$500 (if applicable)
 - d. A signed request for an increase in the Reserve for Replacement. See Appendix 6 of Chapter 7 in Handbook 4350.1

Required Documents for HAP Contract Renewals (continued)

18

2. Supporting documents (continued):
 - e. The contract expiration notice, which must have been delivered to tenants one year ago.
 - f. Utility analysis
 - g. If requesting a Budget-based Rent Adjustment (BBA), tenant notice of a 30-day rent increase proposal to HUD
 - h. If requesting a BBA, owner's certification as to compliance with tenant comment procedures in 24CFR 245

Topic 3.2: Section 8 Renewal Policy Guide Changes, Related Changes, and Contract Renewal Refresher

19



Recent Section 8 Renewal Policy Guide Changes

- **Mark-Up-To-Market:** under Option 1B, use restriction (e.g., LIHTC) no longer caps the renewal rents (although still requires discretionary HUD approval)
- **Option 4:** Budget-based rent adjustments in a multi-year contract may not exceed comparable market rents determined by RCS (owners may receive an OCAF without a need for an RCS)
- **Current debt service:** owners submitting a budget-based renewal request or a budget-based rental adjustment request must include the current (new, anticipated) debt service (which may be lower than the old debt service); applies to Option 2 and Option 4 contracts

Recent Section 8 Renewal Policy Guide Changes (continued)

21

- The Option 4 change on the previous slide includes Section 202 properties. Owners should think carefully about their Option 4 contract when they prepay and refinance.
- Under new renewal Guide policies, Option 4 rents may not be increased using a budget-based rent adjustment if it would result in above-market rents.
- Owners may find Mark-Up-To-Budget a useful tool that would result in higher rents than an Option 4 renewal.

Examples: Renewal outcomes for Option 4 Project (Such as a 202)

22

- Option 4 property – Renewing under Option 4
 - Current rents: \$800/unit
 - Current rent + OCAF: \$820/unit
 - Budget (including new debt service): \$900/unit
 - Resulting rents (lesser of test): \$820 + OCAF adjustments
- Option 4 property – Renewing under Chapter 15
 - Current: \$800/unit
 - Market: \$900/unit (per RCS)
 - Budget (including new ds): \$900
 - Resulting rents: \$900 + OCAF adjustments (RCS every 5 years)

Recent Section 8 Renewal Policy Guide

Changes (continued)

- HUD has suspended the implementation of new RCS guidance that had required additional documentation when market rents exceed 110% FMR or 110% of the Small Area FMR.
 - Specifically, paragraphs 9-23, 9-24 and 9-25 published on May 18, 2012, are suspended

Recent Section 8 Renewal Policy Guide Changes: Executing a New 20-Year Contract

24

- HUD may be able to terminate an existing Section 8 contract for the purpose of executing a new 20-year contract.
- The new contract term is 20 years.
- Owners must also sign a Preservation Exhibit agreeing to enter into a contract for the remaining term of the original contract.
- Cases in which this is possible include:
 - Post-MAHRA contracts
 - Certain original contracts that have not yet renewed where there are just a few years left on the contract.

Key Section 8 Renewal Options to Facilitate Preservation

25

- HUD provides two key options for 20 year contracts to facilitate preservation:
 - **Mark-Up-to-Market (MU2M):** Allows a rent increase up to market levels to improve Section 8 cashflow when current rents are below the market rents. Also known as “Option 1”
 - **Mark-Up- to Budget (MU2B):** Allows a rent increase up to budget (capped at market) to facilitate repairs or transfers. Also known as “Chapter 15”

Mark-Up-To-Market (MU2M) Overview

26

- Allows For-profit Owners in strong markets to increase their rents to market without doing a budget; a rent comparability study is required.
- Comparable market rents must be at or above 100% of Fair Market Rents (FMRs) but proposed rents cannot exceed 150% of FMRs.
- Requires a minimum five year term.

Mark-Up-To-Market Eligibility Criteria (Option One A)

27

- A Section 8 contract that has received its initial renewal under MAHRA or is renewing under MAHRA for the first time
- A Real Estate Assessment Center (REAC) physical inspection score of at least 60 and no Exigent Health and Safety (EH&S) deficiencies
- Free from low-and moderate-income use restrictions that the owner cannot unilaterally eliminate (e.g. Rent Supplement Contracts, Flexible Subsidy Use Agreements, or Low-Income Housing Tax Credits)

Mark-Up-To-Market Program Discretionary Eligibility (Option One B)

28

A property that does NOT meet the criteria for MU2M may still participate if one of the following criteria is met:

- **Vulnerable Populations:** Residents of the property must be a particularly vulnerable population (50%+ of units for elderly, disabled or large families)
- **Vacancy Rates:** Property must be located in a low-vacancy market area (3%) where there is a lack of affordable housing and where Section 8 vouchers would be difficult to use
- **Community Support:** Property must be a high priority for the local community as demonstrated by a contribution of state or local funds to the property

Chapter 15 Mark-Up-To-Budget Overview

- Chapter 15, Mark-up-to-Budget (MU2B), also known as Option Two, is designed to facilitate ownership transfers to non-profit purchasers and/or capital repairs by non-profit owners.
- Two distinct purposes discussed in Chapter 15 of S8 Renewal Guide:
 - Capital Repairs
 - Transfers

Chapter 15 Mark-Up-To-Budget Overview

30

Continued from previous slide

- HUD may approve the rents at the post rehab level.
- MU2B is only available to non-profit purchasers and owners (which may include non-profit controlled for-profit or limited dividend entities).
- Rents may be increased on a budget basis for acquisition and/or rehab costs, subject to a market cap.
- A rent comparability study is required and may include current market rents and post rehab market rents (the rents the property can command after rehab is completed).

Refresher:

Mark-Up-To-Budget Chapter 15 Eligibility Requirements

31

- A non-profit charter under State law, or in certain cases, a profit-motivated organization (if a waiver is provided by HUD).
- 501(c) tax-exempt status (except for limited-equity cooperatives or projects where such status was not previously required to participate in a HUD program).
- Financial solvency, with no unresolved audit findings.
- A REAC score greater than 30 (for capital repairs), or greater than 60 (for transfers without capital repairs).

Refresher:

Mark-Up-To-Budget Chapter 15 Eligibility Requirements

32

- Previous ownership or management experience with affordable multifamily housing.
- Community ties (a national or regional non-profit must joint-venture with a local non-profit, or secure majority tenant support).
- Capital repair or transfer must meet Chapter 15 requirements



Topic 3.3: Comparison Mark-Up-To-Market vs. Mark-Up-To-Budget

33



MU₂M vs. MU₂B Comparison Chart

34

- Refer to the Comparison Chart in the Participant Guide (Appendix)
- This provides an overview comparing:
 - Mark-Up-To-Market (Options 1A and 1B)
 - Mark-Up-To-Budget (Option 2/Chapter 15)
- Available options vary with ownership structure, which should therefore be chosen with relative benefits in mind

Contrast Discussion

35

Use the chart to help identify what are key elements for MU2M or MU2B for each:

- What are the eligibility requirements for owners?
- What are the eligibility requirements for properties?
- How are rents set?
- How are rents adjusted?
- What is the non-Section 8 rent increase limit?
- What is the Contract Term?
- What are Owner Distribution conditions?
- What are the submission requirements?

Topic 3.4: Section 8 Case Study

36



Section 8 Case Study

Learning Objectives

37

Using available resources, you will:

- Discuss the basic details of this Case Study
- Determine eligibility status for Mark-Up-To-Budget option and identify what may be needed to ensure eligibility
- Discuss the budget for a Mark-Up-To-Budget submission
- Evaluate the probable outcomes of available options and their advantages and disadvantages to further preservation goals
- Discuss an alternative scenario using Mark-Up-To-Market

Section 8 Case Study: Outline

38

Section 8 Case Study will include these stages:

1. Project Overview
2. Determining Eligibility for MU2B
3. Developing the Budget for MU2B
4. Comparing the Outcomes – Pros and Cons
5. What If...

SECTION 8 CASE STUDY: **Adams Park**

39

- Locate the Section 8 Case Study about **Adams Park**
- Take 5 minutes to review the Case Description and discuss with your group

SECTION 8 CASE STUDY: Adams Park

40

PROJECT OVERVIEW

- Urban location: Western MA
- It was built in 1976, loan matures 1/1/2016
- 94 units
- S8 100% of units; post MAHRA contract (regular Option 2); expires 3/31/2013
- Property is subject to a Payment in Lieu of Taxes (PILOT) agreement, with an affordable housing use agreement requiring “low and moderate income” rental housing.
- Owner: Good Works, a non-profit

SECTION 8 CASE STUDY: Adams Park

41

Rent Information:

	1 BR	2BR	3BR
Current Rents	\$839	\$1,059	\$1,194
RCS Market Rents	\$935	\$1,180	\$1,330
RCS Post-Rehab Market Rents	\$982	\$1,239	\$1,397
FMRs	\$675	\$855	\$1,025
LIHTC rents	\$900	\$1,100	\$1,200

Repairs:

- Moderate to substantial capital repairs required per PCNA

SECTION 8 CASE STUDY: Adams Park

42

Goal of Owner

- The owner wants to preserve and recapitalize the property through sale to a tax credit partnership in which the existing non-profit owner retains control, using the Section 8 contract to maximize resources for rehab and property sustainability.
- The owner wishes to determine whether Chapter 15 Mark-Up-To-Budget is feasible.

SECTION 8 CASE STUDY: Determining Eligibility

43

Stage 2 - Activity

Work together in your teams to:

- Review project facts and the comparison chart
- Answer the discussion questions
- Be prepared to share your conclusions

SECTION 8 CASE STUDY: Discussion Questions

44

1. Is the transaction eligible for MU2B?
 - Ownership structure: Yes. Proposed owner is a partnership or LLC with a non-profit GP or a straight non-profit
 - Transfer to accomplish preservation, or complete needed Capital Repairs: Yes
 - Physical condition – Yes. REAC greater than: 30 for capital repairs; 60 for ownership transfer with no EHS violations and not classified as “troubled”
 - Owner agreement to execute Use Agreement is required

SECTION 8 CASE STUDY: Discussion Questions

45

2. What additional information is needed to determine eligibility for MU2B?
 - Owner solvency
 - Good standing and experience
 - Community ties (for Transfer Program)

SECTION 8 CASE STUDY: Discussion Questions

46

3. What other submissions, HUD waivers, or approvals are required?
 - Budget-based rent request, not to exceed comparable market rents (post-rehab, if applicable)
 - Project Capital Needs Assessment (PCNA) for Capital Repair Program
 - Sources & Uses for Transfer Program
 - Waiver required if rents exceed LIHTC caps
 - Waiver required for NP owner to receive distributions

SECTION 8 CASE STUDY: Developing the Budget for MU2B

47

Stage 3 – Activity

Work together in your team to:

- Review the HUD Budget Worksheet
- Answer the discussion questions
- Be prepared to share your conclusions

SECTION 8 CASE STUDY: Discussion Questions

48

1. How are these line items justified?
 - Rent revenue and rents; what rents can be used?
 - Vacancy loss?
 - Management fee?
 - Miscellaneous Admin?
 - Replacement reserve?
 - Debt services on new financing?
 - Net cash surplus/debt service coverage?

SECTION 8 CASE STUDY: Discussion Questions

49

2. Which line items will require additional documentation?
 - Increase >5% OR >\$500

SECTION 8 CASE STUDY: Discussion Questions

50

3. What waivers should the owner request?
 - Waiver for MU2B rents exceeding LIHTC rents

SECTION 8 CASE STUDY: For Profit Consideration

51

- What should we do differently if the owner is a for-profit entity? What would the property be eligible for?
 - MU2M Option 1A Eligibility requires:
 - ★ Comparable market rents at/ above 100% FMR
 - ★ Proposed rents not exceeding 150% FMR
 - ★ REAC score 60+; no critical health & safety violations
 - ★ No low/ moderate income use restriction that can't be unilaterally terminated by owner (e.g. Flex Sub, LIHTC)

SECTION 8 CASE STUDY: For Profit Consideration (continued)

52

- MU2M Option 1B Eligibility requires:
 - ★ Vulnerable tenant population: 50%+ elderly or disabled or large (5+ person) families; or
 - ★ Low vacancy area (<3%); or
 - ★ Local/ state funding contribution

Resulting Differences

- Ineligible for Chapter 15 MU2B, unless HUD grants waiver to a for-profit.
- Ineligible for Option 1A (use restriction that can't be unilaterally terminated)
- Eligible to use Option 1B Discretionary Mark-Up-To Market (MU2M) if one of the three criteria is met
- The last column of the HUD Budget Worksheet shows the probable financial result of MU2M option, so that you may compare to MU2B

Resulting Differences (continued)

54

- No budget submission is required for the MU2M option
- MU2M maximum rent is as-is, not post-rehab as for Chapter 15
- Will affect supportable debt
- Independent HUD RCS required for MU2M rents, unless a waiver is obtained
- No waiver required for rents above LIHTC cap
- No waiver required for owner distribution

Section 8 CASE STUDY

Comparing the Outcomes: Pros and Cons

55

Stage 4 - Activity

Work together in your team to:

- Review the HUD Budget Worksheet and consider the overall pros and cons for which the project could be eligible
- Answer the discussion questions
- Be prepared to share your conclusions

CASE STUDY S8

Discussion Questions

56

1. What are the differences in the financial outcome between two options (i.e., rents, NOIs, debt service, resulting supportable loan, and allowable owner distribution)?
 - Rents (see bottom of worksheet; note MU2M uses as-is rents vs. post-rehab rents for MU2B)
 - NOIs, debt service, and resulting supportable loan (see bottom of worksheet; higher for MU2B)
 - Allowable owner distribution – unlimited for for-profit owner (both scenarios)

CASE STUDY S8

Discussion Questions

57

2. What can loan proceeds be used for?
 - MU2M: no restrictions
 - MU2B/Chapter 15: Rehab and acquisition. Unlimited equity takeout from loan proceeds not always permitted.

3. What are the risks/uncertainties that proposed rents will not be achieved?
 - MU2M – HUD RCS (if not waived) may result in lower rents; final rent capped at 105% HUD RCS
 - MU2B – approved budget-based rents may be less than proposed.

CASE STUDY S8

Discussion Questions

58

4. How do the two processes compare?
 - Waivers needed: MU2M - none (but discretionary approval required in this case)
 - MU2B – waiver for rents exceeding LIHTC rents, or for a for-profit to participate
 - MU2B process more complex, time-consuming, difficult to coordinate with financing timetables
 - MU2M HUD RCS may be waived

CASE STUDY S8

Discussion Questions

59

5. Let's compare the future for both options.
What will happen in five years?
 - Automatic reset to market per new RCS

Other Factors

60

6. Let's compare other factors:
 - a. Davis-Bacon wage rates
 - Determined by rehabilitation level and number of units, not by renewal option.

Other Factors (continued)

61

6. Let's compare other factors (continued):
 - b. If there were Non-Section 8 units in the property
 - Non-Section 8 rents cannot exceed that of the subsidized units
 - Exception: With §236, §221(d)(3)BMIR or §515 mortgage subsidy, non-Section 8 rents continue to be set by that program
 - In MU2B, increase on non-Section 8 rents are limited to 10%; in MU2M, there is no cap

SECTION 8 CASE STUDY: What If...

62

Stage 5 - Activity

Work together in your teams to:

- Answer the discussion questions
- Be prepared to share your conclusions

SECTION 8 CASE STUDY: Discussion Questions

63

1. How would these outcomes/comparisons be different if:
 - Post rehab rents equal to as-is rents?
 - This provides little incentive for MU2B

Section 8 Knowledge Check

64

- Please complete the Knowledge Check and turn it in.
- Please work alone.

Rental Assistance Tools to Preserve Section 8 Projects

65

CONCLUSION

WHAT QUESTIONS DO YOU HAVE?

Lesson 4: Rental Assistance Demonstration (RAD)

1



Lesson 4: Objectives

2

Using available resources, you will:

- Identify types of properties for which RAD was designed
- Identify what preservation problems RAD can address
- Describe the process to apply for RAD and alternatives for owners

Topic 4.1: RAD Program Overview

3



Why RAD?

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- Public Housing Status Quo
 - Capital repair needs \$25.6 billion
 - \$23,365 per unit
 - Unreliable funding platform (pro-ration, cuts)
 - Unable to access private debt and equity due to public housing declaration of trust (DOT)
 - Losing 10,000 – 15,000 physical units annually

Why RAD?

5

- “Orphan” rental assistance programs
- Rent Supplement, §236 Rental Assistance Program (RAP) and Section 8 Moderate Rehabilitation (Mod Rehab)
 - Contracts are expiring
 - Properties need repairs
 - Owners cannot renew for long term contracts – affordable units are at risk as contracts expire

Key RAD Goals

6

- Build on the proven Section 8 platform
- Section 8 contract helps owners leverage private capital to preserve assets
- Offer residents greater choice and mobility

Two Components of RAD – 1st

7

- **1st Component:** Competitive conversion of 60,000 units of Public Housing and Mod Rehab to 20 year contracts
 - Initial application window closed October 24th
 - Applications on a rolling basis up to 60,000 units

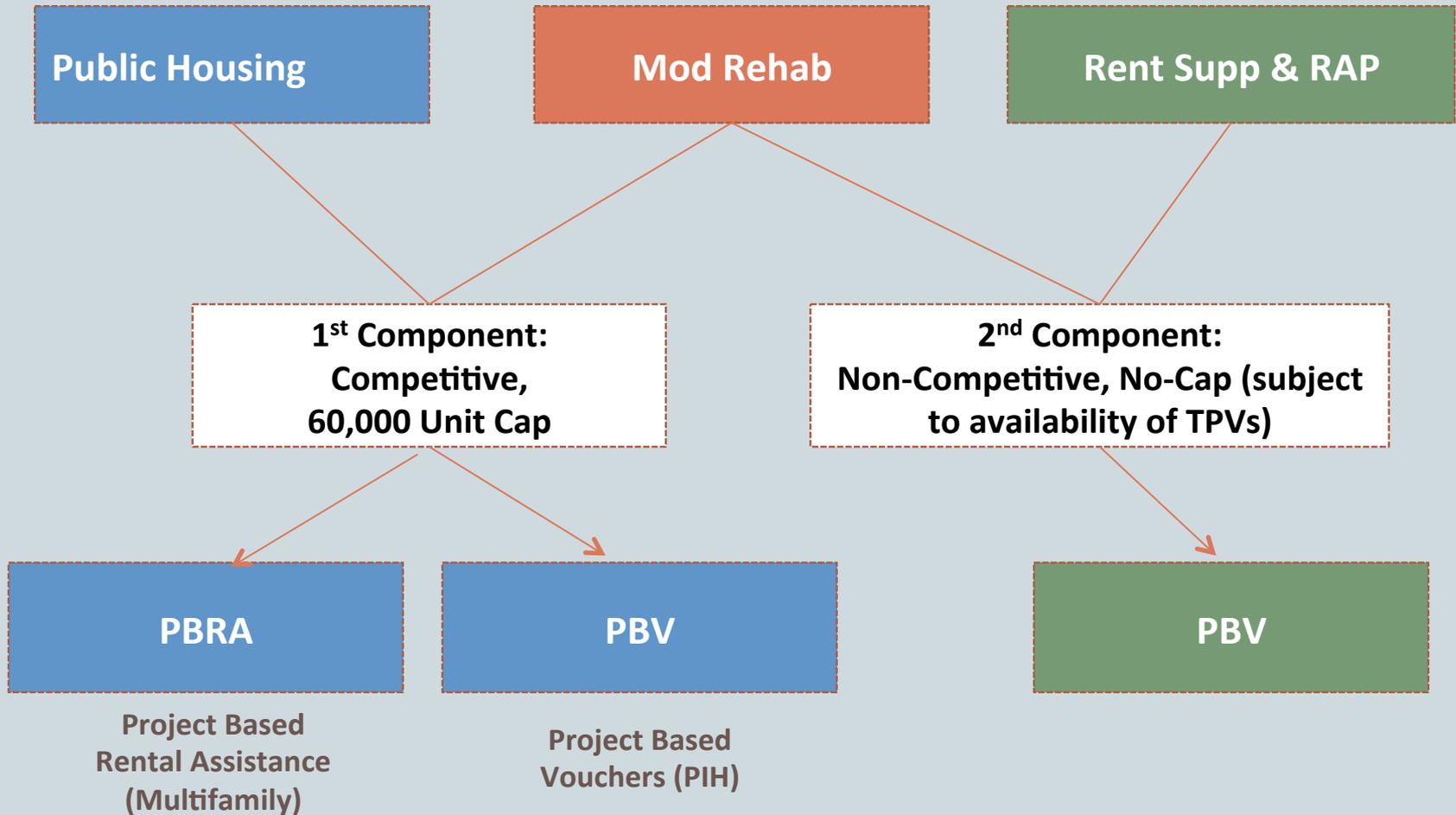
Two Components of RAD – 2nd

8

- **2nd Component:** Noncompetitive conversion of Rent Supp, RAP and Mod Rehab units to 15-year contracts
 - Conversion requests accepted on a rolling basis.
 - Conversion must be linked to a contract expiration or termination due to loan prepayment.
 - For projects with contract expiration dates after FY 2013, deadline to enter queue is passed.

RAD Conversion Eligibility

9



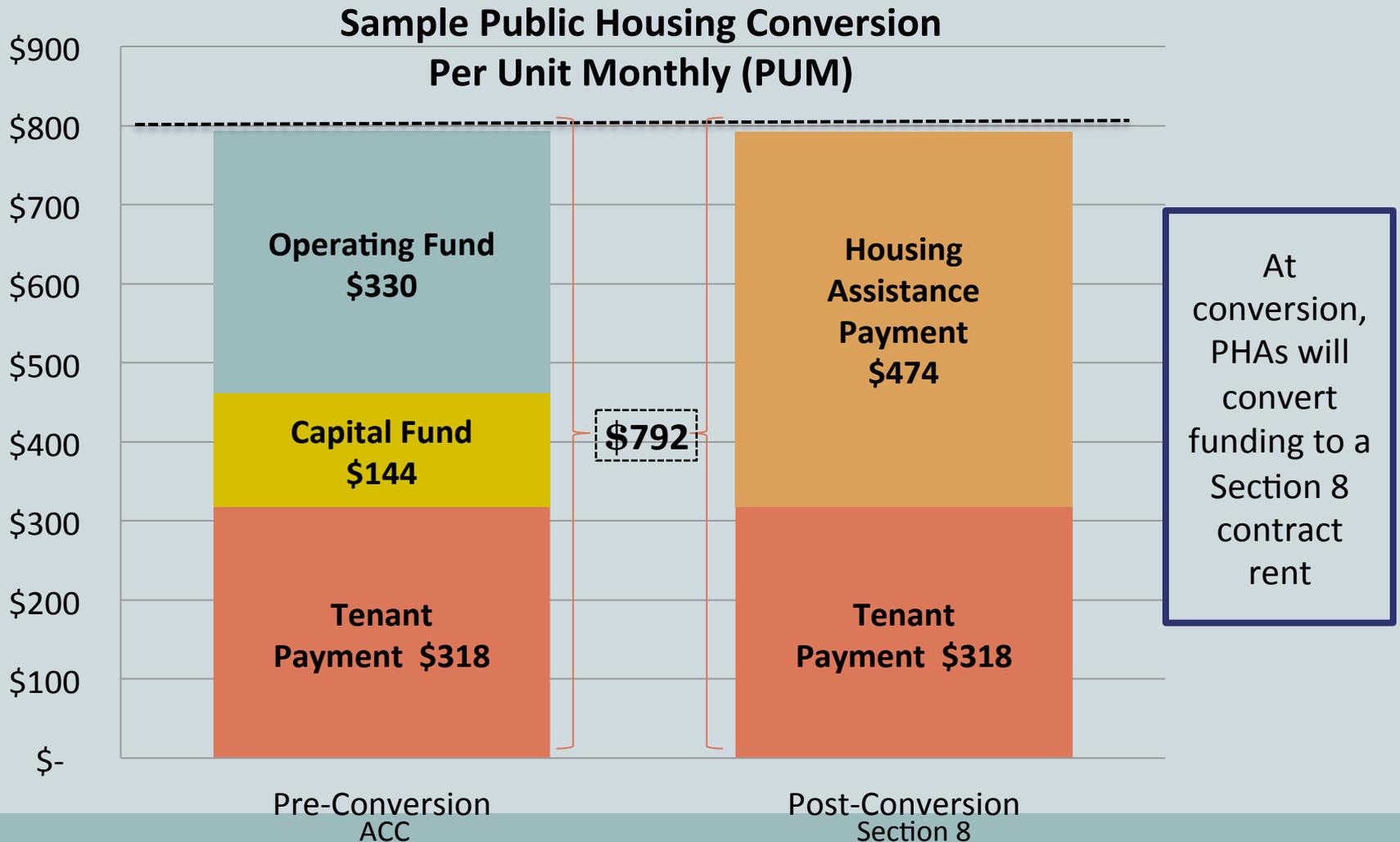
Key Provisions: Public Housing

10

- Voluntary, competitive
- PHA can choose:
 - Project-Based Rental Assistance (PBRA) or
 - Project-Based Vouchers (PBV)
- Projects convert at current funding
 - or PBRA-PBV limit, if lower
- Choice-Mobility is required
 - With limited exemptions
- Resident Protections

Public Housing: Conversion at Current Funding

11



RAD 1st Component: Setting and Adjusting Rents

12

PBRA Cap—lower of

- Current funding, or
- 120% of FMR (less utility allowance)
- EXCEPT where current funding is below market (note 1)

Note 1: Where the PBRA exception applies, the PHA submits an RCS for HUD review. Rent is lower of comparable market rent or 150% of FMR (minus U/A).

RAD 1st Component: Setting and Adjusting Rents (continued)

13

PBV Cap—lower of

- Current funding, or
- 110% of FMR (less utility allowance), or
- Reasonable rent (note 2)

Note 2: Reasonable rent is a market rent determination made by the PHA that administers the vouchers. Typically a staff determination; often based on a desk review.

RAD Choice-Mobility Feature

14

- General concept:
 - Residents have some opportunity to exchange their project-based Section 8 slot for a tenant-based voucher
 - Opportunity is available only after an initial minimum occupancy period
- Rules differ for PBRA and PBV
- Generally required for all RAD public housing conversions
 - Some PBRA projects can receive good cause exemptions

HUD RAD Website

15

www.hud.gov/RAD

 MONDAY, OCTOBER 08, 2012

 **HUD.GOV/RAD - Rental Assistance Demonstration**
U.S. Department of Housing and Urban Development
Secretary Shaun Donovan



HUD > Rental Assistance Demonstration

Overview

The Rental Assistance Demonstration (RAD), which allows proven financing tools to be applied to at-risk public and assisted housing, was authorized by the Consolidated and Further Continuing Appropriations Act of 2012 (**Public Law 112-55**), and has two components:

- 1st Component – Allows Public Housing and Moderate Rehabilitation (Mod Rehab) properties to convert, under a competition limited to 60,000 units, to long-term Section 8 rental assistance contracts; and
- 2nd Component – Allows Rent Supplement (Rent Supp), Rental Assistance Payment (RAP), and Mod Rehab properties to convert tenant-based vouchers issued upon contract expiration or termination to project-based vouchers.

Participation in RAD by public housing agencies (PHAs) and other eligible owners is voluntary. RAD is a limited demonstration and will be rigorously evaluated to assess the viability of these approaches in preserving affordable housing.



Rehabilitation and accessibility improvements being made at a Keene Housing Authority (NH) property.

RAD Resource Desk

16

PHA libraries, Milestone tracking,
Document library, and FAQs can be found at

www.radresource.net

RAD: Applicable Notices

17

- **PIH 2012-32: Rental Assistance Demonstration – Final Implementation**
 - Section I, Public Housing: “First Component” (Competitive)
 - Section II, Mod Rehab Either First Component or “Second Component” (Non-Competitive)
 - Section III, Rent Supplement and RAP properties: Second Component (Non-Competitive)

Topic 4.2: Preserving Rent Supplement and RAP Properties through RAD

18



Refresher

“Orphan Programs”

19

Rent Supplement



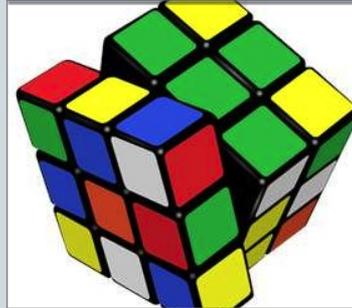
A precursor of Section 8, the Rent Supplement was provided with some original Section 236 and Section 221(d)(3) mortgages.

Rental Assistance Payment



In 1974, Rental Assistance Payment (RAP) was created as an additional form of rental assistance. It was made available primarily to existing Section 236 properties that were experiencing financial problems.

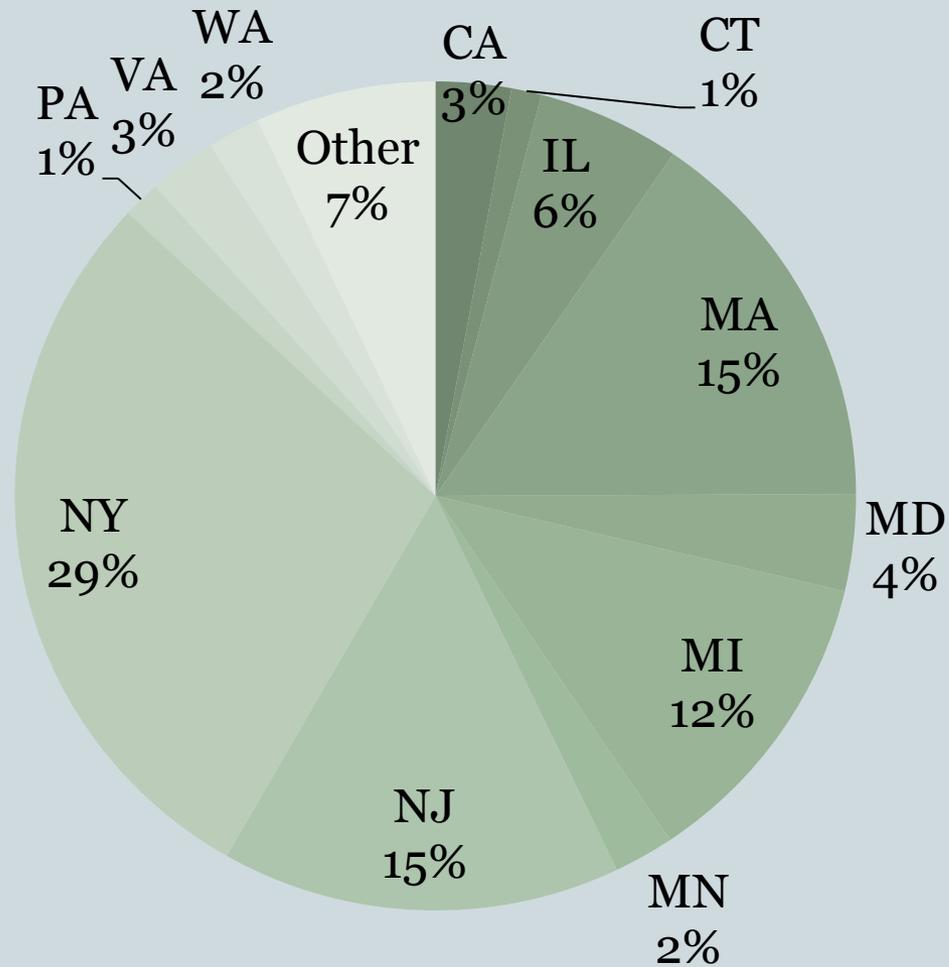
Section 8 Moderate Rehabilitation



During the 1980's, thousands of units were developed under the Section 8 Moderate Rehabilitation program.

Geography of Rent Supp & RAP Properties

20



Highly concentrated in a few states

Refresher

Rent Supplement and RAP Extensions

21

- HUD does not have authority to renew Rent Supp and RAP contracts when they expire.
- Under recent appropriations acts, HUD may authorize short-term extensions of expiring Rent Supplements and RAP contracts for terms up to 12 months.
- For FY13, HUD has extremely limited funding to support contract extensions. Therefore, in FY13 HUD will only consider contract extensions for projects that have contract expiration dates in FY13 and are planning to participate in RAD.

Refresher

How RAD works for Rent Supp and RAP

22

- Tenant Protection Vouchers (TPVs) are typically provided to residents when a Rent Supp or RAP contract expires or terminates due to mortgage prepayment.
- Under RAD, these TPVs are converted to project based assistance in the form of a Project Based Voucher (PBV) contract between the owner and a Public Housing Authority.
- Tenant consultation required and tenants have mobility options.
- 15-year PBV contract may be used to secure financing to make project repairs.

Refresher

Project-Based Voucher (PBV) Basics

23

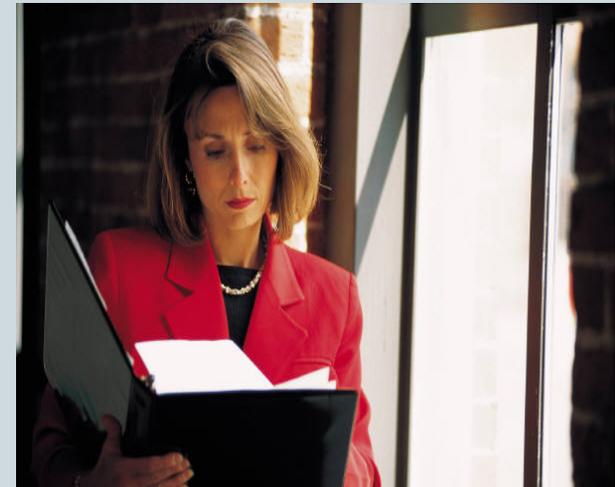
- Rent to owner (i.e., Contract Rent) limited to the lower of:
 - The “Reasonable Rent” (comparable market rent) or
 - 110% of FMR, or any excepted payment standard approved by HUD.
- Long-term contract supports financing against income stream.
- Resident Mobility: If residents of a PBV-assisted unit move after one year, they are eligible to receive a tenant-based Section 8 voucher from turnover from the PHA’s voucher program

Refresher

Project-Based Voucher Rules (Without RAD)

24

- No more than 20% of a PHA's voucher funding can be used for PBVs.
- No more than 25% of the units in a project can have PBV assistance, except for 1-4 unit projects, elderly or disabled family occupancy or where supportive services are provided.
- Competitive project selection required.
- Must conform to a PHA's goals of de-concentrating poverty and expanding housing and economic opportunities.



How RAD Modifies PBV to Facilitate Preservation

25

- RAD modifies standard PBV program to facilitate preservation:
 - The cap on units per project is increased from 25% to 50%, with exceptions up to 100% for elderly or disabled housing or where residents receive services.
 - Competitive project selection by PHA is not required.
 - Exempt from 20% PHA program cap
 - Conformance to poverty de-concentration and expanding housing and economic opportunities not required.

Additional PBV Issues

26

- Additional PBV Issues to note:
 - Units must meet HQS inspection by the PHA before HAP contract is signed. If units do not meet HQS, an Agreement to enter into a HAP (“AHAP”) is required.
 - PBV subsidy won’t flow until units meet HQS inspection. This may impact Substantial Rehab projects. PBV rents must conform to rent reasonableness, but are not constrained by LIHTC caps.
 - TPV and PBV differences – TPVs allow tenants to move right away; under PBV the subsidy is project based.

PBV Income-Mixing Requirements

27

- **Income mixing:** Under RAD, no more than 50% of the units in a property may receive PBV assistance – but the below exceptions apply:
 - 50% cap does not apply to senior/disabled properties.
 - In family properties, owner can exceed the 50% cap for “families receiving supportive services.”

Continued on next slide.

PBV Income-Mixing Requirements (continued)

- **Income mixing exceptions** continued:
 - The PBV Regulation does not specify the nature of “services,” but “excepted units” must be described in the HUD-approved PHA Administrative Plan.
 - Services may be provided by owner, PHA or 3rd Party
 - Existing tenants grandfathered (not required to receive services)

FHA Underwriting of RAD Properties

29

- **Notice 2012-20** provides guidance for FHA loan underwriting on RAD projects
 - Expedited processing
 - RAD properties eligible for special treatment as “affordable housing” under FHA’s Multifamily Risk Mitigation policies.
 - RAD-specific appraisal instructions

Continued on next slide.

FHA Underwriting of RAD Properties (continued)

30

- **Notice 2012-20** continued:
 - Developer fee: per LIHTC allocating agency, if applicable, up to 15%; 10% for non-LIHTC transactions. Acquisition, reserves and fee excluded from base.
 - If using LIHTC, eligible for the §223(f) Pilot Program, including increased rehab limit of \$40,000 per unit.

Topic 4.3: Application Process

31



Application Process – 2nd Component

32

- Application requirements and processes differ for Prospective vs. Retroactive conversion of Rent Supp and RAP.
 - Prospective: tenant comment period; application to HUD; HUD selects PHA to administer contract
 - Retroactive: tenant consent; application to PHA; Final HUD approval.
- Mod Rehab process: Owner first obtains consent of the PHA that administers the PBV contract. Application then submitted to HUD.

Application Process – 2nd Component (continued)

33

- Effect of timing of the triggering event in a prospective RAD conversion (for fully and partially-assisted properties):
 - Properties with original contract expirations in FY 2012 and 2013 are processed currently, upon receipt:
 - Expiration of a rental assistance contract before October 1, 2013
 - Prepayment of underlying subsidized mortgage when rental assistance contract expires before October 1, 2013

Continued on next slide

Application Process – 2nd Component (continued)

34

- *Effect of timing...(continued)*
 - Post- FY 2013 triggering events: Deferred Eligibility (Letter of Interest and Queue, Deadline has passed):
 - Expiration of a rental assistance contract on or after October 1, 2013
 - Prepayment of underlying subsidized mortgage when rental assistance contract expires on or after October 1, 2013
 - Owner submitted a Letter of Interest and HUD pulled projects from the queue based on the date of contract expiration (earlier expirations first).

Topic 4.4: RAD Case Study

35



RAD Case Study Resources

36

- The Participant Guide contains two charts:
 - Application process flowchart
 - Eligibility Requirements
- These tools can be used for the following Case Study

Relevant Documents (continued)

- **Notice PIH 2001-41**, Section 8 Tenant-Based Assistance (Enhanced and Regular Housing Choice Vouchers) For Housing Conversion Actions – Policy and Processing Guidance
- **Notice H 2012-20**, Underwriting Instructions for Projects Converting Assistance as part of RAD
- **Notice H 2012-03**, Guidance on Eligibility for Tenant Protection Vouchers Following Certain Housing Conversion Actions

RAD CASE STUDY: Regal Arms Downtown

38

- Locate RAD Case Study about **Regal Arms Downtown**
- Take 10 minutes to review the Case Description and additional documents for CS-RAD and discuss with your group

RAD CASE STUDY: Regal Arms Downtown

39

PROJECT OVERVIEW

- HUD-assisted Section 236 family housing property built in 1975
- Urban location in Northeast
- Financed with state HFA debt
- Neither HUD nor HFA consent is required to prepay
- 120 units
- 7.7% first mortgage interest rate; additional HFA secondary debt; all debt is pre-payable and matures in 2020; combined unpaid balance owed is \$1.8 million

RAD CASE STUDY: Regal Arms Downtown

40

PROJECT OVERVIEW (continued)

- RAP contract for 100% of the units; Contract expires in August 2013.
- No Flexible Subsidy loan or other subordinate debt.
- Sponsored by a non-profit.
- Sponsor is effectively the sole decision-maker.
- Property is well-maintained, but has total capital needs: \$52,000/unit.
- Current §236 rents are \$200 - \$400 below RCS comparable market rents. PBV rents are between current rents and RCS.

RAD CASE STUDY: Regal Arms Downtown

41

Owner Goals:

- Owner wants to refinance primarily for the purpose of addressing the capital improvements needed, renew rental assistance, extend affordability for all residents, and monetize cash equity, taking advantage of lower interest rates.
- Because of robust state financing options and prior history with state HFA, sponsor believes that tax-exempt bond financing with 4% LIHTC through one of the state's financing agencies is a good fit.

RAD CASE STUDY

Activity Directions

42

1. Your team will be assigned a number of 1 through 4, corresponding to one of the scenarios.
2. As a team, discuss and prepare your conclusions on how the assigned scenario changes the case, including:
 - Necessary decisions or tradeoffs
 - Timing issues for triggering events
 - Tenant process
 - Assembly of financing
3. As time permits, also discuss the alternative scenarios among your team

Scenario 1

43

Prospective Conversion of 100% Rent Supp or RAP where contract expires in FY 2013

- 100% of assisted units to be converted to PBVs, using resident services exception to 50% RAD cap

What were some of the concerns or considerations you identified as a team for this scenario?

Scenario 1 - Expanded

44

- Effect on process and financing of choosing to use supportive services to qualify for project-basing over 50% of the units.
- Pros:
 - Services will benefit residents.
 - PBV rents will be underwritten by debt and equity providers.
 - Resident comment, but not consent required.

Scenario 1 – Expanded (continued)

- Cons:
 - Minimum requirement for services must be negotiated with PHA and outcome may not be predictable.
 - “Excepted units” to be described in the HUD-approved Administrative Plan. (Notice PIH 2011-54)
 - PHA must monitor compliance, and may require either that non-complying families be evicted or that the unit be removed from the PBV HAP contract (except for residents at the time of conversion).
 - Need to identify durable source of funding for services to avoid disqualification of exemption.

Scenario 2

46

Prospective Conversion of 100% Rent Supp or RAP where contract expires in FY 2013

- 50% of assisted units to be converted to PBVs; resident services not provided.
 - Others will get TPVs
- What were some of the concerns or considerations you identified as a team for this scenario?

Scenario 2 - Expanded

47

- Effect of portable TPVs for 50% of units on process and financing.
- Pros:
 - Complexity, long term compliance risk and cost of services are not required.
 - Some residents can receive immediate mobility.
 - Initial gross rent potential is higher, due to EV rents.

Scenario 2 - Expanded

48

- **Cons:**
 - Resident services not provided.
 - Net Operating Income (NOI) and Debt Service Coverage (DSC) will decline for 5-10 years, as EV households move out and new tenant contract rents drop to PBV standard.
 - Lender must be willing to underwrite to declining NOI and DSC, reducing attainable debt.
 - Gap will be increased, increasing deferred developer fee or seller financing.
 - When some assistance will not convert to PBVs, owner must receive consent of all households converting to PBVs.

Comparing Scenarios 1 & 2

49

Let's look at the difference between:

- 100% assisted units conversion to PBVs with resident services
- 50% assisted units conversion to PBVs without resident services

Comparison Chart

50

SOURCES	50% PBV	Per Unit	100% PBV	Per Unit
First Mortgage	12,097,859	100,815	13,010,703	108,423
Second Mortgage	162,340	1,353	0	0
Decoupling note	2,158,270	17,986	2,158,270	17,986
LIHTC Equity	7,390,000	61,583	7,420,000	61,833
Seller Financing & Deferred Fee	1,617,859	13,482	980,605	8,172
TOTAL SOURCES	23,426,328	195,219	23,569,578	196,413
USES				
Acquisition	9,000,000	75,000	9,000,000	75,000
Total Building and Site Construction	7,699,600	64,163	7,699,600	64,163
Soft Costs	1,797,728	14,981	1,842,978	15,358
Development Overhead	500,000	4,167	500,000	4,167
Developer Fee	1,600,000	13,333	1,600,000	13,333
Operating Reserve	1,697,000	14,142	1,751,000	14,592
Section 8 "Overhang" Reserve				
Financing Fees	1,132,000	9,433	1,176,000	9,800
TOTAL USES	23,426,328	195,219	23,569,578	196,413

Scenario 3

51

Instead of prospective conversion of 100% Rent Supp or RAP where contract expires in FY 2013, assume that originally there was only 50% RAP or Rent Supp.

- Owner is pre-paying mortgage prior to contract expiration
- What were some of the concerns or considerations you identified as a team for this scenario?

Scenario 3 - Expanded

52

- Prepayment Enhanced Vouchers (EV) :
 - Property must have a subsidized mortgage under §236 or §221(d)(3) BMIR, and be pre-payable as of right.
- Project-basing of prepayment EVs is allowed for previously unassisted units, in addition to converted Rent Supp and RAP units. As per contrast between Scenario 1 and 2, this will allow more debt leverage.

Scenario 3 – Expanded (continued)

53

- For FHA-insured Rent Supp properties, prepayment in “eligible low income housing” does not create EVs for non-Rent Supp units, since the prepayment is not as-of-right.
- But it does for RAP, and for HFA-financed Rent Supp or RAP.

Scenario 4

54

- **Retroactive Conversion:**
 - What if the Rent Supp Contract didn't expire until 2016?
 - Would you advise the owner to submit a letter of interest to enter the queue for prepayment, or to prepay now and do a retroactive conversion later in 2013?
- What were some of the concerns or considerations you identified as a team for this scenario?

Scenario 4 – Expanded (continued)

55

- Post-FY 2013 contract expiration (continued):
 - Pros and cons of Letter of Interest and “queue” vs. triggering prepayment TPVs and applying for Retroactive Conversion
 - Queue:
 - ★ Requires tenant comment, but not consent
 - ★ More PHA options than in retroactive case
 - ★ Prepayment needs to be completed by 9/30/13
 - Retroactive:
 - ★ Control over timing
 - ★ Loss of predictable rental income for underwriting
 - ★ Tenant Consent required for every unit

RAD Knowledge Check

56

- Please complete the Knowledge Check and turn it in.
- Please work alone.

Rental Assistance Demonstration (RAD)

57

CONCLUSION

WHAT QUESTIONS DO YOU HAVE?

Lesson 5: Day's End

58



Arthur Capper Senior Housing Washington, D.C.

Wrap-Up

59

- Today we covered:
 - Rental Assistance Tools to Preserve Section 8 Projects
 - RAD
- Tomorrow we'll look at Refinancing Section 202 and 236 properties with 223(f) loans

Wrap-Up – The Paperwork

60

- If you are not returning for Day 2, please complete and turn in:
 - Letter of Commitment
 - Course Evaluation

U.S. Department of Housing and Urban Development

1

“PARTNERS IN HOUSING” ADVANCED PRESERVATION TRAINING



Welcome to Day 2

2

- Welcome back!
- Today we will focus on Preserving Section 202 Direct Loans and Section 236 properties with FHA financing.
- You'll be working in teams to review and evaluate two case studies.

Pre-Assessment

3

- Please turn in the completed Day 2 Pre-Assessment.

Lesson 6: Preserving Section 202 and 236 Properties with FHA 223(f) Financing

4



Arthur Capper Senior Housing Washington, D.C.

Lesson 6: Objectives

5

Using available resources, you will:

- Estimate the number of Section 202 and Section 236 properties that are nearing maturity
- Refresh your knowledge about 202 and 236 loans and FHA refinancing tools
- Locate the appropriate documents needed to complete class case studies

Inventory of Section 202 Properties

6

1. How many active Section 202 direct loans does HUD oversee?

Approximately 2,660

2. How many loans will reach maturity in the next 5 years?

More than 80 loans

Inventory of Section 236 Properties

7

1. How many active Section 236 properties does HUD oversee?

Approximately 1,150

2. How many loans will reach maturity in the next 10 years?

All of them

Refresher:

Key Aspects of 202 Loan Refinancing

8

- Prepayment Permission → 20-Year extension of Use Agreement required
- New rules regarding developer fee and equity take-outs for non-profit owners in a refinancing
- New rules regarding owner equity take-out in a sale of a 202 property
- Possibility of SPRAC when a pre-1975 202 is pre-paid

Refresher:

Key Aspects of a 236 Loan Refinancing

9

- Decoupling of the IRP from the 236 → requires 5-Year extension of Use Agreement.
- Prepayment notice to tenants is required.
- Enhanced Tenant Protection Vouchers **may** be available.

Refresher:

FHA Refinancing Tools

10

- **FHA 223(f) Loan –**
 - HUD Insured loan: MAP approved lender loans the owner funds, HUD insures the loan against default.
 - Known as “repair” loan; limits amount of repair work to no more than \$6,500 x HUD High Cost Factor, no more than one “major system” replacement.
 - Shorter timeline than 221(d)4, lower up front fees.
 - 35 year amortization, 3% to 4% interest rate, minimal to no cash equity required.

Refresher:

FHA Refinancing Tools

11

- FHA 221(d)4 Loan –
 - HUD Insured loan: MAP approved lender loans the owner funds, HUD insures the loan against default
 - Known as “substantial rehabilitation” loan; renovation cost to exceed \$6,500 x HUD High Cost Factor; replacement of two or more “major systems”
 - Longer timeline than 223(f), higher up front fees
 - 40 year amortization, 3.0% to 5.5% interest rate

Rental Assistance and RAD

12

- Ways that Section 8 and RAD assist Section 202 and Section 236 property owners:
 - Rental Assistance: May request 20-year renewal with Mark-Up-To-Market or Mark-Up-To-Budget rent increase.
 - RAD: If the project has a Rent Supp or RAP contract that is expiring, may convert to a 15-year Project Based Voucher contract.
 - Both approaches result in long term rental assistance contracts that bring stable flow of subsidy to the project, and possible rent increases.

Case Study Approach

13

- For each case study, a description is provided that lists the property characteristics and identifies the owner's goal.
- The ***Reference Guide*** at each table is to be shared by your table mates and contains critical documents used to complete the case study.
- The documents for Case Study A are tabbed by the exercise to which they pertain.

Case Study Approach *(continued)*

14

- Each case study consists of mini-lessons, discussions, and activities that will help you:
 - Evaluate the HAP contract and how an owner might maximize their income through a 20-year renewal
 - Determine gross potential income, operating expenses, and Net Operating Income
 - Determine the potential size of a new loan
 - Calculate the budget for repairs and rehabilitation
 - Assess if a refinancing strategy meets the goals for the property

Relevant HUD Notices

15

For HUD 202 Loans

- **Notice H 2013-17** (*THIS NOTICE IS IN YOUR REFERENCE GUIDE*)
- **Notice H 2010-26** – *guidance for subordinating a 202 loan*
- **Notice H 2004-21** – *refinancing rules for 202; some aspects superseded by Notice 2012-08*

Relevant HUD Notices (continued)

16

For HUD 236 Loans

- **Notice H 2011-31** – *guidance for non-profit owners who wish to sell*
- **Notice H 2006-11** – *requirements for obtaining prepayment permission*
- **Notice H 2000-08** – *IRP Decoupling Requirements*
- **Notice PIH 2001-41 and Notice H 2012-03** – *Tenant Protection Vouchers (at prepayment)*

Relevant HUD Notices (continued)

17

For Flexible Subsidy Loans

- **Notice H 2011-05** (extended by Notice 2013-13) – *establishes the process by which an owner can request a Flexible Subsidy Loan deferral*

For 202's and 236's, and FHA Refinancing of any type of property

- **Notice H 2011-13** – *HUD High Cost Factors (2011)*
(THIS NOTICE IS IN YOUR REFERENCE GUIDE)
- **Notice H 2011-03** – *Conversion of Efficiency Units to Reduce Vacancies*

Lesson 7: Case Study A

Section 202 Property Refinanced with a 223(f) Loan

18



Case Study A Goal

19

Overall goals for Case Study A:

- Identify preservation opportunities and challenges for Section 202 projects refinancing with a 223(f) loan
- Practice:
 - Determining underwritten income and expenses
 - Sizing a new loan
 - Building a budget
 - Confirming refinancing method as best choice

Case Study A Outline

20

1. Overview
2. Maximizing the HAP Contract
3. Operating Expenses
4. Sizing the FHA 223(f) Loan
5. Building the Development Budget

CASE STUDY A: Stage 1 Overview

21



Lesson 7.1: Objectives

22

Using available resources, you will:

- Discuss the basic details of Case Study A
- Review HUD 202 Direct Loan history and details
- Identify the issues and incentives associated with refinancing a Section 202 property
- Determine if prepayment is required and should be pursued for this case

Refresher:

Section 202 Direct Loan Program Overview

23

- The 202 Direct Loan program ran from 1959-1990.
- Projects financed from 1959 to 1974 had below market interest rates (6% or less), little or no rental subsidy, and rented to low and moderate income tenants.

Refresher:

Section 202 Direct Loan Program Overview (continued)

24

- Projects financed from 1975 to 1990 had market interest rates (some very high – above 10%), most had Section 8 assistance on some or all units, and rented to low and very low income tenants.
- Owners were single purpose non-profit entities – many are not experienced in the process of refinancing a property.

Refresher:

Section 202 Prepayment Authority

25

- HUD Notice H 2013-17 published June 4, 2013 implements the ***Supportive Housing for the Elderly Act*** of 2010.
- Notice H 2013-17 provides guidance on all 202 prepayments (supersedes notices H 2012-08, 2002-16 and H 2010-14).
- Notice H 2004-21 still is relevant in that it provides guidelines for underwriting FHA loans to refinance section 202 properties.
- A small subset of Section 202 projects approved from 1977 to 1982 do not require HUD permission to prepay.

Refresher:

Section 202 Prepayment Authority (continued)

26

- For projects financed between 1975 and 1991:*
 - HUD permission to prepay is required.
 - Owners may prepay and refinance if the refinance involves a lower interest loan and the owner can demonstrate debt service savings for the project.
 - Notice H 2013-17 provides guidance on these prepayments.
 - Some projects financed between 1977 and 1982 have mortgage notes indicating HUD permission to prepay is not required. Owners of these properties may also opt to prepay under the Notice to receive an incentive of retaining above-market Section 8 rents.

** Note: We will cover pre-1975 properties on Day 3*

Refresher:

Considerations for Refinancing a HUD 202 Loan

27

- If HUD approval for the prepayment is required, HUD may approve the prepayment but the owner must execute a Use Agreement to ensure the continued operation as a Section 202 property at same level of affordability for at least **20 years beyond the original mortgage maturity date.**

*** This is a change from the prior law which just required a Use Agreement through the original maturity date of the 202 loan.*

- Owners must comply with tenant notification and tenant comment requirements.

Refresher:

Incentives for Refinancing a HUD 202 Loan

28

- An owner may use the proceeds from a new loan for the benefit of existing project residents, to convert units to reduce vacancies, to pay a developer fee, and/or for the benefit of elderly residents of other HUD-assisted senior housing in the same geographical region (i.e. MSA).
- Residual Receipts (above \$500 per unit) can be used for supportive services for seniors. Please see *Section V.M. of Housing Notice 2013-17*.

Refresher:

Incentives for Refinancing a HUD 202 Loan

29

- Notice H 2013-17 authorizes owners to receive a rent increase under any option which they are eligible to use (MU2M or MU2B)
- Under the Notice H 2013-17, in the event of a sale of a 202 project (as opposed to a refinance) the owner may realize the full amount of the net sales proceeds.

CASE STUDY A: **Atlanta Senior Towers**

30

- Locate Case Study A about **Atlanta Senior Towers**.
- Take 5 minutes to read the Case Summary and Owner's Goal and discuss with your group.

CASE STUDY 2.1: Atlanta Senior Towers

31

PROJECT OVERVIEW

- Urban location: Atlanta, GA
- Post '74 HUD 202 Direct Loan elderly project ('78), loan matures 2018; current interest rate is 6.875%; current debt service is \$310,000/year
- 100 units, all 1-BR units
- High-rise construction
- No Flexible Subsidy loan
- Non-profit owner
- The owner is self-managing and does not receive a management fee
- HAP contract for 100% of the units
- Moderate level of capital needs required
- Owner wants to refinance primarily for the purpose of addressing the capital improvements needed, and to take advantage of lower interest rates.

In-Class Discussion Questions

Prepayment

32

1. Is prepayment permission required for the **Atlanta Senior Towers**?
 - No

In-Class Discussion Questions

Prepayment

33

2. How do you know?

- As noted in earlier slide, this is a 1978 property, which is within the time period when prepayment permission is not required. You would still want to review the Mortgage Note and the Regulatory Agreement to confirm.

Note: This is not the most typical universe of 202 Projects. MOST require HUD prepayment permission.

In-class Discussion Questions

Prepayment

34

3. Should the owner proceed under the Notice, even though prepayment permission is not required?
 - Maybe
4. Why or why not?
 - If the owner volunteers to go under the Notice, the project will be deemed a 202 project, and it will therefore continue to be exempt from “Mark to Market” restructuring. Also, some owners, lenders and equity investors believe that in a future resource crunch, the project would be more protected if it were covered by the continued Use Agreement that makes them deemed to be elderly housing.

In-class Discussion Questions

Prepayment

35

5. Is it necessary to renew the Section 8 HAP contract?
- Yes. In order for HUD to consent to prepayment (or for an owner to process voluntarily under the Notice), a 20-year Use Agreement is required.
 - In order to comply with the Use Agreement, a 20-year HAP is required, as a practical matter.
 - A 20-year renewal under HUD's new policy addresses this need, and creates the opportunity for a MU2B renewal.
 - The new debt service enabled by MU2B must comply with the statute to achieve savings.

CASE STUDY A: Stage 2

Maximizing the HAP Contract

36



Lesson 7.2: Objectives

37

- Determine the important characteristics of the Housing Assistance Payments (HAP) contract for Case Study A
- Examine a Rent Comp Study to determine maximum rent potential and appropriate renewal options
- Calculate and compare current Gross Potential Income (GPI) and GPI at market rents
- Identify how the property might increase income through a HAP renewal and the critical issues to consider in a renewal

HAP Contract – Section 1

38

TYPE OF RENEWAL

- Check this box for a project renewed under Section 524(a) of MAHRA (not including a Mark-Up-To-Market renewal).
- Check this box for a project renewed at exception rents under Section 524(b)(1) of MAHRA.

The HAP contract indicates that rents are renewed at “exception rents” = Option 4

HAP Contract – Section 2

2 TERM AND FUNDING OF RENEWAL CONTRACT

- a The Renewal Contract begins on 12/08/2010⁶ and shall run for a period of 20⁷ years.
- b Execution of the Renewal Contract by the Contract Administrator is an obligation by HUD of \$ [REDACTED]⁸ an amount sufficient to provide housing assistance payments for approximately 12⁹ months of the first annual increment of the Renewal Contract term.

The HAP contract indicates a 20 year contract

HAP Contract Rents

40

Current 1 bedroom rents are \$694.

Rent Comparability Study

41

Estimated Market Rent

Unit Type	No. of Units	Size (Sq. Ft.)	Rent	Monthly Rent (\$) /Sq. Ft.
1 BR	100	494	\$ 790.00	\$ 1.60

Case Study A

Activity Directions

42

Work together as a team to:

- Complete **Exercise 1 and Discussion Questions**
- Review information presented in Case Study and on slides
- Determine answers to all Stage 2 discussion questions (following Exercise 1)
- Be prepared to share your conclusions with the class

Discussion Question

HAP Contract

43

1. What are the important characteristics of the HAP contract for our case study?
 - **Section 1** – Renewal Type: “Exception” project, renews under Option 4.
 - **Section 2** – Term: 20 years; remaining balance of contract (18 years) must be added to the new 20-year contract (assuming owner is going to terminate and do a new 20-year contract)

Discussion Questions

HAP Contract

44

2. What is the maximum rent potential using current rents?

Current Rents: \$694/month

Current monthly GPI: \$69,400/month

Current annual GPI: \$832,800/year

Questions

HAP Contract

45

3. What does the new Rent Comparability Study indicate?
 - Market comparable rents is \$790/month for the same type of unit, this rent is significantly higher than current rents.

4. What would be the Gross Potential Income using the RCS rent?
 - Increased Rents: \$790/month
 - Increased monthly GPI: \$79,000/month
 - Current annual GPI: \$948,000/year

Questions

HAP Contract

46

5. How would the owner maximize income through a HAP Renewal?
 - Since rents are currently below market, they would MU2B using adequate operating expenses, replacement reserves and new debt service to the extent justified by the project needs and permitted by the market rent cap.

Questions

HAP Contract

47

6. What are critical issues to consider when proceeding with the renewal? What renewal option should the owner use?
 - Currently the owner is under Option 4. If they want to Mark up to Budget, they would be moving to Option 2 (through Chapter 15).
 - Under new Renewal Guide requirements, the Option 4 contract would need to be renewed using the “lesser of” test and new, lower debt service. Rents over 20 year contract would be constrained by market.

CASE STUDY A: Stage 3 Operating Expenses

48



Lesson 7.3: Objectives

49

Using available resources, you will:

- Interpret the documents needed to determine operating expenses (O/E)
- Calculate the current operating expenses (O/E) and identify areas for adjustments for underwriting

Case Study A

Class Discussion Questions

50

As a class, answer the questions on the following slides.

Discussion Questions

Operating Expenses

51

1. What document do you need to determine current and probable O/E for this case?
 - Most recent audited financials

Discussion Questions

Operating Expenses

52

2. What needs to be removed from the O/E for the purpose of sizing the loan?
 - Remove:
 - Depreciation
 - Interest paid on mortgage
 - Principal paid on mortgage
 - Reserve for Replacement contribution
 - Assumed annual savings on utilities after improvements

Discussion Questions

Operating Expenses

53

3. What adjustments might need to be made to the assumed O/E for the purpose of sizing the loan?
 - Add:
 - Management fee
 - Reserve for Replacement = \$500/unit per the PCNA

Audit – Operating Expenses

54

Project Revenues

Rent-Net of Vacancies	\$ [REDACTED]
HUD Rent Subsidy	[REDACTED]
Financial	[REDACTED]
Other	7,662
	<hr/>
	[REDACTED]
	<hr/>

Project Expenses

Administrative	133,063
Utilities	177,322
Operating and Maintenance	254,075
Depreciation	162,753
Taxes and Insurance	70,613
Interest	256,920

Operating Expenses – Adjustments

2011 Audited "Project Expenses"		<i>Page 5 of 2011 Audit</i>
LESS: Depreciation		
LESS: Interest (on 1st Mortgage)		
LESS: Assumed savings in Utilities	\$(25,000)	<i>Est. from engineer</i>
PLUS: Reserve for Replacement (annual)		<i>PCNA</i>
PLUS: Assumed NEW Management Fee	\$46,850	<i>5% of Effective Gross Income (EGI)</i>
Operating Expenses ("O/E") (for Underwriting)		<i>sum of above</i>

Case Study A

Activity Directions

56

Work together as a team to:

- Complete **Exercise 2 and following question** (on next page)
- Review prior slides
- Determine answers to all discussion questions for stage 3
- Be prepared to share your conclusions with the class

Exercise #2

Operating Expenses

57

4. What are the Operating Expenses that should be used for the case study for the purpose of underwriting?
 - **TOTAL O/E for Underwriting: \$706,923**

CASE STUDY A: Stage 4

Sizing the FHA 223(f) Loan

58



Lesson 7.4: Objectives

59

Using available resources, you will:

- Calculate the net operating income (NOI)
- Describe FHA 223(f) Loan details
- Determine the potential size of the new FHA 223(f) loan

Class Discussion Questions

Sizing the New Loan – Net Operating Income

60

1. What do we add to rental income to determine the income we use for underwriting?
 - Commercial Income (beauty salons, etc.)
 - “Other Income” (application fees, late fees, vending, laundry income)

Case Study A

Activity Directions

61

Work together as a team to:

- Complete **Exercise 3**
- Be prepared to share your conclusions with the class

Exercise #3

Sizing the New Loan – Net Operating Income

62

- What is the GPI (total) that we use?
 - \$991,600
- What vacancy rate for the residential and ‘other’ income do we use to size the loan?
 - 5%

Exercise #3

Sizing the New Loan – Net Operating Income

63

- What vacancy rate do we use for commercial income?
 - 20%
- What is the “Effective Gross Income” (EGI)?
 - \$937,000
- What is the Net Operating Income (NOI) for underwriting?
 - \$230,077

Sizing a 223(f) Loan

64

- **Must be the lesser of (for 202 Projects):**
 - 90% Loan to Value (using calculated value)
 - 1.11 Debt Coverage Ratio
- **Loan terms (assumed):**
 - 3.1431% Interest Rate (*this **does not** include Mortgage Insurance Premium (MIP) of .60%*)
 - 35-Year Loan Term and Amortization Period

Sizing a 223(f) Loan (continued)

65

- **Sizing the Loan:** A key concept is:
 - One constraint is the Loan-to-Value Ratio
 - To estimate Fair Market Value, we must assume a **Capitalization Rate** (Cap Rate)
 - We will assume a Cap Rate of 6.5% for the purpose of establishing “value.” (Final underwriting will require an appraisal to confirm this cap rate.)

Case Study A

Activity Directions

66

Work together as a team to:

- Complete Exercise #4 (no reference documents are needed here)
- Be prepared to share your conclusions with the class

Exercise

Sizing the New Loan

67

- What is the maximum (estimated) FHA 223(f) loan size?
 - \$3,185,682

CASE STUDY A: Stage 5

Building the Development Budget

68



Lesson 2.2.6: Objectives

69

Using available resources, you will:

- Build a Development Budget for a refinancing project
- Determine how much money will be available for construction
- Determine if the budget for construction will adequately address the Capital Needs of the property

Building a Development Budget

70

- Loan Pay-off amount
- Title and recording
- Third-party costs
- Initial R4R funding
- Developer Fee
- Legal – Borrower's Counsel, Lender Counsel
- Lender's Financing Fees
- HUD's Financing and Inspection Fees

→ WHAT IS LEFT OVER =
Construction/Repairs

Case Study A

Activity Directions

71

Work together as a team to:

- Complete Exercises #5 and #6
- Answer the Discussion Questions (following the exercises)

Exercise #5

Building the Development Budget

72

- What is the “repair” budget determined to be?
 - \$ 1,328,150

NOTE: 20% of the repair budget is set aside as “completion assurance escrow”.

- What is the breakdown between the “base” repair amount and the completion assurance escrow amount?
 - Base Amount: \$1,106,792
 - Completion Assurance Escrow: \$221,358

Exercise #5

Building the Development Budget

73

- Based on the FHA 223(f) limits, what is the maximum amount that can be spent on repairs (per unit, total)?
 - \$15,535/unit
 - \$1,553,500 (maximum total for project)

Exercise #5

Building the Development Budget (continued)

74

1. Does the estimated amount of repairs ‘fit’ within the FHA 223(f) guidelines?
 - Yes. Maximum repair budget for this deal is \$1.5MM; our budget is just over \$1.3MM, so it is less than the maximum.

2. What are considered “Critical Repairs,” and when must they be completed?
 - Repairs that address health and life safety concerns. Must be completed PRIOR to loan closing

Discussion Questions

Building the Development Budget (continued)

75

3. How much is estimated for “Critical Repairs”?
 - \$6,760

4. What are considered “Non-critical Repairs,” and when must they be completed?
 - Non-critical repairs are those that the PCNA determines will need to be completed over the next 12 months, PLUS the owner wish-list. Non-critical repairs are to be completed with loan proceeds within 12 months of the loan closing

Questions

Building the Development Budget (continued)

76

5. How much is estimated for “Non-critical Repairs”?
 - \$1,035,965.70

6. Can the total of “Critical” and “Non-critical” Repairs be completed with the budget derived for **Atlanta Senior Towers**?
 - YES!

7. Would the Developer Fee be paid at closing or be deferred?
 - At closing. We have enough sources to cover the uses.

Questions

Building the Development Budget (continued)

77

8. What would you do if you couldn't accommodate all of the repairs? What would be some options?
 - o You can a.) Reduce the owner wish list to try and fit into the construction budget allotted by this financing better, or b.) You can look into the 221d4 program, which we know is for a higher level of repair.
9. Does the proposed refinancing satisfy the statutory requirement that debt service be reduced by the transaction?
 - o **YES!**

Questions

Building the Development Budget (continued)

78

10. Note that that actual new debt service is less than what could be supported by the NOI at RCS rent levels. This will result in cash flow higher than needed to provide the FHA required debt service coverage of 1.11.

What are some strategies for making the loan application consistent with the Mark-Up-To-Budget process?

Refer to yesterday's Section 8 renewal discussion.

Questions

Building the Development Budget (continued)

79

11. Does this refinancing strategy fulfill the owner's goals?

YES!

Questions

Building the Development Budget (continued)

80

12. What are the next steps for a refinancing?
- MU2B 20-year Section 8 Renewal application that includes new debt service and debt service coverage.
 - Engagement of lender (and consultant, if needed).
 - HUD Concept meeting to discuss the project.
 - Lender updates the PCNA and gets an appraisal, and puts the application together.
 - Pre-payment permission application once you know the framework of the new deal.
 - Make sure you have enough funds for the upfront fees
 - Submit application, close on new funds (pay off old 202) and do the repairs!

202-1 Knowledge Check

81

- Please complete the Knowledge Check and turn it in.
- Please work alone.

Preserving Section 202 Properties with FHA 223(f) Financing

82

CONCLUSION

WHAT QUESTIONS DO YOU HAVE?

Lesson 8: CASE STUDY B

Section 236 with 223(f) Refinancing

1



Case Study B Goals

2

Overall goals for this section:

- Identify opportunities and challenges for preserving Section 236 projects
- Discuss how to structure transactions involving basic 236 preservation tools:
 - IRP decoupling
 - 223(f) financing
 - Section 8 Mark-Up-To-Market/-Budget
 - Enhanced Vouchers

Case Study B Outline

3

Case Study B will include these stages:

1. Section 236 Preservation Opportunities
2. Income and Expenses in a Decoupling
3. Financing – 223(f)
4. Section 8
5. Enhanced Vouchers
6. What If...

CASE STUDY B: Stage 1

Section 236 Preservation Opportunities

4



Lesson 8.1: Objectives

5

Using available resources, you will:

- Discuss the basic details of Case Study B
- Review information on the 236 Loan program and 236 Decoupling
- Identify opportunities and challenges for preserving Section 236 projects and the appropriate preservation tools and programs

Refresher

Section 236 Overview

6

- Under Section 236, HUD provides a monthly Interest Reduction Payment (IRP) subsidy to reduce the effective interest rate paid by the project to 1%
- IRP is a contractual obligation funded for 40 years
- The “**Basic**” rental charge determined for each unit is that which is deemed sufficient to meet operating expenses plus debt service expenses at the 1% interest rate
- The “**Market**” rental charge determined for each unit is that which is deemed sufficient to meet operating expenses plus the IRP

Refresher

Section 236 Overview

7

- **Loans:**
 - Either HUD-insured or state agency-financed
 - Mostly 40-year terms, maturing now or in the near future (state agency loans typically have later maturities)

Refresher

Section 236 Overview

8

- Rental subsidy:
 - Many projects are partially assisted with:
 - Section 8
 - Rent Supplement
 - Rental Assistance Payments
- Tenant rents:
 - Basic Rent or 30% of income, whichever is **higher**
 - Never more than the Market Rent

Refresher

Section 236 Overview

9

- Tenant income is limited to 80% of median at initial occupancy
- Often over time a substantial income mix has evolved
- Historically, the Basic rent structure (including limited owner distributions) has kept rents below market, affordable even to very low income tenants without any additional rental subsidy
- This results in limited opportunities and owner incentives for recapitalization

Refresher

Section 236 Decoupling Overview

10

- Sources for HUD decoupling guidance
 - HUD Notice H 2000-8
 - DAS Memo 11/8/00
 - DAS Memo 2/21/01

(Note: HUD IRP Decoupling Notice update is pending which provides guidance on refinance of properties that had previously decoupled the IRP)

Refresher

Section 236 Decoupling Overview

11

- **Purpose:** It allows owner to retain and transfer IRP subsidy to new financing when 236 mortgage is prepaid and refinanced
- **Uses:** The IRP can be used to reduce debt service on the new loan or support additional debt
- **IRP:** Pay-out of the IRP typically follows the current amortization and maturity date

Refresher

Section 236 Decoupling Overview

12

Requirements

- Income limits and Basic rents continue for at least five years beyond mortgage maturity (Use Agreement)
- For Section 8 contracts: Include new debt service plus reasonable debt service coverage (new Notice will clarify)

(continued on next slide)

Refresher

Section 236 Decoupling Overview

13

- New Basic Rent: Can't exceed market comparable rent less the IRP subsidy
 - Section 8: Basic Rents levels are governed by applicable renewal option(s); Section 8 contract must be renewed through the Use Agreement term
 - Non-Section 8 Basic Rents: Maximum 10% increase per year (for those tenants receiving no assistance and not eligible for enhanced vouchers). In some cases can allow increase above 10%, but no equity take-out is allowed.

Refresher

Section 236 Decoupling Overview

14

- **Owner distributions:** 6% on new equity, less Developer Fee paid at closing (or shortly thereafter) allowed for for-profit owners, to the extent surplus cash is available. Debt service coverage is allowed
- **Eligible lenders:** Transaction may include FHA-insured or conventional financing
- **IRP contract/ budget-based rent administration:**
 - This must be done by a state or local public agency
 - If HUD insures the mortgage, HUD will administer

CASE STUDY B: **236 Mass Towers**

15

- Locate Case Study B about **236 Mass Towers**
- Take 10 minutes to review the Case Description and pro forma, and discuss with your group

CASE STUDY B: 236 Mass Towers

16

PROJECT OVERVIEW

- Urban location: Eastern MA
- Section 236 project (1976), loan matures 1/1/2016
- 100 units
- Partial Section 8 HAP (40 units); Section 8 contract renews annually (post-MAHRA)
- Owner: limited distribution mortgagor
- HUD consent is not required for prepayment

CASE STUDY B: **236 Mass Towers**

17

PROJECT OVERVIEW, continued

- IRP Balance is \$125/unit/month (\$150,000 annually)
- Current 236 Basic/Market Rents: \$800/\$925
- FMR: \$1,000 (110% FMR: \$1,100)
- Market Comparable Rent: \$1,200 (as-is and post-rehab market rents)
- Repairs are anticipated to be \$17,500/unit

CASE STUDY B: 236 Mass Towers

18

Owner Goals:

- Preservation and recapitalization
- Reasonable equity takeout and increased distributions
- Interested in 223(f) as a vehicle because...
 - low interest rates
 - less complex processing
 - low up-front cash investment

Reference Documents for CS-B

19

- Pro forma document
 - Sources and Uses
 - Income/Expenses
 - Cash Flow
- MU2M vs. MU2B chart

CASE STUDY

Work in Groups

20

Work together as a team to:

- Review any necessary documents
- Determine answers to all discussion questions for this stage
- Be prepared to share your conclusions with the class

236 Refresher Questions: Case Study B

21

1. What are some of the key features in the pro forma for this 236 property?
 - IRP as a source of funds (the “decoupling”)
 - The owner is taking out \$837,997 in equity
 - There is a rent phase-in subsidy of \$3,450

2. What are some preservation tools or programs that apply to this case study?
 - The ability to decouple the IRP adds value to the transaction and makes preservation more feasible

CASE STUDY B: Stage 2

Income and Expenses in a Decoupling

22



Lesson 8.2: Objectives

23

Using available resources, you will:

- Discuss the rent determinations in this Case Study
- Describe how a new FHA 223(f) loan will be sized
- Identify the use of the IRP in the preservation transaction

CASE STUDY

Work in Groups

24

Work together as a team to:

- Review the necessary documents to help answer the questions, including the Income/Expense pro forma
- Discuss answers to each question
- Be prepared to share your conclusions with the class

Discussion Questions

Income/Expenses

25

1. In the Section 8 units, the Section 8 rent is the Basic rent. How will the owner justify the new Section 8 rents?
 - They will be the Market rents less the monthly IRP payment.
 - The owner will need a new RCS to justify “Market rent.”

2. Why was the non-Section 8 236 basic rent set at the level shown? Could or should they be higher?
 - The non-Section 8 236 basic rent is set at market rent less the IRP subsidy of \$125 per month.
 - The 236 basic rent can not be set any higher.

Discussion Questions

Income/Expenses

26

3. How will the owner justify these underwriting items?
 - **Vacancy rate?**
 - The underwritten vacancy rate is dictated by lender/loan requirements and by market conditions
 - **New mortgage debt service?**
 - Sizing for the new loan will be driven by lender requirements
 - Debt Service (DS) will be computed using loan terms (interest rate, amortization period, etc)

Discussion Questions

Income/Expenses

27

3. How will the owner justify these underwriting items?
(*continued*)
 - **Cash flow/debt service coverage (DSC)?**
 - The minimum DSC for the 223(f) program in this case is 1.17
 - The Loan is the **lesser of** the indicated computations under Loan Sizing. In this case, the DSC formula constrains the loan size
 - As a result, the DSC will be 1.17, which is required to support the value of the property and this loan size

Discussion Questions

Income/Expenses

28

4. How is IRP used in this case?
 - A second loan supported by the IRP stream of income

5. What waivers are required for this IRP transaction?
How might they be justified?
 - Non Section 8 rent increase exceeding 10% per year. (Enhanced Vouchers will be available to mitigate impact on those eligible tenants and the owner rent phase in subsidy will mitigate this for those tenants not eligible for EVs)

CASE STUDY B: Stage 3 Financing – 223(f)

29



Lesson 8.3: Objectives

30

Using available resources, you will:

- Explain how to structure the 223(f) mortgage insurance in a decoupling
- Identify the challenges and opportunities in decoupling with 223(f) mortgage insurance

Refresher

Applicable 223(f) rules

31

Repairs:

- Maximum \$6,500/unit multiplied by the high cost area factor (\$17,550 total in this case)
- No more than one major system replacement
- Repairs must be completed within one year
- Repairs funded through the 223(f) repair escrow

Refresher

Applicable 223(f) rules (continued)

32

- **Loan limits** (lesser of):

	Market	Affordable	Section 8 (90% or higher)
Loan to Value	83.3%	85%	87%
Debt Service Ratio	1.20	1.17	1.15

- **Costs:** 100% (80% market value for refinance)
- **Escrows:** 20% completion assurance escrow
- **Developer fee:** N/A, but equity takeout permitted (within maximum loan limit)

Note: The Loan to Value is 80% with equity takeout

CASE STUDY

Work in Groups

33

Work together as a team to:

- Review the necessary documents to help answer the questions, including the pro forma
- Discuss answers to each question for this stage
- Be prepared to share your conclusions with the class

Discussion Questions

Sources & Uses

34

1. Does this loan program match the anticipated repairs needed for this project?
 - Yes
 - The owner anticipates needing repairs of about \$17,500/unit
 - The FHA 223(f) loan repair limit for this area is \$17,550/unit, which is more than the anticipated cost of repairs
 - The budget has been set at the maximum of \$17,550, but will need to be verified and supported by the PCNA

Discussion Questions

Sources & Uses

35

2. How do the soft cost line items reflect the larger rehab scope?
 - Increased A&E
 - Construction Manager
 - Temporary Relocation/Access Coordinators

Discussion Questions

Sources & Uses

36

3. Will an equity take-out be permitted?
 - Yes. See Equity takeout line: \$837,997

NOTE: Equity take-out allowed because the owner is addressing all needed repairs and the loan limit is within the maximum allowable limit.

Discussion Questions

Sources & Uses

37

4. What will be the owner's new allowable distribution/return on equity?
 - If the owner selects Mark-Up-To-Market, or Mark-Up-To-Budget, and gets a new 20-year contract, they will have access to unlimited distributions on the Section 8 units of the project

CASE STUDY

Sources & Uses

38

- Note rent phase-in escrow (for tenants with increases >10% that do not qualify for Enhanced Vouchers)
- Rent phase-in of \$3,450 is shown in development budget under Capitalized Resources
- This is *not* a special IRP funded escrow

CASE STUDY B: Stage 4

Section 8

39



Lesson 8.4: Objectives

40

Using available resources, you will:

- Describe how renewal options and choices apply in a specific transaction context

CASE STUDY

Comparison

41

- Under Chapter 15 of the Renewal Guide, the Owner could use either a Mark-Up-To-Market (MU2M) or Mark-Up-To-Budget (MU2B)
- Take a few moments and discuss at your table the MU2M or MU2B options for this property
- Consider the factors that impact eligibility, as well as the advantages and disadvantages of each option for this transaction
- Use the MU2M vs. MU2B chart from Case Study S8 for guidance

CASE STUDY

MU₂M vs. MU₂B

42

- **Eligibility:**
 - This is a for-profit owner, so the owner is eligible to renew the contract as MU₂M or, with a waiver, as MU₂B.
 - The property appears automatically eligible for MU₂M (Option 1 A) since the market rent is greater than 100% FMR but less than 150% FMR and there are no identified low/moderate income use restrictions.

CASE STUDY

MU₂M vs. MU₂B

43

- **MU₂M advantage or disadvantage:**
 - Unlimited distributions (important to this owner) – although this only applies to the S8 units, which are 40% of the total
 - This results in 40% of the surplus cash going to the owner

CASE STUDY

MU₂M vs. MU₂B

44

- **MU₂B (with a waiver) advantages or disadvantages:**
 - Post-rehab rents (but not relevant in this case, so no advantage)
 - 10% limit on non-S8 increases (but decoupling has the same rule)
 - Unlimited distributions allowed with a 20-Year contract

CASE STUDY

Work in Groups

45

Work together as a team to:

- Review any necessary documents
- Discuss answers to each question for this stage
- Be prepared to share your conclusions with the class

Discussion Questions

MU₂M vs. MU₂B

46

1. Should the owner elect Mark-Up-To-Market or Mark-Up-to-Budget in this case? Why or why not?
 - MU₂M is an easier program to use because budget preparation is not required and less supporting documentation is required (i.e., sources and uses, PCNA, etc.)

Discussion Questions

MU₂M vs. MU₂B

47

2. How would this answer be different if the post-rehab rents were anticipated to be higher? What steps would the owner need to take in this case?
 - The owner could use MU₂B under Chapter 15 to receive a waiver to get higher post-rehab rents
 - The owner would secure RCS documenting higher post-rehab rents, PCNA for capital repair program, and sources and uses for transfer program, etc.

CASE STUDY B: Stage 5 Enhanced Vouchers

48



Lesson 8.5: Objectives

49

Using available resources, you will:

- Explain the benefits and limitations of Enhanced Vouchers in a decoupling transaction

CASE STUDY

Enhanced Vouchers – Key Rules

50

- **Definition**
 - EVs are portable rent subsidies provided to tenants to prevent displacement when a triggering event (such as mortgage prepayment of a qualifying mortgage), or in projects that received Flexible Subsidy assistance in a preservation transaction

CASE STUDY

Enhanced Vouchers – Key Rules

51

- **Contract Rent**
 - These vouchers pay the contract rent (which can be higher than the PHA's usual payment standard if they approve the market comparables provided by the owner), as long as the tenant remains in the property where the prepayment occurred
 - In a 236 project, the Enhanced Voucher amount is restricted to Market Rent less the IRP

CASE STUDY

Enhanced Vouchers – Key Rules

52

- **Eligibility:**
 - Subsidized mortgage projects (including those seeking to decouple) must be eligible to prepay without HUD consent (note Flex Sub exception which has a use restriction)
 - The PHA will perform income eligibility screening
 - Eligible tenants must reside in the project on the date of prepayment and have incomes at/below 80% median, or 95% median if elderly/disabled or in a low vacancy area (<=3%)

CASE STUDY

Enhanced Vouchers – Key Rules

53

- **Tenant Rent:**
 - The greater of:
 - a) 30% adjusted monthly income; or
 - b) The rent paid by the assisted family on the date of the eligibility event for the project in which the family was residing on such date.

- **Mobility:**
 - When tenant moves, the Enhanced Voucher converts to regular tenant voucher at the reduced PHA payment standard
 - Tenants then pay 30% of the adjusted monthly income with no minimum rent

CASE STUDY

Work in Groups

54

Work together as a team to:

- Review the necessary documents to help answer the questions, including the pro forma
- Discuss answers to each question
- Be prepared to share your conclusions with the class

Discussion Questions

Enhanced Vouchers

55

1. Will Enhanced Vouchers be available in this case?
Why or why not?
 - Yes, the project qualifies as a preservation eligible prepayment project

Discussion Questions

Enhanced Vouchers

56

2. How will Enhanced Vouchers impact project feasibility?
 - Enhanced Vouchers will not enhance financial feasibility in this case, since rents levels are capped at the Basic Rent
 - Remember, for IRP Decoupling approval, the owner needs to demonstrate that the tenant share of the rent will not increase, so the EVs help with the feasibility of the IRP request to HUD

Discussion Questions

Enhanced Vouchers

57

3. How will Enhanced Vouchers impact affordability?
 - Due to the minimum rent, EVs will not make rents more affordable for tenants, but will protect tenants against future rent increases.
 - Some tenants may experience a rent increase by going to 30% of income with EVs.

Discussion Questions

Enhanced Vouchers

58

4. How might Enhanced Vouchers affect the stability of occupancy at the development? What steps has the owner taken to mitigate tenant turnover?
 - Potential for move-outs by lower/mod income tenants who experience initial rent increases going to 30% income with EVs or to the new 236 Market Rent
 - Owner has established a rent phase-in escrow to mitigate rent increases for those tenants that are not eligible for EVs (see the Rent Phase-In calculation snapshot from Sources & Uses).

Discussion Questions

Enhanced Vouchers

59

Question 4 (continued)...

- Owner's rehab program should help to keep project competitive and marketable to replacement tenants

CASE STUDY B: Stage 6

What if...

60



Lesson 8.5: Objectives

61

Using available resources you will:

- Explain transaction structuring impacts after posing alternative facts or assumptions, including:
 1. The 236 mortgage matures in 2013, instead of 2016,
OR
 2. The owner is a non-profit, instead of a for-profit

CASE STUDY

Activity Directions: What If ?

62

1. Your team will be assigned a number of 1 or 2, corresponding to one of the scenarios
2. As a team, discuss and prepare your conclusions on how the assigned scenario changes the case, including:
 - Impact on rents
 - Impact on financing
 - Choice of S8 renewal options
 - What tools or programs the owner is eligible for
 - Owner and project benefits
3. Also answer discussion question #1

CASE STUDY

Answers to What If ? Exercise

63

1. 236 mortgage matures in 2013
 - The IRP Decoupling is less advantageous with only one year of IRP remaining
 - Likely more equity takeout for owner
 - Likely loss of 60 affordable units over time
 - Use Agreement required at prepayment until mortgage maturity date, or tenant notification will be required (Section 219 requirements)

CASE STUDY

Answers to What If ? Exercise

64

2. Non-profit owner refinance

- Eligible for S8 MU2B only
- No owner distributions, but can apply for waiver to receive 6% on original equity (if any; typically, non profits have not invested equity)
- No EVs, since property would not be preservation eligible prepayment
- Owner could restructure as a related-party sale to take out equity per HUD Notice H 2011-31. Property must be maintained as affordable housing with 20+ Year Section 8 renewal

CASE STUDY

Preview of Up and Coming

65

1. What happens down the road if owner wants to refinance during term of the HUD Use Agreement required at decoupling?
 - Let's look at IRP continuation and then forgoing future IRP on next slides

Continuation of the IRP after a Re-Refinance

66

For continuation of the IRP, the following conditions will be imposed as part of the refinance approval:

- New IRP Agreement Required; existing Use Agreement must be extended to five additional years
- No Section 236 Basic Rent or Market Rent increase attributable to the new financing
- 20-Year HAP Contract renewal required
- All proceeds used for project purposes or placed in the Reserve for Replacement account

Continuation of the IRP in a Re-Refinance (continued)

67

- Developer fee is allowed
- Distributions remain constant until the IRP expires, then may be recalculated
- Post-refinancing, the debt service payments must be equal to, or greater than, the continued IRP provided to the mortgagee for the project

Owner is Forgoing Future IRP

68

Where the owner is forgoing future IRP, and the Section 236 Use Agreement is still active, the refinance of the Decoupled project must meet the following conditions:

- **Section 8 Assistance:**
 - owner must agree to a HAP Renewal Contract with a term of at least five years beyond the expiration date of the IRP Agreement
 - The owner is strongly encouraged to execute a 20-year HAP Renewal Contract.
 - When the Section 236 Use Agreement terminates, the project will operate as a Section 8 project

Continued on next page...

Owner is Forgoing Future IRP (continued)

69

- **LIHTC transactions:**
 - Section 236 basic rents must be equal to the LIHTC rents taking effect at the closing of the refinance transaction
 - When the existing Section 236 Use Agreement expires, the project will operate under LIHTC requirements and the owner will not be required to use Basic and Market Section 236 rent setting

Owner is Forgoing Future IRP (continued)

70

- **Other provisions:**

- Where there are no LIHTC and less than 90 percent Section 8 rental assistance, Basic and Market Rents will be set as Section 236 rents using the last years' IRP factor until the Decoupling Use Agreement expires
- The Hub Director may authorize the owner to receive an equity take-out and/or an increased distribution in conjunction with the refinance transaction, but only in the case that the owner agrees to execute a 20 year Section 8 HAP Renewal Contract

236-1 Knowledge Check

71

- Please complete the Knowledge Check and turn it in
- Please work alone

Preserving Section 236 Properties with Decoupling & 223(f) Financing

72

CONCLUSION

WHAT QUESTIONS DO YOU HAVE?

Lesson 9: Day's End

73



Arthur Capper Senior Housing Washington, D.C.

Wrap-Up

74

- Today we covered:
 - FHA Financing for Section 202 and 236 properties
 - Refinancing Section 202 and 236 properties with a 223(f) loan
 - Minor to Moderate repairs

Wrap-Up

75

- Tomorrow we will focus on:
 - What if a Property needs Substantial Rehab?
 - LIHTCs and conditions precedent to refinancing with them
 - Section 202 Property refinancing with 9% LIHTCs and a 221(d)4 loan
 - Section 236 Property refinancing with 4% LIHTCs and tax-exempt bonds

Wrap-Up – The Paperwork

76

- If you're not coming back tomorrow, please complete and turn in:
 - Letter of Commitment
 - Course Evaluation

U.S. Department of Housing and Urban Development

1

“PARTNERS IN HOUSING” ADVANCED PRESERVATION TRAINING



Welcome to Day 3

2

- Welcome back!
- Today we will focus on Preserving Section 202 Direct Loan and Section 236 properties using Low Income Housing Tax Credits (LIHTC).
- You'll be working in teams to review and evaluate two case studies.

Pre-Assessment

3

- Please turn in the completed Day 3 Pre-Assessment.

Lesson 10: Preserving Section 202 Property Using 9% Low Income Housing Tax Credits

4



Arthur Capper Senior Housing Washington, D.C.

Lesson 10: Objectives

5

Using available resources, you will:

- Refresh your knowledge about Low Income Housing Tax Credits (LIHTC) and Pre-1974 HUD 202 Projects
- Identify the use of SPRAC and TPVs
- Discuss how unit conversions can be accomplished
- Identify how LIHTCs can be used to support a substantial rehabilitation of a 202 property

Overall Focus

6

- Yesterday we examined in Case Study A, a project with a 202 loan that had a moderate level of repairs needed, and so an FHA 223(f) loan worked well to address owner goals.
- Today we will examine a 202 project with a much larger capital repair need. As such we will see how the 9% Low Income Housing Tax Credit program (LIHTC) may work well for this project.

Refresher:

Low Income Housing Tax Credits

7

- Indirect federal subsidy used to finance the development or renovation of affordable rental housing for low-income households.
- Enacted by Congress in 1986 to provide the private market with an incentive to invest in affordable rental housing.
- Awarded to developers of qualified projects who, in turn, sell them to investors to raise capital for their projects. This reduces the debt that the sponsor would otherwise have to borrow.

Refresher:

LIHTC (continued)

8

- Sponsors receive a dollar-for-dollar tax credit that they sell to tax credit investors, which results in equity to the project.
- The tax credit is allocated over ten years. Investors receive a portion of it each year over the ten-year period.
- The amount of the annual credit is based on the amount invested in the affordable housing.

Refresher:

LIHTC (continued)

9

- LIHTCs can be used either for new construction or for rehabilitation and preservation of existing affordable housing projects.
- You can combine LIHTCs with HUD rental assistance programs and with HUD mortgage insurance programs.
- Owners can get a developer fee as part of the transaction.
- Property owner is a LP or LLC, where the new investor is the 99.99% Limited Partner, and the sponsor is the .01% General Partner.

Additional LIHTC Factors to Consider

10

- Ownership structure: Limited Partnership or LLC
- Loss of full property tax exemption
- Long timeline
- Significant pre-development costs
- Need for experienced and well-capitalized owner/
developer partner

Recent Processing Changes for FHA transactions to Accommodate LIHTCs

11

Today we will be using a **221(d)4** Loan:

- **FHA 221(d)4** - Streamline processing in coordination with LIHTC
 - Modified cash escrow requirements for LIHTC syndication proceeds. Only 20% of LIHTC equity needs to be escrowed at closing.
 - Deferral of submission of final plans and specifications until initial endorsement.
 - Commitment can be conditioned upon HUD-2530 approval.

Sizing a 221(d)4 Loan

12

- **For “Affordable” property, loan size must be the lesser of the amount determined by:**
 - 90% Loan to Cost
 - 1.15 Debt Coverage Ratio
- **Loan terms (assumed):**
 - 5.00% Interest Rate (*this does not include Mortgage Insurance Premium (MIP) of .45%*)
 - 40-Year Loan Term and Amortization Period

FHA 223(f) Pilot Program

13

- **FHA 223(f)** - HUD LIHTC pilot available to streamline and expedite approvals for loans for affordable properties that use LIHTCs to fund repairs up to \$40,000 per unit.
 - In September 2012, LIHTC pilot expanded to be nationwide.
 - One of the eligible types of housing is projects with 90% or more project-based rental assistance.

Refresher:

Pre-1974 HUD 202 Projects

14

Today's project is a Pre-1974 202 Project.

- Projects financed prior to 1975 had low-interest loans (below 6%).
- HUD will approve requests to refinance into loans with higher interest rates if the owner completes substantial rehab on the property.

New Prepayment Requirements Pre-1974 HUD 202 Projects

15

- Extended 202 Use Agreement required: at least 20 years beyond the original mortgage maturity date.
- Owner may use the proceeds from the new loan:
 - For the benefit of existing project residents,
 - To convert units to reduce vacancies,
 - To construct or add facilities,
 - To pay a developer fee, and/or
 - For the benefit of elderly residents of other HUD-assisted senior housing in the same geographical region (i.e. MSA).

Rental Assistance Opportunities for Pre-1974 HUD 202 Projects (continued)

16

- If funds are available, HUD may make rental assistance available to unassisted residents at the time of prepayment.
- **Senior Preservation Rental Assistance Contract (SPRAC)** – New project-based rental assistance for unassisted units. Notice about availability was published for comment and final notice is forthcoming.
 - *For this case study, assume that SPRAC rents will match the HAP rents.*
- **Tenant Protection Vouchers (TPVs)** – Portable vouchers issued by the local Public Housing Authority, funded by HUD. Same process to obtain as is used for other preservation prepayments.

Unit Conversions to Reduce Vacancies

17

Case Study C examines converting efficiencies to 1-BR units:

- Efficiency units are difficult to lease; owner wishes to convert the 20 efficiencies to 10 1-Bedroom units.
- Notice H 2011-03 covers requirements to qualify for conversion of units.

Unit Conversion Requirements (continued)

18

- Conversion must not increase budget authority
- Owner must show at least 25% vacancy rate in the units to be converted for the last 24 months
- OR the owner must show units are “functionally obsolete”
- Owner must show a strong market for the resulting unit type

Lesson 11: Case Study C

Section 202 Property Refinanced with Competitive 9% LIHTCs and a 221(d)4 Loan

19



Case Study C Goals

20

Overall goals for Case Study C:

- Identify preservation opportunities and challenges for Section 202 projects refinancing with a competitive 9% LIHTCs and a 221(d)4 Loan.
- Practice:
 - Determining underwritten income and expenses
 - Sizing a new loan
 - Determining repair plan
 - Building a budget
 - Confirming refinancing method as best choice

Case Study C Outline

21

1. Overview
2. HAP Contract and SPRAC
3. Operating Expenses
4. Sizing the FHA 221(d)4 Loan
5. 9% LIHTC Program Details
6. Building the Development Budget
7. Looking Ahead

CASE STUDY C: Stage 1 Overview

22



Lesson 11.1: Objectives

23

Using available resources, you will:

- Discuss the basic details of the Case Study C
- Identify what conditions must the property and owner meet to receive HUD pre-payment permission
- Determine if HUD would likely approve conversion of efficiency units

CASE STUDY C: **Garden Senior Towers**

24

- Locate Case Study C for **Garden Senior Towers**
- Take 10 minutes to read the summary and discuss with your group

CASE STUDY C: Garden Senior Towers

25

PROJECT OVERVIEW

- Pre 1974 HUD 202 elderly project (1973); loan matures in 2018; current interest rate is 3.0%, no Flexible Subsidy loan
- High rise construction, 110 units (20 efficiencies and 90 1-BR units)
- Urban location: Atlanta, GA, non-profit owner
- HAP contract for 40 units (20 eff, 20 1-BR's); Section 8 rents at RCS comparable market rents

CASE STUDY C: **Garden Senior Towers** (continued)

26

PROJECT OVERVIEW *(continued)*

- Non-Section 8 rents are significantly below market
- 5 Efficiency units are vacant (all Section 8 units)
- Preliminary estimates of over \$30,000 per unit rehab needed
- **Owner Goal:** the owner wants to refinance primarily for the purpose of addressing the capital improvements needed and to convert efficiency units

Class Discussion Questions

Pre-payment

27

1. What Notice applies to obtaining prepayment permission for this property?
 - HUD Notice H 2013-17
2. What does the owner need to demonstrate to receive pre-payment permission?
 - Substantial rehabilitation is required since we can assume there will not be debt service savings.

Class Discussion Questions

Conversion of units

28

3. Does this property meet the minimum requirements for HUD approval of the unit conversion plan?
 - Yes

4. How does it comply?
 - 25% vacancy in the efficiency units (5 units)
 - Low vacancy (1.11%) in the 1 Bedroom units, indicates demand for those units
 - The HAP approved rent for the 1-Bedroom unit is **less than** the total rent for two efficiency units. Therefore the budget authority would not have to be increased to accommodate these conversions.

CASE STUDY C: Stage 2

HAP Contract and SPRAC/TPVs

29



Lesson 11.2: Objectives

30

Using available resources, you will:

- Identify the important characteristics of the Housing Assistance Payments (HAP) contract for Case Study C
- Identify how SPRAC or TPVs would affect the project
- Calculate Gross Potential Income (GPI)

Case Study C

Activity Directions

31

Work together as a team to:

- Complete Exercise #1 (three tables)
- Determine answers to discussion questions
- Be prepared to share your conclusions with the class

Discussion Questions

Income

32

Refer to Exercise #1 for these questions:

1. What is the maximum rent potential using current rents?

Current HAP Rents

Efficiencies : \$450/month

1 bedroom units: \$850/month

Current non-HAP Rents

1 bedroom units: \$500/month

Current annual Gross Potential Income: \$732,000

This is the total potential income assuming all units are full.

Exercise Questions

Income

33

2. What would the GPI be if the non Section 8 units received either SPRAC or TPVs (assume rent level matches the HAP rents levels)?
- GPI with SPRAC or TPVs: **\$1,026,000**
This is the income assuming that the non-Section 8 receive SPRAC.

Exercise Questions

Income

34

3. Why would the owner desire SPRAC or TPVs for the non Section 8 units?
 - If the non Section 8 units received SPRAC or TPVs in the amount that would be equivalent to the HAP contract rents, the Gross Potential Income would increase by almost \$300,000 annually. This would potentially leverage significantly more debt for the refinancing.

Exercise Questions

Income

35

4. What would the GPI be if the efficiency units were converted, assuming SPRAC or TPVs for the non-Section 8 units?
 - \$1,020,000
 - Note: If SPRAC is unavailable for this project, TPVs are another option. TPVs will have rents set by the PHA

Exercise Questions

Income

36

5. How can the owner justify the request for SPRACs or TPVs?
 - Owner needs to demonstrate that without SPRACs or TPVs, unassisted residents would have to pay higher rents to make the refinancing feasible.

CASE STUDY C: Stage 3

Operating Expenses

37



Lesson 11.3: Objectives

38

Using available resources, you will:

- Calculate the O/E to be used for underwriting

Case Study C

Activity Directions

39

Work together as a team to:

- Complete Exercise #2
- Answer exercise question
- Be prepared to share your conclusions with the class

Exercise Image

Operating Expenses – Adjustments

40

2011 Audited Expenses	\$819,674	
LESS: Depreciation	(\$83,591)	
LESS: Interest (on 1st Mortgage)	(\$0)	Not reflected on Audit; assumed Audited Expenses have already been adjusted to remove this.
LESS: Assumed savings in Utilities	(\$0)	None estimated
PLUS: Reserve for Replacement (annual)	\$30,000	As directed by 9% program, \$300 per unit times 100 units
PLUS: Assumed NEW Management Fee	\$49,140	5% of Effective Gross Income (EGI)
Operating Expenses (O/E) (for Underwriting)	\$815,223	Sum of above

Exercise Question

Operating Expenses

41

- What are the Operating Expenses that should be used for the case study for the purpose of underwriting?
 - Total O/E for Underwriting: \$815,223

CASE STUDY C: Stage 4

Sizing the FHA 221(d)4 Loan

42



Lesson 11.4: Objectives

43

Using available resources, you will:

- Calculate the Net Operating Income (NOI)
- Identify relevant FHA 221(d)4 Loan details
- Determine the potential size of the new FHA 221(d)4 loan

Case Study C

Activity Directions

44

Work together as a team to:

- Complete Exercise #3
- Complete Exercise #4
- Discuss and answer the Exercise Questions
- Be prepared to share your conclusions with the class

Exercise Questions

Sizing the New Loan

45

1. What is the Gross Potential Rental income, assuming unit conversion, including the above?
 - **\$1,035,000**
(GPI from residential units plus the Commercial and Other income)
2. What is the “Effective Gross Income” (EGI)?
 - **\$982,800** *(GPI less Vacancy Loss)*

Exercise Questions

Sizing the New Loan

46

3. What is the Net Operating Income (NOI) for underwriting?
 - \$167,577
4. What would the NOI be if the project didn't receive SPRAC?
 - (\$117,423) *(it wouldn't produce any NOI and would operate at a deficit)*
5. What does this say about the need for SPRAC?
 - Without SPRAC, a new loan could not be supported

Exercise Questions

Sizing the New Loan – Net Operating Income

47

6. What rent increase would the average renter in a non-assisted unit experience if there was no SPRAC or TPV's and the owner had to increase income to achieve the targeted GPI?
 - Without SPRAC the 1-BR tenants' rent would increase from \$500 to \$850 = \$350 increase (70% increase)

Exercise Questions

Sizing the New Loan

48

7. What is the maximum FHA 221(d)4 loan size?
 - \$2,420,808

8. Based on the preliminary estimate for rehabilitation, what is the minimum amount of funding needed just to address the rehab concerns (not including loan pay-off, fees, etc.)?
 - \$3,000,000 (100 units x \$30,000/unit)

Questions

Additional funds required?

49

9. Will the 221(d)4 Loan be enough to cover the estimated costs of the full transaction?
 - No

10. What other source of funding might be needed in this transaction?
 - Low Income Housing Tax Credits, as a source of equity

CASE STUDY C: Stage 5

9% LIHTC Program Details

50



Lesson 11.5: Objectives

51

Using available resources, you will:

- Review the details of the 9% LIHTC program
- Explain the competitive application process
- Evaluate Case Study C, providing hypothetical scoring

9% vs. 4% Housing Tax Credits

52

REMINDER – There are two ways an owner/developer can secure LIHTCs:

- Receive an allocation of 9% credit allocations through a State allocating agency. This is a competitive process. **This is the approach we are going to use for this Case Study.**
- Receive an allocation of 4% credit allocations and finance the project utilizing tax-exempt bonds. This is a non-competitive process.

9% Credit Allocation

53

- Each year, the IRS allocates housing tax credits to state agencies that award them to developers through a **competitive process**.
- Federal law requires that the priority be given to projects that:
 - Serve the lowest income families; and
 - Are structured to remain affordable for the longest period of time.

9% Credit Allocation (continued)

54

- 10% of each state's annual housing tax credit allocation must be set aside for projects owned by nonprofits.
- This is a competitive process that uses criteria set by the state agency.
 - States often have a set-aside to prioritize preservation of affordable housing.
 - Proposals to repair or substantially rehab HUD-multifamily housing projects can fare quite well in these competitions.

Ownership Structure

55

**GARDEN SENIOR
TOWERS PROPERTY**

CURRENT OWNER:
Garden Senior
Towers, Inc.
(501(c)3 non-profit)

Purchase
Contract

FUTURE NEW OWNER:
GST, LP
A for-profit Limited
Partnership

**49% Member
of the GP**

**GENERAL
PARTNER:**
GST, LLC
.01% Owner

**LIMITED
PARTNER:**
Syndicator
99.99% Owner

EXPERIENCED PARTNER
51% Member of GP

Competitive Award of 9% Credits

56

- Each state allocates according to their “Qualified Allocation Plan”
 - Determines priorities for funding awards for the state
 - Establishes minimum “threshold” criteria that must be met to be awarded credits, including experience, building costs, etc.
 - Uses a point system to determine final awards
 - May change from year to year; typically released early each year
 - States have one or two application cycles annually
 - An award is called an “Allocation” of LIHTCs

Discussion Questions: **9% Allocation Process**

57

- Turn now to the Georgia 2012 QAP in the Reference Guide for this Case Study.
- Take 10 minutes to scan through the “Threshold Criteria,” starting after the first section, on page “1 of 38.”

Discussion Questions:

9% Allocation Process

58

1. What are the critical “Threshold” criteria for this project:
 - Sec 1(G) – pg 3 – Requirement for at least 10-year PBRA commitment, including SPRAC
 - Sec III – pg 9 & 10 – Required Services
 - Sec XIV – pg 20 – 22 – Rehabilitation Standards
 - Sec XVI – pg 23 – Building Sustainability
 - Sec XIX(A), (B) and (C) – pg 26 – 30 – Qualifications

9% Allocation Process

Activity Directions

59

- Turn now to the Georgia 2012 QAP in the Reference Guide binder.
- Take 10 minutes to scan through the “QAP Scoring” section, starting after the Threshold section, on page “1 of 31.”
- After reviewing the Scoring section, turn to the “Self-Score” of this project and the 2012 Scoring.
- As a team, answer the questions #2 and 3.

Discussion Questions: 9% Allocation Process

60

2. What is the self-score for this project?
 - 62 Points

Review the list of applicants in the 2012 Georgia round.

3. What do you think the chances of an award for this project would be?
 - High; preference is given for “preservation projects”; must meet minimum threshold requirements, and must win in a “tie-breaker.”

CASE STUDY C: Stage 6

Building the Development Budget

61



Lesson 11.6: Objectives

62

Using available resources, you will:

- Build the Development Budget for this Case Study assuming a 221(d)4 Loan and 9% LIHTC
- Determine the Eligible Basis
- Calculate the amount of LIHTC equity that will be generated as a source of funds
- Create a balanced Sources and Uses Statement

Building a Development Budget

63

- Acquisition Price
(which must include enough to pay-off balance of loan)
- Title and recording
- Third-party costs
- Developer Fee
- Legal – Borrower’s Counsel, Lender Counsel
- Lender’s Financing Fees
- HUD’s Financing and Inspection Fees
- Rehab costs

NEW FOR 9% DEAL:

- 9% LIHTC Fees
- Operating Deficit Reserve
- Temporary Relocation expenses
- Lease-up and Marketing Reserve

Building a Development Budget (continued)

- Using the Building the Development Budget Exercise for this Case Study, work in teams to build your development budget.
- Key things to remember:
 - Acquisition price = Appraised Value
 - 221(d)4 financing fees capped by HUD
 - Operating Deficit Reserve required to cover 6 mos. O/E and DS
 - Temp Relocation budget should include cost of moving tenants twice, utility hook-ups (cable, phone), difference in rent between original and temporary unit

Case Study C

Activity Directions

65

Work together as a team to:

- Review answers to prior Exercises
- Complete Exercise #5
- Be prepared to share your conclusions with the class

Exercise Questions

Building the Development Budget

66

- What is the total Development Budget?
 - \$7,905,734

Calculating the 9% LIHTC Equity Activity Directions

67

Work together as a team to:

- Review answers to prior Exercises
- Complete Exercise #6
- Be prepared to share your conclusions with the class

Exercise Questions

Calculating the 9% LIHTC Equity

68

- How much 9% LIHTC Equity does this deal generate?

\$4,620,137

Case Study C

Activity Directions

69

Work together as a class to:

- Complete Exercise #7
- Discuss and answer the discussion questions

Discussion Questions

Sources and Uses

70

1. Using just the 221(d)4 Loan and the equity generated from the LIHTC's, are there enough Sources of financing to pay for the budgeted Costs?
 - NO – there is a gap of \$864,789
2. How might we fill the gap in the S&U Statement?
 - Seller carry-back note – “owner financing”

Discussion Questions

Sources and Uses Statement (continued)

71

3. Instead of having a Seller Carry-back Note, why not just lower the Acquisition Price?
 - If the owner becomes the GP, there is an identity of interest, and the syndicator can not have the seller/GP “donating” essentially value of the property into the deal.
4. From what source is the Seller Note paid back?
 - From surplus cash

Case Study C

Activity Directions

72

Work together as a class to:

- Complete Exercise #8
- Discuss and answer the discussion questions

Questions

Sources and Uses Statement (continued)

73

5. What are the pros and cons of having developer fee paid up front vs. being deferred?
- If paid at closing, this is more money in the hand of the developer up front, to be used by the developer for other ventures or purposes.
 - If deferred, it means that there will be more proceeds from the refinancing for project renovation and project costs. However, deferred developer fee is paid each year from surplus cash, so the developer cannot count on receiving each year.
 - Note that payment of deferred development fee cannot be listed as an expense on the Section 8 budget.

Questions

Sources and Uses Statement (continued)

74

6. How is surplus cash used each year?
 - Seller Note
 - Allowable Distributions (6% of LIHTC equity)

CASE STUDY C: Stage 7

Looking Ahead

75



Lesson 11.7: Objectives

76

Using available resources, you will:

- Discuss the full set of monetary benefits to seller and owner(s) in a LIHTC transaction
- Discuss risks and long term obligations
- Discuss the steps to move ahead with refinancing

Case Study C

Activity Directions

77

Work together as a class to:

- Determine answers to all discussion questions

Discussion Questions

Monetary Benefits to Seller and Owner

78

1. What are the areas of monetary benefit to the seller and owner?
 - A. Net Sales Proceeds from the sale of the property
 - B. Portion of Developer Fee
 - C. Ongoing pay-back of the Seller Carry-back note
 - D. Portion of the allowed cash flow distribution (based on 6% of the equity in the transaction)

Note that payment of (c) and (d) above are dependent on the availability of Surplus Cash

Discussion Questions

Monetary Benefits to Seller (continued)

79

2. What are the total monetary benefits to the seller during the **transaction**?
- Net Proceeds from the sale: \$410,211
 - Developer fee to seller/Co-GP: \$463,050

Discussion Questions

Monetary Benefits to Purchaser

80

3. What are the benefits to the purchaser?
 - Improved property conditions
 - Improved cash flow
 - Stable project based assistance (Section 8 and SPRAC)
 - Improved occupancy (conversion of efficiency apartments)

Discussion Questions

Monetary Benefits to Purchaser

81

4. What are the total monetary benefits to the owner/purchaser during the **operating period**?
- Pay-back on Seller Carry-back Note
 - Allowable 6% Distribution (% x LIHTC Equity):
 - $.06 \times \$4,620,137 = \$277,208$

Risks and Obligations

82

- Competitiveness of LIHTC Award and upfront fees
- LIHTC Tax Credit Compliance Period
 - Compliant use of property
 - Rental and Income restrictions
- Compliance fees to HFA and to Syndicator
- 99.99% Limited Partner - can step in and take over GP role

Next Steps

83

- Understand property capital needs and if a substantial rehabilitation is needed
- Make sure rehabilitation scope of work meets requirements
- Evaluate LIHTC competitiveness
- Determine availability of pre-development money
- Strong, experienced partner for the 9% transaction
- Determine how to shield tenants from rent increases – SPRAC or TPV's
- Create Section 8 budget – listing new debt service and DSC and clarifying distributions and seller note come from surplus cash

202-2 Knowledge Check

84

- Please complete the Knowledge Check and turn it in.
- Please work alone.

Preserving Section 202 Properties with FHA 223(f) Financing

85

CONCLUSION

WHAT QUESTIONS DO YOU HAVE?

Lesson 12: Case Study D

Section 236 Property Refinanced with 4% LIHTCs and Tax-Exempt Bonds

1



Case Study D Goal

2

Overall goals for Case Study D:

- Identify preservation opportunities and challenges for Section 236 projects with substantial rehab needs and Flexible Subsidy Loan repayment obligations
- Describe how to structure a complex transaction involving:
 - Tax-exempt bond financing
 - 4% Low Income Housing Tax credits
 - HUD preservation tools, including the ability to obtain a deferral of the Flexible Subsidy loan

Case Study D Outline

3

1. Overview
2. RAD Income Projections
3. Financing
4. Flexible Subsidy
5. What If...

CASE STUDY D: Stage 1 Park Place Apartments Overview

4



Lesson 12.1: Objectives

5

Using available resources you will:

- Discuss the basic details of the Case Study D

CASE STUDY D: **Park Place Apartments**

6

- Locate Case Study D for **Park Place Apartments**
- Take 10 minutes to read the summary and discuss with your group

CASE STUDY D: Park Place Apartments

7

Project Overview

- Project: Section 236, HFA-financed (not FHA insured); 100 units.
- Location: Eastern MA; urban.
- Owner: Limited distribution mortgagor.
- Section 8 HAP: 40 units. Section 8 contract renews annually (post-MAHRA).
- RAP Contract: 20 units, contract expires 9/30/13.

CASE STUDY D: Park Place Apartments

8

Project Overview *(continued)*

- 236 Loan Maturity: 1/1/2016; eligible to prepay without HUD consent (HUD consent would be required if FHA loan/Flex Sub instead of HFA loan)
- IRP: \$125/unit/month (\$150,000 annually)
- Flex Sub: \$1.5M original loan, 3% simple interest accruing; due at mortgage maturity/resale/refinancing

CASE STUDY D:

Park Place Apartments

9

Rent Information

- Current 236 Basic/ Market Rents: \$800/ \$925
- FMR: \$1,000 (therefore 110% FMR = \$1,100)
- Market Comparable Rent: \$1,200 (as-is and post-rehab)

Repairs

- Substantial rehab required (\$45,000 per unit)

CASE STUDY D:

Park Place Apartments

10

Goal of Owner

- The owner is interested in generating Low Income Housing Tax Credit (LIHTC) equity to:
 - Generate funds for repairs, and
 - Defer the flexible subsidy loan obligations to HUD.

Plan of Action

- Since rehabilitation/preservation (as opposed to new construction) projects in Massachusetts are rarely eligible for 9% LIHTC's, the owner wants to explore **4% LIHTCs** and **tax-exempt bond financing**, plus other available tools.

In-Class Discussion Questions

Case Overview

11

Why is HUD approval for prepayment not required?

- The owner is a for-profit mortgagor; the property is preservation eligible.

If the owner prepays the mortgage, what's the maximum number of households that could receive vouchers?

- Sixty households. This includes the 20 RAP units and the 40 Section 236 units that do not have Section 8.

CASE STUDY D: Stage 2 Cash Flow Projections Under RAD Conversion

12



Lesson 12.2: Objectives

13

Using available resources you will:

- Review RAD information that is relevant to this case
- Evaluate Income/Expenses to see how RAD could work for this case

Refresher:

Relevant RAD Considerations

14

Eligible Units:

- Rent Supplement and RAP units are subject to expiring contracts
- Non-Rent Supp/RAP units in prepayment-eligible projects eligible for **Enhanced Vouchers**, triggered by the mortgage prepayment. (Refer to PIH Notice 01-41)
- Under RAD, these EVs can be converted to PBVs (long term project-based subsidy)
- The Rent Supp/RAP contract must expire by **9/30/13** to ensure RAD funding

Refresher:

Relevant RAD Considerations

15

Cap on Project Based Voucher Units

- No more than 50% of total project units. There is an exception for elderly/disabled units or units receiving supportive services

Contract Rents:

- Capped at 110% FMRs, subject to rent reasonableness. In 236 projects however, if the IRP is continued, rents are capped at the 236 basic level

Case Study D

Activity Directions

16

Work together as a team to:

- Review the Income/Expense pro forma to determine how RAD works in this case
- Review the necessary documents to help answer the questions
- Discuss answers to each question.
- Be prepared to share your conclusions with the class

Discussion Questions

Stage 2

17

1. On what basis is this project eligible for RAD?
How would the owner verify this?
 - The RAP contract expires on or before 9/30/13
 - It is a “preservation eligible” project as well

Discussion Questions

Stage 2

18

2. How many units could receive PBVs under a RAD conversion?
 - **50 Total Units**
 - 20 RAP Units
 - 40 Unassisted Units (that would otherwise receive EVs upon prepayment)
 - $20 + 40 = 60$ units = 60% of total; however owner can only convert 50 units (50% of total units) to PBVs

Note: More RAD units could be added if elderly tenants or if service-enhanced

Discussion Questions

Stage 2

19

3. How will RAD facilitate the proposed transaction?
 - Enhances feasibility: It provides higher rents, which supports more debt (compare to the 236 Simple pro forma)
 - Also enhances long-term affordability

Discussion Questions

Stage 2

20

4. What problems might the owner anticipate with the PHA and/or tenants in securing RAD funding, and why?
- The PHA may not consent to administering the PBV contract, for example, due to concerns regarding monopolization of the mobile voucher waiting list, or lack of interest/capacity in administering PBVs.

NOTE: HUD will help locate an alternative PHA in this case.

- Timing: Need to complete prepayment by 9/30/13.

IRP to Support Additional Debt vs. Eliminating IRP

21

5. Look at the Income/Expenses. Why can the PBV rents be set at 110% of FMR for this case?
 - Since the IRP is being discontinued, this is no longer a 236 project and under RAD and the PBV rules, the rents are capped at 110% of the Fair Market rents, subject to rent reasonableness.

CASE STUDY D: Stage 3

Financing:

Tax Exempt Bonds & 4% LIHTC

22



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Lesson 12.3: Objectives

23

Using available resources you will:

- Review relevant issues of tax-exempt bonds and 4% LIHTCs for this case
- Describe how to structure tax-exempt bonds and 4% LIHTCs in a preservation transaction

Refresher:

Tax-exempt Bonds and 4% LIHTCs

24

Key features relevant to this case:

- Properties financed with tax-exempt bonds “automatically” qualify for 4% LIHTCs, without having to compete for state agency awards as with 9% LIHTCs
- Note – you may still need to comply with the “threshold criteria” of the tax credit agency’s QAP
- Less equity per dollar spent is raised, but there are no caps on the amount of LIHTCs per deal on 4% projects

Refresher:

Tax-exempt Bonds and 4% LIHTCs

25

Key features relevant to this case:

- Typically tax exempt bonds are issued by state HFAs, who may also act as lender
- Credit enhancement is required. In this case, a HUD Risk Share loan underwritten by the state HFA
- Bonds may be privately placed or competitively sold

Refresher:

Tax-exempt Bonds and 4% LIHTCs

26

Key features relevant to this case:

- **Tax-exempt bond requirements:**
 - 50% Test: At least 50% of the “basis” plus land cost must be financed with tax-exempt bonds
 - *If the amount of bond debt does not meet this test, the following are ways this test can be met:*
 - ★ ground lease to remove land from calculation;
 - ★ extra tax-exempt “bridge bonds” during construction

Continued on next slide

Refresher:

Tax-exempt Bonds and 4% LIHTCs

27

Key features relevant to this case:

- **Tax-exempt bond requirements** (continued):
 - Good vs. Bad Costs: Bond proceeds can't be used for "bad" costs (reserves & escrows, developer fee, financing fees). Other sources can cover these "bad" costs (LIHTC equity, soft second loan, etc).
 - Multiple actors and steps create additional costs as compared to a 9% LIHTC project (e.g. for bond issuance, bond counsel, HFA override on interest rate).

Case Study D

Activity Directions

28

Work together as a team to:

- Review the Sources and Uses
- Follow the Basis and Tax Credit calculations from the pro forma to determine the impact of this financing structure on pro forma
- Discuss answers to each question
- Be prepared to share your conclusions with the class

Discussion Questions

Stage 3

29

1. How has this financing impacted the acquisition structure? Namely, what's the impact on the appraised value? What's needed in order to bridge the gap between what the deal can afford to pay and the appraised value?
 - As discussed in CS-C, the acquisition price is required to be the **appraised value**, to boost equity from LIHTCs.
 - A seller's note is used to cover the gap between what the deal can afford to pay and the appraised value.

Discussion Questions

Stage 3

30

2. How has this financing model using 4% TE Bonds and LIHTCs affected the transaction including reserves and other related costs?
 - Operating reserves required by investor
 - Higher legal and consulting fees

Discussion Questions

Stage 3

31

3. How is the 50% test being met? What is the cost?
See Tax Exempt Bridge Loan section in Notes
 - A bridge loan is being used. Added to the Tax Exempt Bond loan, it will exceed 50% of the TDC. This costs the deal loan fees and interest cost.
4. What are the benefits of using 4% Tax Exempt Bonds?
 - The tax credits are non-competitive and LIHTC equity is generated

CASE STUDY D: Stage 4

Flexible Subsidy

32



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Lesson 12.4: Objectives

33

Using available resources, you will:

- Describe how to structure a preservation transaction using the Flexible Subsidy deferred repayment policy

Refresher:

Flexible Subsidy Policy

34

Key features relevant to this case:

- Flex Sub:
 - Direct HUD loans were made starting in 1978 for troubled projects and some 221(d)(3) BMIR and 236 projects
 - Interest rates of 1-3% (but some higher)

Refresher:

Flexible Subsidy Policy

35

Key features relevant to this case: *(continued)*

Two types of Flex Sub Loans: **Operating Assistance** and **Capital Improvement**

- For Operating Assistance loans, the loan balance and accrued interest is due at mortgage maturity, sale, or refinance. In some cases, a refinance or sale would not allow full payment of the Flex Sub loan due, so deferral is necessary.
- Capital Improvement loans are amortizing.

Refresher:

Flexible Subsidy Policy

36

Key features relevant to this case: *(continued)*

- **HUD Notice H 2012-04 (extends Notice 2011-05)** – Permits deferral of the repayment of the Flexible Subsidy **Operating Assistance Loans** when shown that it cannot be paid in full at maturity or prepayment of the first loan.
- It does not provide for forgiveness or a balloon payment at a later date

Refresher:

Flexible Subsidy Policy

37

Key features relevant to this case: *(continued)*

What happens to Capital Improvement loans?

- These loans were fully amortizing loans, and therefore their balance should be relatively low at or close to their maturity. Statute does not allow HUD to defer repayment of these loans.

Refresher:

Flexible Subsidy Policy

38

Key features relevant to this case:

- Deferred Flex Sub must be co-terminus with any new financing or the term cannot exceed 20 years if there is no new loan
- Deferred Flex Sub loan interest rate will be same as before, but may be reduced to 1% if justified
- The owner agrees to extend affordability for the term of any new financing or 20 years, if no new financing

Refresher:

Flexible Subsidy Policy (continued)

39

Key features relevant to this case:

- R4R balances exceeding \$1k/unit must be applied to reduce the Flex Sub balance owed at closing
- All Residual Receipts must be applied
- The Flex Sub loan can be bifurcated into amortizing and non-amortizing portions with 15% of LIHTC developer fee, and 15% of owner's maximum allowable distribution applied to the non-amortizing portion

Refresher:

Flexible Subsidy Policy (continued)

40

Key features relevant to this case:

- All funds must be used for project purposes
- HUD will subordinate the Flex Sub loan to new financing
- Owner must provide evidence of efforts made to secure loans/ grants from other sources

Refresher:

Flexible Subsidy Policy (continued)

41

Key features relevant to this case:

- Equity takeout and sales proceeds are prohibited, but seller may take back a note to boost acquisition basis for tax credits, repayable only from surplus cash
- The owner must also designate what portion of surplus cash will be used to pay the Seller Note

Case Study D

Activity Directions

42

Work together as a team to:

- Review the Sources and Uses and the notes, following along with Cash Flow from the pro forma to determine how the rules apply to this case
- Discuss answers to each question
- Be prepared to share your conclusions with the class

Discussion Questions

Stage 4

43

1. How will the Flex Sub loan be restructured/ repaid in this case?
 - The owner is paying \$51,883 annually on the “amortized” portion of the Flexible Subsidy Loan (balance of \$1,344,246)
 - 50% of the Surplus Cash is used to pay down the balance of the non-amortized (cash flow) Flex Sub Loan. In Year 1 that amount paid is \$43,798

Discussion Questions

Stage 4

44

2. What are the terms for re-amortized Flex loan? Are any waivers required?
 - The Flex loan is bifurcated into an amortizing loan and a cash flow loan (paid from 50% cash flow)
 - Both loans are fully repaid before the maturity of new loan
 - A waiver is needed to reduce interest rate from 3% (original) to 1%

Discussion Questions

Stage 4

45

3. What is the initial application of owner funds to the Flex loan balance?
 - Reserve for replacements funds over \$1,000 per unit are applied towards Flex Sub Loan Balance. In this case, \$200,000 is being applied.
 - All residual receipts are being applied; \$20,000 in this case.

4. What is the application of owner funds over time for the non-amortizing portion?
 - 15% of the allowable owner distribution will be used to repay flex loan on annual basis.

Discussion Questions

Stage 4

46

5. Equity takeout and seller note?
 - There is no cash equity out
 - The seller note will be repaid from the allowable distribution *after* other obligations (i.e., payment on the Flex Sub loan)

CASE STUDY D: Stage 5

What If...

47



Lesson 12.5: Objectives

48

Using available resources, you will:

- Consider the impacts of alternate scenarios, including:
 - LIHPRHA
 - Non-profit Ownership
 - IRP Decoupling

Refresher: LIHPRHA Projects

49

Project characteristics relevant to this case:

- **LIHPRHA projects:**
 - “Preservation eligible” Section 236 and BMIR projects that were preserved during 1990s by existing owners or via transfer to non-profit purchasers.
 - Incentives offered include:
 - 1) additional Section 8 to support a 241(f) second mortgage for acquisition and equity takeout
 - 2) capital grant to non-profit purchasers, for acquisition and rehab costs

Refresher:

LIHPRHA Projects (continued)

50

Project characteristics and key preservation challenges relevant to this case:

- Use Agreements survive the mortgage prepayment
- Significant variety exists in deal structures and Use Agreements between different properties
- Use Agreements require maintenance of very low/ low/ moderate income tiers (which may not reflect current subsidy realities) for remaining useful life

Refresher:

LIHPRHA Projects (continued)

51

Project characteristics and key preservation challenges relevant to this case (*continued*):

- Section 8 renewal under Option 5 only
- Owner distributions may be limited to below statutory levels (8% on equity), or prohibited for non-profit and non-profit controlled owners
- HUD will permit selective modifications to Use Agreements to allow the 8% distribution on initial equity and to allow the use of LIHTCs (See Housing Notice 2012-25)

Refresher:

LIHPRHA Projects (continued)

52

Project characteristics and key preservation challenges relevant to this case (*continued*):

- Some Use Agreements may prohibit owner proceeds when refinancing or syndicating with LIHTCs
- New HUD policy clarifies that Enhanced Vouchers are available upon prepayment (see TPV Eligibility **HUD Notice H 2012-3**)

Case Study D

Activity Directions

53

Work together as a team to:

- Identify impacts to this case given alternative situations
- Review additional documents as needed
- Discuss answers to question 1 (4 bullet sections)
- Be prepared to share your conclusions with the class

Discussion Questions

Stage 5

54

1. What would be different about this transaction if it were a non-profit owned LIHPRHA project?
Consider how the following might be different and what potential impacts it creates on the transaction.
 - Section 8 rents/renewal option?
 - Renewal only under **Option 5**, using “Budget-based Method” (uniform rent increase). This allows rents to be increased for new debt service, but no MU2M/MU2B.

Discussion Questions

Stage 5

55

- RAD eligibility?
 - The RAP units could convert under RAD but the owner would need HUD permission to prepay the mortgage.
- Owner distributions?
 - HUD may allow modification to allow an owner distribution up to 8% of initial equity.

Discussion Questions

Stage 5

56

- Equity takeout?
 - None allowed in this case due to Flex Sub restrictions

Note: Notice 2011-31 allows take-out of sales proceeds or equity, if there is no Flex Sub. If the LIHPRHA Use Agreement restricts proceeds to seller/owner, HUD can amend the Use Agreement to facilitate the deal (absent the Flex Sub).

Applicable HUD Notices

57

Important HUD Notices that apply to 236 Loans and prepayment for **non-profit owners**:

- **Notice H 2006-11** – Provides guidance on the process for Section 250(a) prepayments of 236 Loans, which applies to owners that **do** require HUD prepayment permission
- **Notice H 2011-31** – Provides new flexibilities to nonprofit owners of Section 236, Section 221(d)(3) and other FHA insured properties who prepay mortgages under Section 250 or 219 and sell their properties to another owner

Case Study D

Activity Directions

58

Work together as a team to:

- Review any necessary documents
- Discuss answers to question #2
- Be prepared to share your conclusions with the class

Discussion Questions

Stage 5

59

2. How would the Income/Expense pro forma differ if **IRP decoupling** was also used in this case?
 - With continued federal subsidy of the IRP, PBV rents are capped at the 236 Basic Rents, rather than being as high as the market. This reduces NOI, and therefore reduces feasibility.

236-2 Knowledge Check

60

- Please complete the Knowledge Check and turn it in
- Please work alone

Preserving Section 236 Property Refinanced with 4% LIHTCs and Tax-Exempt Bonds

61

CONCLUSION

WHAT QUESTIONS DO YOU HAVE?

Lesson 13: Day's End

62



Arthur Capper Senior Housing Washington, D.C.

Wrap-Up

63

- Today we covered:
 - Overview of LIHTCs and conditions precedent to refinancing with them
 - Refinancing Section 202 properties with competitive 9% LIHTCs and a 221(d)4 loans
 - Refinancing Section 236 properties with 4% LIHTCs and Tax-Exempt Bonds

Wrap-Up – The Paperwork

64

Please complete and turn in:

- Course Evaluation
- Letter of Commitment