

M2M Process after Referral to OMHAR (Cont.)

OMHAR Lite

- Property is referred to a PAE who will critically review: I) the owner's RCS and an independently commissioned third party RCS; II) an independently commissioned limited scope appraisal; III) the property's recent audited financial statements.
- PAE will arrive at: I) a market rent determination; II) a determination on the adequacy of the property's physical condition; III) a determination on whether the property can meet its expenses with reduced rents.
- PAE will notify owner if property meets criteria as an OMHAR Lite.
- If PAE determines that property does not meet OMHAR Lite requirements, owner would be directed to revise contract renewal election to select referral to OMHAR for Full.

(OMHAR Lites are completed within 90 days for Tier I or 120 days for Tier II. Expenses are underwritten for Tier II Lites, but not for Tier I.)

Rent Comparability Study (RCS)

- Property is referred to a PAE who will review the owner's RCS with an independently commissioned third party RCS.
- PAE will arrive at a market rent determination for the property and inform OMHAR accordingly.
- OMHAR will notify HUD Field Office of market rent determination for the property.
- If property rents are determined to be above market, owner will be directed to revise contract renewal election to select referral to OMHAR for Lite or Full.

(RCS's are completed within 60 days).

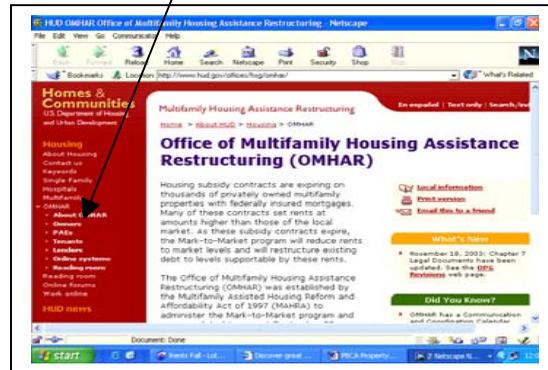
Mark-to-Market "On-Line"

What? – "M2M Freeware" Easy to use analytical tool for stakeholders to review how a property will work under M2M

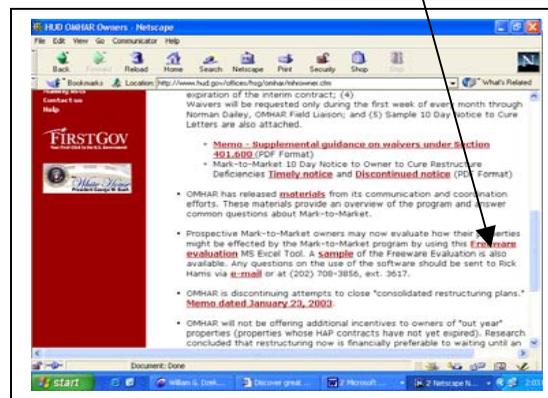
How? - Minimal data entry required - 17 numbers from audited financials, unit mix, estimated market rents, and estimated post-M2M Reserve deposit

Where? – Excel based format on the web at www.hud.gov/offices/hsg/omharc

Click on "Owners" on the left panel of the screen



Scroll down and Click on "Freeware evaluation"



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OMHAR

Office of Multifamily
Housing Assistance
Restructuring

Mark-to-Market

Preserving Affordable Housing

Pocket Asset Referral Guide



U.S. Department of Housing
and Urban Development

Referring Properties to OMHAR

Mark-to-Market Program Objectives:

- Reduction of Section 8 rents to market;
- Rationalization of operating expenses;
- Preservation and rehabilitation of Section 8 properties; and
- Achievement of long-term physical needs and financial viability.

Properties Eligible for Mark-to-Market

- Properties with Section 8 rents above market; AND
- Properties with outstanding FHA insured or HUD held loans; AND
- Properties without state or local financing prohibiting M2M restructuring; AND
- Properties not statutorily exempt from M2M.

Properties not Eligible for Mark-to-Market

- Mark up to Market; AND
- Properties without outstanding FHA insured or HUD held loans; AND
- Properties with state or local financing prohibiting M2M restructuring
- Properties statutorily exempt from M2M;
 - Section 202, 811
 - Suspended, debarred or ineligible owner

Stakeholder Benefits

The M2M program is a powerful tool that is being used nationwide to preserve affordable housing.

After the restructuring closes, the FO or PBCA will administer a property that has been repositioned for stabilized operations for the foreseeable future.

A restructured project will generally have a substantially reduced first mortgage, additional funds for rehab and replacement reserves, and an opportunity for Owners to share in the project's surplus cash flow.

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How Does a Property Enter the M2M Program

Note: The PBCA coordinates with the HUD Field Office to press the submit button to refer property to OMHAR.

A. 120 days or more prior to original contract expiration, or subsequent renewal
Owner selects:

Option 1:

(Owner says rents are below market, Mark up to Market requested); BUT Project Manager or Contract Administrator determines that rents are above market.

Option 2:

(Owner says rents are at or below market rents: Mark up to Market is not requested); BUT Project Manager or Contract Administrator determines rents are above market.

Option 3:

(Owner says rents are above market: request Mark-to-Market).
 A. Reduction of section 8 rents to comparable market rents without restructuring.

OR

B. Restructure of the mortgage and reduction of Section 8 rents to comparable market rents.

Option 4:

(Project is exempt from OMHAR: Property has State or Local bond financing, which prohibits mortgage refinancing); BUT OMHAR determines that the terms of this financing do not conflict with Mark-to-Market restructure.

B. 13 months and above prior to original contract expiration (Out-Year) properties could benefit from the Mark-to-Market program if

Out-Year

- capital improvement needs, and (or)
- insufficient cash flow to maintain satisfactory physical condition, service financial obligations, and to provide owners with a positive return on investment.

Required Documentation for Referring Properties to OMHAR

Note: Contract Administrators should send eligible properties to the Field Office for referral to OMHAR.

Send these documents:

Project Manager or Contract Administrator determines property rents are above market;
 a). Rent Comparability Study (RCS).
 b). Send cover letter/memo to OMHAR requesting a new RCS and Rent determination.

(Same as Option 1 above)

A. OMHAR Lite

- Owner's Contract Renewal request;
- Rent Comparability Study
- Owner's certification that contract rents exceed comparable market rents;
- Physical inspection report on the property (optional)
- Property's most recent financial statement;

B. OMHAR Full

- Owner's Contract Renewal request;
- Owner's certification that contract rents exceed comparable rent, and neither the owner nor any affiliate is suspended or debarred. (RCS not required).

- Owner's RCS showing rents above market;
- Owner's Contract Renewal request; and
- State and local financing documents: bond indenture, mortgage note and note modification.

- Owner's Contract Renewal request Option 3 B;
- Owner's certification that contract rents exceed comparable rent, and neither the owner nor any affiliate is suspended or debarred. (RCS not required).

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M2M Process after Referral to OMHAR

After referral to OMHAR, projects are assigned to Participating Administrative Entities (PAEs). These are both public and private entities that are under contract with OMHAR to undertake and complete M2M restructures and rent determinations.

OMHAR Full

- Property is referred to a PAE who will critically review: I) the owner's RCS and an independently commissioned third party RCS; II) an independently limited scope appraisal; III) the property's recent audited financial statements.
- PAE will arrive at: I) a market rent determination; II) a determination on the adequacy of the property's physical condition; III) a determination on whether the property can meet its expenses with reduced rents.
- OMHAR will review the PAE's determinations and approve a Restructuring Plan that establishes: (a) the new market rents for each unit type at the property; (b) the property's projected annual operating expenses; (c) required rehabilitation work at the property to be completed within 12 months of the M2M restructure; (d) required annual deposits to the property's Reserves for Replacement account and a 20 year schedule for projected repairs and replacements at the property; (d) the size of the new first mortgage and any second and third mortgages to HUD
- As part of a full restructure owners will be entitled to receive Capital Recovery Payments ("CRPs") based on the amount of their contributions to the restructure and annual Incentive Performance Fees ("IPFs"), provided:
 - The property obtains a REAC inspection score of at least 60;
 - There are no outstanding management findings after the annual audit and after receipt of notice and an opportunity to cure.

In addition owners will be entitled to a maximum of 25% of the property's cash flow with the remainder of the cash flow going to debt service on any second and third mortgages created as part of the M2M debt restructure.

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