HUD Preservation Workbook

Successful Stewardship of Multifamily Recapitalization

U.S. Department of Housing and Urban Development

Office of Recapitalization

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Introduction

As a multifamily property owner, you find yourself at a crossroads: you have an aging property, a first mortgage loan that is an inefficient use of the property's cash flow, increasing major repair and replacement needs, and concerns about long-term affordability and long-term viability. In the face of these challenges, it's time to craft a thoughtful plan for the future.

You've managed this property well for quite a while, providing good-quality, affordable housing to people who really need it. You've partnered well with the U.S. Department of Housing and Urban Development (HUD), and you have a lot to be proud of.

But as properties age, it takes more than leasing, maintaining, and collecting rent to keep the property in good condition, affordable, and financially viable over the long term.

It's been a long time since your property was built and you took out the first mortgage loan. You may need some real estate development and financing training to learn how to keep the property viable. You also may need a new loan to provide a framework for keeping the property in good condition and affordable in the future. Many new resources are available from HUD and others that can help.

This workbook can help owners and members of their preservation team get from here (the property is okay for now, but possibly will be shaky later) to there (the property will be affordable, in good physical condition, and in good financial condition for a long time to come).

Common Questions

Q What can I expect from this workbook?

A This workbook is designed to support the exploration and decision-making that you will undertake to preserve your property (or asset). Each chapter has exercises and other resources designed to help you identify issues and opportunities, develop a preservation plan, and crunch numbers.

Q What does preservation mean?

A HUD's Office of Recapitalization defines preservation in terms of three major goals:

- **Safeguard** long-term rental assistance for current and future generations.
- **Improve and modernize** properties.
- **Stabilize** properties with solid financial footing.

Q What does **recapitalization** mean?

A In this workbook, recapitalization is a preservation transaction that involves gaining new funds. For example, new funds can be obtained by refinancing the first mortgage loan, obtaining HOME Investment Partnerships Program funds, Community Development Block Grants (CDBGs), State Housing Trust funds, or obtaining tax credit equity.

Chapter 1 – Know Your Property

Before you can set out on the road to preservation, you must take stock of your current resources, needs, and options. This chapter outlines basic considerations that will help you best understand your property's preservation potential.

To help you, gather a team of professionals who are familiar with and specialize in affordable housing preservation. You might start with your property manager and attorney. Later, you might add a preservation consultant, lender, architect, and contractor.

In addition, your board or other governance structure of your project can and should be a useful resource in fulfilling your preservation strategy. Bring together your board and other stakeholders to discuss key issues and outline the pros and cons of various decisions.

Develop a research strategy. Talk to your U.S. Department of Housing and Urban Development (HUD) office's multifamily staff, and to other owners who have done preservation transactions. If possible, attend your State housing finance agency's (HFA) annual housing conference, attend relevant presentations, and ask other participants who they've worked with on preservation transactions. Engage with trade associations that represent owners, managers, or other stakeholders relevant to your property.

Be prepared for changes. Expect things to change as you go through the preservation process. Your estimated development costs definitely will change, and so will the mix of funding sources. Potential funders may turn you down, or they may impose special approval conditions. Discuss with your consultant how you want him or her to keep you informed about any changes. Do you want all the details, or just the highlights? Do you want to know the moment an issue arises, or only after the consultant has tried to address the problem?

Seek guidance from HUD. It's always a good idea to let HUD know you're thinking about preservation strategies for your property. Later, once you're further along in your planning process, you can request a preservation concept meeting with HUD.

Look for a preservation consultant who:

- Has recently completed a preservation transaction for a similar property, coordinating with the same HUD office you're working with.
- Explains complicated topics in terms that are easy to understand.
- Is comfortable with your preservation goals, including how you want to work with residents and, especially, how you want to coordinate relocations and rehab work.
- Is available to work with you in a way that meets your expectations (for example, your expectations about the type and frequency of your interactions).
- Brings to your attention any features of your preservation transaction that might cause problems.
- Quickly and effectively communicates when changes to your plan are needed and why, and explains your options.
- Has good references.
- Offers competitive pricing. Ask whether they could offer a fixed fee, or a fee due only when the transaction closes.
- Can estimate how long it should take to complete the transaction, and any variables that may speed the process up or slow it down.

Engage your residents. Residents may be under the impression that their affordable rent will end. They may think they need to find other housing. If you communicate early and often, you can avoid unnecessary departures, as well as unnecessary stress for your residents. Also, residents often have insights about the property and the neighborhood that are not apparent to other stakeholders.

Understand Your Property's Current Financing

Start by examining your existing first mortgage loan and related documents, which may include a mortgage note or loan agreement, a mortgage or deed of trust, and a regulatory agreement or use agreement.

HUD has issued first mortgage loans through several programs, including:

- **HUD Section 202 program:** HUD provided funds directly to a nonprofit to develop affordable rental housing for the elderly and, in some cases, for residents with disabilities. From 1959 through 1990, funds were provided as a loan to be repaid in monthly payments. Starting in 1991, the funding was provided as a capital advance requiring no monthly payments and designed to be forgiven after 40 years.
- **HUD Section 811 program:** This funding program is similar to Section 202, but reserved exclusively for residents with disabilities. All Section 811 loans are provided as a capital advance.
- **HUD Section 236 program:** HUD awarded Section 236 funds from the late 1960s through the mid-1970s in the form of interest subsidies known as Interest Reduction Payments (IRPs) to private lenders. The IRPs reduced the monthly loan payments owed by private developers. Most of these loans also received Federal Housing Administration (FHA) mortgage insurance. In return for a lower mortgage payment, HUD required developers to rent to low- and moderate-income residents at HUD-approved rates.

Your property might also have an existing loan from one of these sources:

- **U.S. Department of Agriculture (USDA) Rural Housing Service program:** This program provides affordable housing in rural areas. For more information, contact the USDA Rural Housing Service.
- **FHA insured loans:** Some affordable properties may have Section 223(f), 221(d)(4), or 221(a)(7) loans.
- **Conventional loans:** Some affordable properties have standard commercial first mortgage loans. This financing approach is particularly common in cases when the property qualifies for a Low-Income Housing Tax Credit (LIHTC).

COMPLETE EXERCISE 1-1
Background Information, which appears at the end of the chapter

Often, it's a good strategy to pay off the existing first mortgage loan before it matures—that is, to prepay the loan.

- If your first mortgage is from HUD or has FHA mortgage insurance, prepayment always requires: (1) HUD approval of a correctly prepared prepayment package, and (2) HUD's agreement that the owner properly delivered the required notice to residents and others. Prepayment may also require additional discretionary approval from HUD, especially for properties developed by nonprofits.
- If you have some other type of mortgage loan, ask your lender about prepayment requirements.

COMPLETE EXERCISE 1-2
Prepayment

In addition to the first mortgage, which is also known as a senior loan, your property also may have junior loans. Notify any junior lenders of your preservation efforts early in the planning process. Ideally, junior lenders will agree to leave those loans in place to support your preservation effort.

Junior loans can be secured or unsecured. A secured loan is one whose repayment is secured by a mortgage or deed of trust (that is, the lender can foreclose in response to a default). An unsecured loan does not have a mortgage or deed of trust.

Flexible Subsidy (FlexSub) loans from HUD are a common type of junior loan, as are loans from a local or State government agency.

COMPLETE EXERCISE 1-3
Debts Beyond the First Mortgage

WHAT IS...

a Flexible Subsidy Loan?

HUD created what are often referred to as FlexSub loans mostly in the 1980s to mid-1990s to help stabilize affordable properties that were financially stressed. FlexSub funds were most often used for repairs. FlexSub Operating Assistance loans typically don't require any payments until the first mortgage loan matures, is prepaid, or the property is sold; at that time, the FlexSub loan must be paid off. FlexSub Capital Improvement loans typically have fixed monthly payments and must be paid off by the time the first mortgage matures.

Understand Your Property's Rent Structure and Subsidies

Start with the rules for rent limits, resident income, and rental assistance in place now:

- What are the maximum rents I can charge now?
- What is the maximum income new residents can have?
- Do any of the units have project-based rental assistance?

WHAT IS...

rental assistance?

This allows a resident to pay an affordable share of income for rent and utilities, with the rental assistance contract covering the remainder. The most common form of rental assistance is through HUD's Section 8 program. Earlier rental assistance programs included HUD's Rent Supplement program, Rental Assistance Payments (RAP) program, and Section 8 Moderate Rehabiliation (Mod Rehab) program. Rental assistance can be tenant-based (the assistance follows the resident when he or she moves) or project-based (the assistance stays with the unit when the resident moves).

At this stage of planning and research, focus on clearly understanding your rent structure and subsidies as they exist today. In later chapters you'll learn that your property's rent structure and subsidies may change if you prepay your first mortgage loan, and you also may discover that you have an option to renew existing rental assistance or obtain additional rental assistance (see Chapter 3).

You will also learn that how you design your preservation transaction may affect the property's future rents, resident income limits, and rental assistance (see Chapter 5).

Understand exactly what type of rental assistance your property has, how many units are covered, when the contracts expire, and your renewal options for each contract upon expiration. Know the rules for when rents can increase, and by how much. Note that rent increase rules will likely be different for units with and without rental assistance.

COMPLETE EXERCISE 1-4
Rental Assistance Contracts

For your unassisted units (that is, units without rental assistance), determine which of the residents are low income and might benefit from new rental assistance.

COMPLETE EXERCISE 1-5
Unassisted Units

Understand Your Property's Long-Term Capital Needs and the Adequacy of Its Reserves

Start by understanding your property's physical condition. Ask a respected colleague to join you in taking a close look at the property in the way a purchaser might look at it. Visit each vacant unit, and talk to the maintenance staff about any recurring maintenance problems. Evaluate the property's curb appeal.

Re-read recent inspection reports from HUD's Real Estate Assessment Center (REAC) or other third party inspectors.

COMPLETE EXERCISE 1-6
Long-Term Capital Needs

Obtain a capital needs assessment (CNA) to help you understand the current physical condition of your property and identify any upfront repairs that are needed. The CNA also will help you estimate the repairs you will likely need over an extended period (typically 20 years), and whether your property's Reserve for Replacement (R4R) account will adequately cover upcoming capital needs. If not, the CNA should recommend ways to secure increased funding for the reserve account.

WHAT IS...
curb appeal?

The term refers to how attractive the property is when viewed from the curb in front of the property. If the property has good curb appeal, potential residents are more likely to apply to live there, and current residents are more likely to stay.

A simple CNA usually costs between $3,000 and $5,000. CNAs that include extensive analysis of green housing options or energy efficiency enhancements, or for properties requiring extensive repairs, may cost more. The CNA needs to be relatively current at various stages in the preservation transaction process, so arrange for low-cost updates of the report as needed.

Reserve deposit probably too low. Get CNA. Talk to HUD about rent increase for larger reserve deposit.

Common Questions

Q Why should I discuss my preservation strategy with residents?

A For two reasons: First, you don't want residents to fear that their affordable rent will change and so move out. Second, residents often have insights about the property and the neighborhood that are not apparent to other stakeholders.

Q What are some things to look out for in understanding my property's first mortgage loan?

A Look out for the loan maturity date, particularly if a balloon payment is due; any prepayment penalties that are still in effect; and any future change in interest rate.

Q Should I renew my Section 8 Housing Assistance Payments (HAP) contract as part of my preservation strategy?

A Most likely, yes. Typically, owners find that new funders like the comfort of a long-term Section 8 contract. Also, owners are likely to find that they have a wider choice of renewal options in connection with a preservation transaction.

Q Will I need a capital needs assessment (CNA)?

A Almost certainly. A CNA is a requirement for most refinancing programs and many other types of funding. Plus, a CNA can provide new information that will help you develop a better preservation strategy.

Q My property has a 40-year loan. Will it mature after exactly 480 months?

A Not necessarily. Many loan agreements require additional, unscheduled principal payments (for example, if there were construction cost savings). If so, you could pay the loan off early. Similarly, some monthly payments may have been deferred to help the property cope with financial stress; if that happened, you could be on track to pay the loan off late. So don't rely on the original amortization schedule; check with the lender to see exactly when your loan will mature.

Q Is it a good idea to pay off my existing first mortgage loan early (that is, prepay the loan)?

A Yes. Prepayment often allows for better options for obtaining new rental assistance or renewing existing rental assistance. There may be other advantages, too. This is one good reason to start your preservation planning early.

Q Market rents are above my Section 8 rents. Can I increase my Section 8 rents?

A Typically, you'll get an opportunity to increase Section 8 rents at the time the Section 8 contract is renewed. Preservation transactions often involve an opportunity to renew a Section 8 contract for a longer term, possibly with increased rents. See Chapter 3 for details.

Q I have lots of non-Section 8 residents. Can I get Section 8 rents for them?

A One strategy is to check whether you could obtain Tenant Protection Vouchers (TPVs) (see Chapter 3 for details). Another useful strategy is to ask your local public housing agency (PHA) whether you could obtain project-based vouchers (see Chapter 3). Finally, if your property participates in a Rent Supplement, Rental Assistance Payments (RAP), or Section 8 Mod Rehab program, you can convert those short-term contracts to long-term, project-based Section 8 contracts using the second component of the U.S. Department of Housing and Urban Development's (HUD's) Rental Assistance Demonstration (RAD). For details, see the resource list in Appendix B for links to HUD's Web pages that discuss the second component of RAD.

Q Why won't HUD just forgive my Flexible Subsidy (FlexSub) loan?

A HUD does not have the authority to forgive Federal debt. However, HUD does have the authority to negotiate a repayment plan; this is discussed in more detail in Chapter 3.

Q I have a FlexSub Operating Assistance loan and my first mortgage loan is rapidly approaching maturity. I understand I have to pay off the FlexSub balance when my first mortgage loan matures. Is that correct?

A Yes, but there is a useful exception. HUD offers an opportunity to defer the lump sum payoff. See the resource list in Appendix B, under the section, "Resources for Regulatory Options," for a link to HUD's policy on FlexSub deferral. Also see Chapter 3 for details.

Exercises

For exercises requiring the Financial Modeling Tool, go to https://www.hudexchange.info/resource/5239/recapitalization-excel-tool

Exercise 1-1, Background Information

Assemble key information for your property:

- ☐ First mortgage note (or loan agreement), mortgage (or deed of trust), and regulatory agreement (or use agreement)
- ☐ Most recent statement from your first mortgage lender, showing the remaining balance
- ☐ Most recent rental schedule approved by the U.S. Department of Housing and Urban Development (HUD) (HUD-92458)
- ☐ Most recent renewal of each project-based rental assistance contract

Go to the first worksheet of the Financial Modeling Tool, called "Background Information," and complete the following sections:

- ☐ Property Identification and Unit Mix
- ☐ Estimating When Your First Mortgage Loan Will Mature

What did you learn during this exercise that might affect your preservation transaction?

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Exercise 1-2, Prepayment

Go to the first worksheet of the Financial Modeling Tool, called "Background Information," and complete the section called, "Determining Whether HUD Permission Is Required to Prepay Your First Mortgage Loan."

HUD permission will likely be required if any of the following are true:

- ☐ The original owner was a nonprofit.
- ☐ The property currently has a Rent Supplement contract.
- ☐ You received Flexible Subsidy (FlexSub) funding during the time you owned the property.
- ☐ You answered "Yes" to the first question concerning loan defaults and workouts in the Financial Modeling Tool.

Conversely, HUD permission will likely not be required if either:

- ☐ The property received incentives under the Emergency Low-Income Housing Preservation Act of 1987 (ELIHPA) or the Low-Income Housing Preservation and Resident Homeownership Act of 1990 (LIHPRHA); or
- ☐ You are a for-profit company that developed the property and never accepted FlexSub funding, and your property does not currently have a Rent Supplement contract in place.
- ☐ The first mortgage loan was from a State Housing Finance Agency without FHA mortgage insurance.

Based on your answers, do you think that HUD permission would be required to prepay your first mortgage loan? ☐ YES ☐ NO

Now you have a good idea whether HUD permission is likely to be required. The next step is to check with HUD to make sure HUD agrees.

Exercise 1-3, Debts beyond the First Mortgage Loan

- [ ] For any debts other than the first mortgage loan, assemble the note/loan agreement, mortgage/deed of trust (if any), regulatory agreement/use agreement (if any), and the most recent statement from your lender, showing the remaining balance.
- [ ] Go to the first worksheet of the Financial Modeling Tool, called "Background Information," and complete the section titled, "Debts Other Than the First Mortgage Loan."

Does your property have any junior loans?
☐ YES ☐ NO

If so, how do you think those loans are likely to affect your preservation transaction?

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Exercise 1-4, Rental Assistance Contracts

Locate all of the rental assistance contracts for your property. You may need to contact your HUD multifamily representative or performance-based contract administrator to answer some of these questions. Note: at the end of this exercise there is a question about additional options if you prepay your first mortgage loan. Here's the explanation: sometimes your unassisted tenants can obtain rental assistance as part of your preservation transaction, but only if you prepay your first mortgage loan. Be sure to ask your preservation experts about this.

If the property has multiple contracts, the owner should complete the exercise for each individual contract.

- Of the following, what types of rental assistance contracts does the property have?
  - [ ] Section 8 Loan Management Set-Aside
  - [ ] Rent Supplement, Rental Assistance Program (RAP)
  - [ ] Section 8 New Construction
  - [ ] Section 8 Substantial Rehabilitation
  - [ ] Section 8 Moderate Rehabilitation
  - [ ] Other: ______________________________
- What mix of units is assisted under this contract?

	0BR	1BR	2BR	3BR	4BR
Section 8					

- When does the contract expire? _ _ / _ _ / _ _
- How are contract rents adjusted during the term of the contract?

  ____

  ____

- Is the contract eligible for renewal when it expires?
  ☐ YES ☐ NO

  If so, which renewal options will likely be available?

  ____

  ____

Exercise 1-5, Unassisted Units

If all of the units at your property have rental assistance, skip this exercise. Also skip this exercise if you have units without project-based rental assistance, but the tenants can afford both your **current** rents and the rents you expect to charge after you close your preservation transaction.

In a typical month, write down **how many** unassisted tenants fall into each category:

- Holders of Section 8 Housing Choice Vouchers (HCVs)

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  ____

- Holders of other tenant-based rental assistance

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  ____

- No rental assistance but can afford the rent

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- No rental assistance and can't afford the rent

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In a typical month, how many units with no project-based rental assistance are vacant?

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Why do those units stay vacant?

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What would have to change in order for you to be able to rent those units?

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Exercise 1-6, Long-Term Capital Needs

Answer the following questions in the first worksheet of the Financial Modeling Tool, called "Background Information":

- ☐ When was the property originally constructed? When, if ever, was it fully rehabilitated by replacing everything inside the exterior walls? When, if ever, was it substantially rehabilitated by bringing all or almost all systems up to date, but not replacing the interior walls, insulation, or pipes?
- ☐ What type of roof does the property have? When will you need to replace it?
- ☐ When will the property need exterior painting? How much did that cost the last time you did it?
- ☐ What type of exterior wall surface do you have? When will it need major repairs or replacement?
- ☐ Does the property have any elevators? If so, how many, and when were they installed? Have there been any major repairs or replacements to the mechanics, controls, or cabs since original installation?
- ☐ What type of windows do you have? When will you need to replace them?
- ☐ When will you need to resurface the parking lots? (Typically, owners need to resurface parking lots once every 20 years.)
- ☐ What type of heating and air conditioning equipment does the property have? How much of it has been replaced recently? When will you need to replace the remaining equipment?
- ☐ What type of water heating equipment does the property have? How much of it has been replaced recently? When will you need to replace the remaining equipment?
- ☐ Estimate the number of refrigerators you will likely need to replace in each of the next 10 years. Provide similar information for cooking ranges and any other major appliances.

- ☐ What type of flooring do the dwelling units have (for example, carpet, vinyl tile, hardwood, ceramic tile)? How much of that flooring will you likely need to replace in each of the next 10 years?
- ☐ What is the gallons-per-flush rating for the toilets? Typical water-saving toilets use 1.6 gallons or less per flush. Older toilets may use 3.5 gallons or more per flush.
- ☐ Have you already installed low-flow shower heads and low-flow faucet aerators?
- ☐ Have you already upgraded common area lighting and exterior lighting to LED bulbs? If not, what type of lighting does the property currently have?
- ☐ Are you aware of any environmental issues on the property? Any accessibility issues?
- ☐ Are there any really large capital needs that are likely to occur in the next few years? ☐ YES ☐ NO
- ☐ Are you likely to have enough money in reserve to cover those needs? ☐ YES ☐ NO
- ☐ Think about the property's recent annual levels of repairs that were eligible for the use of reserve for replacement (R4R) funds. Based on your answers to questions in the Financial Modeling Tool, is it likely that your future capital needs will be ☐ higher, ☐ lower, or ☐ about the same as they've been recently?
- ☐ Based on your answers to the questions in the Financial Modeling Tool, is it likely that your preservation strategy will include a significant level of upfront repairs? ☐ YES ☐ NO

Chapter 2 – Set Your Preservation Goals

Your property's ownership team needs to decide what its long-term preservation goals are for the property. This chapter discusses initial high-level preservation goals. You'll likely revisit this high-level strategy at each step of the preservation process, and you may change your mind about priorities and about what's feasible as you drill down on decisions during each step. As you think about preservation, you may identify risks and opportunities that you didn't previously consider, and you may identify new goals in addition to the ones you'll initially decide upon in this chapter.

While each property faces its own unique set of needs, preservation goals typically include financing capital improvements, maintaining affordable rents for low-income residents, and achieving sufficient and stable operating income.

Financing Capital Improvements

This has two dimensions: financing repairs needed immediately, and financing repairs needed over the long term.

Upfront repairs. Sometimes, older properties are secure and stable assets that don't need near-term, large-scale capital improvements. However, when you evaluate your property's long-term capital needs, you may find a need for significant improvements that will reduce utility costs, reduce operating costs, and improve living conditions for residents. Under certain circumstances, such as when a Section 8 Moderate Rehabilitation (Mod Rehab) property undergoes a RAD conversion, HUD requires that critical repairs cited in the capital needs assessment (CNA) report are addressed up front. You also may find that the most financially efficient strategy is to make large-scale repairs now, rather than making those same repairs over several years later. In turn, your team's ability to successfully address these needs will depend on its ability to secure the necessary financing.

Long-term repairs. Will R4R funds alone be adequate for the repairs you may have to make over the long term? Typically, once you obtain a capital needs assessment (CNA), you will find that the existing R4R funding is not adequate for long-term viability. Accordingly, increasing the annual R4R deposit is a very common component of a preservation transaction.

COMPLETE EXERCISE 2-1
Financing Capital Improvements
(at the end of the chapter)

Maintaining Affordable Rents for Low-Income Residents

This has two dimensions: obtaining additional rental assistance, if possible, and providing affordable rents for unassisted units.

Obtaining additional rental assistance. Typically, the best option for additional rental assistance is to obtain Tenant Protection Vouchers (TPVs). You also can check with your local housing authority to see if it's possible to obtain project-based Housing Choice Vouchers (HCVs). (Also see also the Common Questions at the end of this chapter.)

Providing affordable rents for unassisted units. If your property will have unassisted units after completing the preservation transaction, and if local market rents are not affordable, you will face a very important decision about how to set the rents for those unassisted units. Your affordable housing mission will push you to set the rents at a level that is affordable for low-income residents, and your financial mission will push you to set the rents higher, perhaps as high as market rents. Ideally, you will be able to provide affordable rents for unassisted tenants while also providing for the property's long-term financial viability.

COMPLETE EXERCISE 2-2
Maintaining Affordable Rents

Achieving Sufficient and Stable Operating Income

This has two dimensions: extending current rental assistance into the future, and obtaining higher contract rents, if possible.

Extending current rental assistance into the future. Properties that are preserved as affordable housing can lock in long-term rental subsidies that provide affordable rents for tenants, a stable source of rental income, and typically, a waiting list of potential tenants, as well. Your strategy depends on your property's situation:

- **Your property currently has project-based Section 8 rental assistance.** In many circumstances, owners can renew their Section 8 contracts for longer terms. When you carry out a preservation transaction, you may have additional renewal options, so it's a good idea to investigate all of the possibilities. The U.S. Department of Housing and Urban Development's (HUD's) Section 8 Renewal Policy Guide provides a full explanation of renewal options. Reach out to your performance based contract administrator (PBCA) or to your HUD multifamily representative to discuss renewal options.
- **Your property currently has Section 8 Moderate Rehabilitation, Rent Supplement, or Rental Assistance Payments (RAP) assistance.** You may be able to convert that rental assistance to long-term project-based Section 8 using the second component of the Rental Assistance Demonstration (RAD).
- **You currently have some other form of rental assistance, such as State-funded rental assistance.** Reach out to your rental assistance provider to discuss options for long-term renewal.

Obtaining higher contract rents. Preservation requires at least enough rental income to cover the property's operating costs, including adequate reserve deposits and payments on any new debt. Here's another way to look at this: you should limit the amount of any new debt you take on to what the property's long-term rental income can support. The higher your contract rents are, the more new debt your property can support, and the easier it will be to create a viable preservation transaction (see Chapter 3 for details). For this reason, typical preservation transactions seek to set Section 8 contract rents at or very close to market rent levels.

COMPLETE EXERCISE 2-3
Achieving Sufficient Operating Income

Common Questions

Q My property has Section 8 rental assistance for less than 100 percent of its units. What are my options for obtaining additional Section 8 rental assistance, either project-based or tenant-based?

A The most likely option is to obtain Tenant Protection Vouchers (TPVs) in connection with prepayment, and in a few other situations. Also, if you have a Rental Assistance Payments (RAP), Rent Supplement, Mod Rehab contract, you can convert it to a project-based Section 8 contract using the second component of the U.S. Department of Housing and Urban Development's (HUD's) Rental Assistance Demonstration (RAD). Get in touch with your HUD multifamily representative for more information on these options.

Q What is a TPV?

A A TPV is a Section 8 Housing Choice Voucher (HCV) issued to protect a low-income tenant who is facing a significant rent increase. HUD has the authority to issue TPVs in a number of circumstances, the most common of which involves the prepayment of a first mortgage loan insured by the Federal Housing Administration (FHA).

Q Are TPVs project-based or tenant-based?

A Rental assistance is said to be project-based if the rental assistance stays with the unit when the resident moves out. Rental assistance that stays with the resident when he or she moves out is tenant-based. Typically, TPVs are tenant-based. However, sometimes the public housing authority (PHA) administering the TPVs can assign project-based terms to some or all of the TPVs. If you anticipate receiving TPVs, get in touch with your local PHA to see if it would be open to project-basing some or all of the TPVs.

Q What is an Enhanced Voucher (EV)?

A An EV is one type of TPV. The key difference is that an EV can cover a higher market rent than a regular TPV can cover. For that reason, EVs are particularly useful in high-rent neighborhoods. Whether your property will qualify for EVs or for regular TPVs is dependent upon a complicated set of rules. Your HUD multifamily representative can help you determine whether your property will qualify for TPVs or EVs.

Q How can I learn more about the second component of RAD?

A HUD's Office of Recapitalization maintains a comprehensive set of resources about RAD at **http://radresource.net** and **https://www.hudexchange.info/programs/rad**.

Q My property's current rents are below market rates. Can I increase rents as part of a preservation transaction?

A Yes. Talk to your HUD multifamily representative or performance based contract administrator (PBCA) about Section 8 contract renewal options for your property.

Q My property hasn't fully implemented its Section 504 transition plan to provide accessibility for persons with disabilities. Will I need to complete the transition plan as part of my preservation transaction?

A Typically, yes. Also, if your preservation transaction requires significant capital improvements, you'll likely need to make at least 5 percent of your total units wheelchair-accessible, plus an additional 2 percent accessible to persons with hearing or vision impairments.

Q What is HUD's Mark-to-Market (M2M) program?

A Properties that have Section 8 rents above market rates and that have FHA-insured (or HUD-held formerly insured) loans are eligible for an M2M preservation transaction. Typically the first mortgage loan and debt service are reduced, new funds are available for repairs, and there is a larger ongoing reserve for replacement (R4R) deposit. Contact your HUD multifamily representative if you think this might be a good option for your property.

Q What is HUD's Mark Up to Market renewal option for Section 8 contracts?

A This renewal option is available generally to for-profit owners when otherwise the owner would have the ability to terminate affordable rents. Under Mark Up to Market, Section 8 contract rents can be increased, sometimes all the way to comparable market rents. See Chapter 3 of HUD's Section 8 Renewal Policy Guide for details.

Q What is HUD's Mark Up to Budget renewal option for Section 8 contracts?

A Under this renewal option, generally the Section 8 contract rents are set at the lower of market rents or a lower level that is sufficient to cover the property's total operating costs. See Chapter 15 of HUD's Section 8 Renewal Policy Guide for details.

Exercises

For exercises requiring the Financial Modeling Tool, go to https://www.hudexchange.info/resource/5239/recapitalization-excel-tool

Exercise 2-1, Financing Capital Improvements

Think back to the long-term capital needs you identified in Chapter 1.

- ☐ Does your property need upfront repairs? If so, how extensive are the needed repairs? What's the likely total cost per unit?

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- ☐ Do your property's current reserve for replacement (R4R) deposits need to go up, stay the same, or go down?

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Exercise 2-2, Maintaining Affordable Rents

- ☐ Does your property have a Moderate Rehabilitation, Rent Supplement, or Rental Assistance Payments (RAP) contract? If so, does the second component of the Rental Assistance Demonstration (RAD) program look like a good option?

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- ☐ Will the property have unassisted units in the future? If so, would the market rents be affordable to low-income tenants?

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- ☐ Would you need to keep the rents below market for unassisted units? How far below market? What factors (other use agreements, etc.) drive those rents below market?

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Exercise 2-3, Achieving Sufficient Operating Income

- ☐ What are your best options for the long-term renewal of your property's existing project-based Section 8 contracts?

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- ☐ Do your best options include increasing the Section 8 contract rents? If so, how close to market rates will the increased rents be?

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Chapter 3 – Identify Your Best Preservation Option without a Recapitalization

Recapitalization refers to a preservation transaction that involves new funds, such as from refinancing the first mortgage loan or obtaining HOME Investment Partnerships Program funds, Community Development Block Grants (CDBGs), State Housing Trust funds, or obtaining tax credits.

If you're like most owners, you want to preserve your property using the simplest and least expensive approach that will meet the preservation goals you identified in Chapter 2.

Maybe you can get there without needing new loans, grants, or tax credits. In this chapter, we will use the phrase "new money," just to keep it simple. That is, maybe you can solve the problems with some combination of operational changes, rent increases, or pursuing regulatory options. We call this your "best option without a recapitalization." If you can avoid a recapitalization, everything will be simpler, easier, quicker, and less expensive. The rest of this chapter will explain why.

If you do need new money, refer to Chapter 5, which discusses how to design a recapitalization transaction.

In this chapter, you'll work on these tasks:

- Understand your regulatory options.
- Understand what the property's future cash flow will look like if you don't change **anything**: no new money, no operational changes, no special rent increases, and no new regulatory options. We call this a "status quo cash flow projection."
- Revisit your preservation goals. Owners will often change their minds about their preservation goals at this point in the preservation process.
- Consider adding extra preservation goals. Owners will often add more details to their preservation goals at this point.
- Start with your status quo cash flow projection. Now change it to reflect implementation of your best set of changes **that don't require new money** (operational changes, rent increases, new regulatory options, etc.) to identify your "best option without a recapitalization."

Understand Your Regulatory Options

Regulatory options require making an application to HUD but don't require new money. The following table shows typical regulatory options and whether each option is applicable to Section 236 properties, Section 202 (direct loan) properties, and other affordable properties with assistance from the U.S. Department of Housing and Urban Development (HUD).

Regulatory Options for Preservation Transactions	§236	§202	Other
Prepay the existing first mortgage loan.	Yes	Yes	Maybe
Obtain long-term renewal of an existing project-based Section 8 contract.	Yes	Yes	Yes
Convert Rent Supplement, Rental Assistance Payments (RAP), or Moderate Rehabilitation contract to a project-based Section 8 contract using the second component of the Rental Assistance Demonstration (RAD).	Yes	Yes	Yes
Obtain Tenant Protection Vouchers (TPVs).	Maybe	Maybe	Maybe
Defer repayment of Flexible Subsidy (FlexSub) Operating Assistance loan.	Yes	Yes	Yes
Decouple remaining Interest Reduction Payments (IRPs).	Yes	N/A	N/A
Increase the rents for assisted units.	Maybe	Yes	Maybe
Increase the rents for unassisted units.	Yes	Yes	Maybe

For information on each of these regulatory options, see the resource list in Appendix B, or reach out to your HUD multifamily representative. Other good sources of information include a consultant or lender on your preservation team and other owners you know who have completed preservation transactions for similar properties.

COMPLETE EXERCISE 3-1
Regulatory Options (at the end of the chapter)

Develop a Status Quo Cash Flow Projection

This will be sort of like preparing an operating budget, but it's a long-term estimate (typically 10 to 30 years), instead of a budget for just the next year. Also, the status quo cash flow projection will include an estimate for the property's long-term capital needs (major repairs and replacements), and a determination of whether your current reserve for replacement (R4R) funding is adequate.

COMPLETE EXERCISE 3-2
Annual Financial Statements

The following table is made up of several elements, outlined here. (Also see the Financial Modeling Tool for a sample format.)

Figures for each fiscal year. Many owners like to show dollars rounded to the nearest thousand, for a couple of reasons: first, the future-year numbers are imprecise estimates, so there's little point in showing a figure like $584,872 when what you really mean is about $585,000, plus or minus $5,000. Second, you can fit more columns on one page when you round the amounts to the nearest thousand.

Columns. The years listed in the columns on the right represent a property's fiscal year.

Rows. Each row is a revenue or expense category. Try to fit everything on one page by using summary categories, especially for operating expenses.

Status Quo Cash Flow Projection before Considering Long-Term Capital Needs*

Revenue or Expense Category	2014	2015	2016	2017
Revenues	$575	$585	$590	$600
Expenses	($445)	($454)	($463)	($472)
Reserve deposit	($40)	($40)	($40)	($40)
Debt service	($75)	($75)	($75)	($75)
Operating cash flow	$15	$16	$12	$13
Looks okay to me!				

**Dollars in thousands*

Recent actuals. Of the columns showing fiscal years, the leftmost column shows actual revenues and expenses for the property's most recent fiscal year. (Many owners like to include multiple recent years as part of this table.)

Estimates for the current year. Using your operating budget for the year, plus actuals for the partial year so far and your best estimate for the remaining months, develop an up-to-date estimate of how the property will perform this year. This includes the property's R4R deposits and mortgage payments, referred to as "debt service" in the table.

Estimates for next year. This part is very similar to developing an operating budget. Take current staffing levels and salaries into consideration, plus the current amounts for all of your service contracts, plus your best estimate of how costs will change next year. Also, estimate next year's R4R deposit and debt service.

Estimates for later years. Continue the cash flow projection for at least 10 more years, and ideally, for 20 to 30 years. Create a spreadsheet that computes reasonable inflation and trending assumptions. The Financial Modeling Tool includes a useful spreadsheet template. Consider whether your first mortgage loan will balloon or mature during the estimate period.

COMPLETE EXERCISE 3-3
Status Quo Cash Flow Projection, Part 1

Add in long-term capital needs. Determine whether your existing R4R account is adequately funded. You'll need a long-term capital needs projection, either from a capital needs assessment (CNA) or a similar estimate provided by your property management company. Don't be surprised if this review tells you that your R4R account is not adequately funded, and that you will need significantly more money for long-term capital needs in the next 5 to 10 years.

COMPLETE EXERCISE 3-4
Status Quo Cash Flow Projection, Part 2

What would it take to adequately fund the reserve? From Exercise 3-3, you know that unless you make changes, your R4R will run out of money in at least one future year. More likely, you know that your R4R will be in trouble in **several** future years. In this exercise, you will try different ways of solving those problems. Sometimes, increasing the annual deposit right now will solve everything. Alternatively, you may need to increase the annual deposit and **also** make a one-time deposit. Another option is to plan several smaller annual

increases instead of one large increase. What you're looking for is a strategy that is workable, that solves the R4R problems, and that doesn't require new money. If you find that sort of strategy, great. If not, then it looks like you need a recapitalization transaction (that is, a transaction that involves raising new money).

Revisit your preservation goals. After developing a status quo cash flow projection and reviewing your regulatory options, have you changed your mind about any of the preservation goals you decided upon in Chapter 2?

COMPLETE EXERCISE 3-5
Revisit Preservation Goals

Consider long-term ownership goals. Now it's time to think about your goals as an owner. Ask yourself:

- What tenant populations do I want to serve?
- What minimum level of affordability do I want to offer to tenants?
- How long do I want to own this property?
- Concerning long-term financial and physical viability, how do I define "long term?" How do I define "viable?"
- Am I willing to make new investments in the property? If so, to what extent and for what reasons, and do I have requirements for a return on my investments?
- Do I need a minimum level of financial return, such as cash flow distributions or fee revenue, from the property?
- Do I want or need to obtain transactional revenue, such as a developer fee, net refinancing, or sales proceeds, from the property?
- If I want to own the property over the long term, am I willing to bring in an ownership partner, if necessary?

COMPLETE EXERCISE 3-6
Long-Term Ownership Goals

Sample long-term ownership goal statement:

"I want to be the sole general partner or managing member of the property while ensuring its long-term physical and financial viability, finding the funds I need for any needed investments and receiving cash flow and other benefits covering at least my ongoing costs for asset management."

Consider Adding Extra Preservation Goals

Now it's time to think about optional preservation goals, such as:

- Hiring a service coordinator.
- Providing better support for aging residents, like converting some units to include assisted living services.
- Increasing or decreasing the number of units available for rent.
- Making adjustments to the unit mix. For example, by converting unmarketable efficiencies into a smaller number of one-bedroom units.
- Adding common areas. For example, adding community spaces, commercial kitchen/dining rooms, or recreational amenities.
- Adjusting your affordability approach. How affordable are your units, and for whom?
- Reducing utility consumption by a certain percentage.
- Achieving an environmental designation for energy efficiency or some other green measure.
- Improving cash flow by a certain percentage.
- Refinancing to generate a certain amount of net cash proceeds.

COMPLETE EXERCISE 3-7
Optional Preservation Goals

Revise Your Cash Flow Projection: Best Option without Recapitalization

This projection might be the same as your status quo projection, or it might include any changes required by new/modified goals and any changes you can make without recapitalization, such as by exercising regulatory options or making operational changes.

Take your time!

The more you think about the kinds of changes you could make to improve the property's long-term viability, the more changes you're likely to identify. This will result in a better and more affordable property, in the long run. Involve your whole preservation team.

Best Option without Recapitalization*

Revenue or Expense Category	2014	2015	2016	2017
Revenues	$575	$585	$650	$660
Expenses	($445)	($454)	($463)	($472)
Reserve deposit	($40)	($40)	($100)	($100)
Minus capital needs	($75)	($75)	($100)	($150)
Plus reserve withdrawals	$75	$60	$100	$100
Debt service	($75)	($75)	($75)	($75)
Operating cash flow	$15	$1	$12	($37)

Rents are higher and there's a larger R4R deposit.
This is better but we'll still run into problems in 2017.

* *Dollars in thousands*

Changes that don't require new money:

- Increase rents (where possible).
- Get project-based vouchers from the public housing agency (PHA).
- Pursue a particular type of Section 8 contract renewal.
- Make physical, marketing, or management changes to address a vacancy problem.
- Pursue a local real estate tax exemption or reduction.
- Change property management practices.
- Change the property management agent.
- Pursue energy efficiency funding, such as from a weatherization program, from a utility company rebate, or a renewable energy tax credit.

COMPLETE EXERCISE 3-8
Revise Your Cash Flow Projection

Common Questions

Q Why do I need the sort of cash flow projection that is recommended in this workbook?

A It's the best way to help you spot potential future problems and to identify solutions early. It's also a good way to identify opportunities for improving property operations, and having the projection will be necessary when you negotiate for new sources of financing.

Q Why might my property require a recapitalization?

A There are lots of possible reasons. Here are some of the more likely ones: Maybe you waited too long to begin your planning and now there isn't time to build up the R4R before the big wave of capital needs hits your property. Or you may need new money to pay for building something new that your property really needs (for example, a commercial kitchen so that you can add assisted living services to your seniors property). Or, you might learn about funding that is tailor-made for your property (maybe, special funding that's only available for rural properties for the elderly in your state). Or maybe next year you will be able to refinance your first mortgage loan, when this year you couldn't do that because of a "prepayment lockout."

Q If I can preserve my property without a recapitalization, is there any reason to recapitalize anyway?

A Probably not. After all, the overarching objective is to meet your preservation and ownership goals, and it makes sense to select the least complicated transaction that meets those goals.

Q If I decide not to recapitalize, am I done working on my preservation strategy?

A You're probably done working on a strategy for now. You should update your CNA every 5 to 10 years. It's also a good idea to go through the exercises outlined in this workbook every 5 to 10 years.

Exercises

For exercises requiring the Financial Modeling Tool, go to https://www.hudexchange.info/resource/5239/recapitalization-excel-tool

Exercise 3-1, Regulatory Options

- Which regulatory options are possible **and** look like good ideas for your property? Why?

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- Which regulatory options are possible, but don't look like good ideas to you? Why?

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- Is any additional research needed to understand your regulatory options and whether they're good for you? What are your plans for carrying out that research?

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Exercise 3-2, Annual Financial Statements

- [ ] Assemble the property's annual financial statements for the most recent 3 years. Obtain the full financial statements, including the explanatory notes.
- [ ] Complete the worksheet of the Financial Modeling Tool titled, "AFS Worksheet."

Exercise 3-3, Status Quo Cash Flow Projection, Part 1

- [ ] Assemble information on staffing, contract costs, and other information you would normally take into account when developing an operating budget.
- [ ] Complete the worksheet of the Financial Modeling Tool titled, "Status Quo No Cap Needs."
- [ ] Does this projection raise any concerns? Does it suggest any opportunities for improvement?

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Exercise 3-4, Status Quo Cash Flow Projection, Part 2

- [ ] Obtain a long-term capital needs projection, either from a capital needs assessment (CNA) or from your property management company.
- [ ] Complete the worksheet of the Financial Modeling Tool titled, "Cap Needs."
- [ ] Complete the worksheet of the Financial Modeling Tool titled, "Status Quo CF with CNA."
- [ ] Does this projection raise any concerns? Does it suggest any opportunities for improvement?

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Exercise 3-5, Revisit Preservation Goals

- ☐ Go back to the exercises you completed for Chapter 2. Since reading Chapter 3 and completing its exercises, have you changed your mind about any of your preservation goals?

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Exercise 3-6, Long-Term Ownership Goals

- ☐ Consider the list of potential long-term ownership goals presented in Chapter 3. Develop a long-term ownership goals statement as the owner of your property.

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Exercise 3-7, Optional Preservation Goals

- ☐ Consider the list of optional preservation goals presented in Chapter 3. Are you inclined to adopt any optional preservation goals? Why or why not?

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Exercise 3-8, Revised Cash Flow Projection

- ☐ Complete the worksheet of the Financial Modeling Tool titled, "Preservation Cash Flow Projection," based on changes you could make that do not require a recapitalization.
- ☐ Can you achieve positive cash flow without a recapitalization? If not, why?

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Chapter 4 – Choose Your Preservation Options: Do I Need a Recapitalization?

In Chapter 3, you started by seeing what the future would look like if you don't change **anything** (the "status quo" projection). Then, you changed the projection to include everything you could do **without** bringing in new money (the "best option without a recapitalization" projection.) Now you're here in Chapter 4 because that "best option" wasn't good enough; it wouldn't preserve the property.

So you probably need a recapitalization, not because your team **wants** to do a recapitalization. Instead, you'll pursue a recapitalization only because you, as the owner, decide that is the best way to preserve the property.

This chapter will help you decide whether you need a recapitalization transaction. You will:

- Identify everything that has to change in order to preserve the property. Maybe you need to make some large-scale repairs, solve staffing problems, solve financial problems, exercise regulatory options, obtain a rent increase, make undesirable units more marketable, add supportive services, etc.
- Revisit your best option without a recapitalization.
- Revisit your preservation goals.
- Determine whether you can meet your goals without a recapitalization.

Identify All Needed Changes

☑ Make repairs
☑ Reduce utility costs
☑ Fix vacancy problem

What upfront repairs are needed? Typically, the answer to this question will come from a capital needs assessment (CNA).

Should I invest in energy-saving retrofits to reduce my utility costs? When you obtain a CNA, be sure to ask the provider to evaluate potential energy-saving retrofits. One industry standard for evaluating energy-saving retrofits is an ASHRAE Level 2 Energy Audit. The U.S. Department of Housing and Urban Development (HUD) often requires these in connection with CNAs for older properties.

Can I increase rents without violating my preservation objectives? When you renew a project-based Section 8 contract, you may have an opportunity to increase rents, perhaps as high as market rates. (See the Mark Up to Budget and Mark Up to Market renewal options discussed in Chapter 2.) Perhaps increasing rents on the **unassisted** units could be part of the solution, but there's a drawback: this would reduce affordability for your unassisted residents. For this reason, usually it's better **not** to raise rents on the unassisted units.

What can I do to address vacancy problems? If you have too many vacancies, work with your property manager or other experts to determine why the problem is occurring and how to correct the problem. Perhaps the current rents are too high. Perhaps physical changes can make units easier to market. Perhaps a different marketing strategy would help.

What's the best option for solving each problem? Generally, you will want to solve all of your property's problems as part of your recapitalization. For each problem, you will want to find the best solution, taking into account cost, difficulty, and likelihood of permanently solving the problem.

COMPLETE EXERCISE 4-1
Identify All Needed Changes
(at the end of the chapter)

Revisit Your Best Option without a Recapitalization

At the end of Chapter 3, you designed your "best option without a recapitalization." You're here in Chapter 4 because that "best option" wasn't good enough. But before you move forward toward a recapitalization, dust off your "best option without a recapitalization" and give it one more careful look; that's what Exercise 4-2 is for.

COMPLETE EXERCISE 4-2
Revisit Your Best Option without a Recapitalization

Revisit Your Preservation Goals

Determine whether your best option scenario would achieve each of the preservation goals you identified at the end of Chapter 3. You may find that you need to make some changes to your preservation goals, which is fine.

COMPLETE EXERCISE 4-3
Revisit Your Preservation Goals

Determine Whether You Can Meet Your Goals without a Recapitalization

Now, for the moment of truth; determine whether you can achieve your goals without completing a recapitalization transaction.

COMPLETE EXERCISE 4-4
Recapitalization or Not?

Common Questions

Q Should I prepay my existing first mortgage loan before it matures?

A That's often a good idea, because some useful regulatory options are available only if you prepay your mortgage. The most common example is Tenant Protection Vouchers (TPVs).

Q Can I prepay my existing first mortgage loan without refinancing it?

A Yes. It's often a good idea to design your preservation transaction without any must-pay debt. You will, of course, need a source of funds to pay off the remaining balance of your first mortgage loan.

Q Would it be a good idea not to have a must-pay first mortgage loan?

A Yes, particularly if your property has very low rents or very high operating expenses. Such properties often can't afford to have any must-pay debt.

Q I hear that some properties serving low-income seniors are converting some of their units to assisted living. Why might that be a good idea?

A From a public policy standpoint, it's much less expensive to serve low-income seniors who have supportive service needs at an affordable assisted living property as compared to a Medicaid nursing home unit, which costs two to three times as much per day per resident. Accordingly, some State Medicaid programs are encouraging these types of conversions to assisted living. Similarly, it's good for your residents, because they can age in place rather than having to move out once they need more services than your property currently provides.

Next Steps

If you decide that your best option without a recapitalization will fulfill all your preservation goals, you can skip the remaining chapters. Your next step is to implement your best option scenario. Congratulations on arriving at a good preservation strategy that meets your needs and preserves the property over the long term! On the other hand, if you decided that you do need a recapitalization, turn to Chapter 5.

Exercises

For exercises requiring the Financial Modeling Tool, go to https://www.hudexchange.info/resource/5239/recapitalization-excel-tool

Exercise 4-1, Identify All Needed Changes

- List everything the property needs to keep it viable and successful, and how you can achieve those objectives:

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Exercise 4-2, Revisit Your Best Option without a Recapitalization

- Take a second look at the cash flow projection, which you developed at the end of Chapter 3, for your best option without a recapitalization. Think about all of the changes you would make to achieve that scenario. Are you still happy with your choices? Do you still think this scenario is achievable?

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- Make any changes to your plan for the best option without a recapitalization that are needed to make it a scenario you'd be comfortable implementing.

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Exercise 4-3, Revisit Your Preservation Goals

- Go back to the preservation goals, long-term ownership goals, and optional preservation goals you listed at the end of Chapter 3. Would your best option without a recapitalization fulfill each of these goals?

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- Make changes to your preservation goals as needed. Would your best option without a recapitalization fulfill each of these revised goals?

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Exercise 4-4, Recapitalization or Not?

- Now that you've carefully reviewed your best option without a recapitalization and carefully reviewed your preservation goals, it's time for a decision. Are you going to pursue your best option scenario or move forward with a recapitalization transaction? Why?

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Chapter 5 – Design a Recapitalization

In this chapter, you will make a rough estimate for your recapitalization transaction. Don't worry about precision; we'll use rounded numbers and rules of thumb. Once you've designed your recapitalization transaction, you and your preservation team can fine-tune it (see Chapter 6 for details).

Designing a Recapitalization

Accurately estimating a recapitalization transaction is a job for experts. It's the owner's responsibility, however, to take the first step in designing a recapitalization transaction. In this chapter, you'll identify high-level categories of costs, consider how you might pay those costs, and consider how the property might perform after the recapitalization.

Estimate the Uses of Funds (Costs)

The standard method for describing a recapitalization is through a sources and uses (S+U) of funds statement that details how the transaction will be funded (sources of funds) and all of the costs of the transaction (uses of funds).

The actual construction/rehabilitation labor costs and materials costs are called hard costs. The financing costs, professional fees, initial reserves, and governmental fees are considered soft costs. In addition to hard costs and soft costs, typical transactions also include a developer fee, general contractor fees, and any costs to acquire additional land or property.

The following table shows how the uses of funds can add up depending on the extent of the rehabilitation (rehab). As the transaction becomes more complex, the soft costs—you can think of them as "the needed level of expert help"—escalate rapidly.

Total Uses of Funds/Total Development Costs*

Uses of Funds	Light Rehab	Moderate Rehab	Intensive Rehab	"Gut" Rehab
Hard cost of repairs	$10,000	$20,000	$40,000	$75,000
Hard cost contingency	$2,000	$4,000	$8,000	$15,000
General contractor costs	$1,700	$3,400	$6,700	$12,600
Miscellaneous soft costs	$2,700	$6,900	$16,400	$35,900
Soft cost contingency	$500	$1,400	$3,300	$7,200
Developer fee	$2,800	$5,800	$12,100	$23,700
Total uses of funds	$19,700	$41,500	$86,500	$169,400

**Dollars per unit*

Follow this list of steps to estimate the uses of funds for your recapitalization transaction:

1. Start with your estimate for upfront repairs.
2. Add a cushion to cover these two risks: (1) that you will identify additional repairs later; and (2) that some repairs will cost more than you estimate. In the industry, this cushion is called a hard cost contingency. The contingency should be 10 to 15 percent of the upfront repair costs at this early stage of the planning process.
3. Add a percentage to cover fees owed to the general contractor. These include: (1) general requirements (the builder's onsite overhead, such as the job superintendent's salary); (2) general overhead or builder overhead (the builder's offsite overhead costs, such as the purchasing department and the estimating department); and (3) the builder fee/profit. These costs typically total 10 to 15 percent of hard costs plus contingency.
4. Add an estimate for miscellaneous soft costs. A reasonable range is 20 to 30 percent of the sum of repairs, hard cost contingency, and general contractor fees.
5. Add an estimate to cover these two risks: (1) that you will identify additional soft costs later; and (2) that some soft costs will be higher than you estimate. In the industry, this cushion is called a soft cost contingency. The contingency should be at least 20 percent of total soft costs at this early stage of the planning process.
6. Add an estimate for a developer fee. This varies considerably, depending on the size and complexity of the transaction. A typical range is 11 to 18 percent of the total of all of the other costs. This results in a developer fee that is 10 to 15 percent of total project costs, including the developer fee.

COMPLETE EXERCISE 5-1
Estimate Uses of Funds (Costs)
(at the end of the chapter)

Determine the Sources of Funds (Payment)

The sources of funds include all of the ways you will pay for the costs of your recapitalization. Your transaction may have only one source of funds (for example, a new first mortgage loan, or HOME Investment Partnerships Program funds from your city or county), or it may have several. The more expensive your transaction is, the more likely it will require more complex forms of financing, such as 9-percent Low Income Housing Tax Credits (LIHTCs) and 4-percent LIHTCs.

Early in the process of planning a recapitalization, estimate the sources of funds. The Financial Modeling Tool includes two calculators that can help you make this estimate:

- The worksheet titled, "Finance Calculator" has a calculator that can estimate the potential amount of a new first mortgage loan, and the potential amount of tax credit equity.
- The worksheet titled, "S+U Calculator" has a calculator that can help you estimate the appropriate mix of sources of funds.

Unless you already have a good understanding of first mortgage financing and LIHTCs, you should use the TIP cells in the calculators to obtain additional information on how to use the calculators. You also may need the help of a housing consultant, lender, or accountant.

WHAT IS... the difference between 9-percent and 4-percent LIHTCs?

Both types of LIHTC are allocated by State allocating agencies, usually the State housing finance agency (HFA).

Nine-percent LIHTCs typically can fund 80 percent or more of the total cost of a transaction, and typically, the competition for 9-percent LIHTCs is intense. It is common for the State HFA to receive three to four (or more) applications for each 9-percent LIHTC transaction that can be awarded.

Four-percent LIHTCs typically can fund around 30 percent of the total cost of a transaction and are available for any transaction that utilizes tax-exempt bond financing of total soft costs. Many recapitalizations will utilize tax-exempt bond financing to obtain the 4-percent LIHTC. The disadvantage of tax-exempt bond financing is that there are relatively high fixed costs to issue and service the bonds; accordingly, bond financing typically is not financially efficient for small transactions.

Typical Preservation Sources of Funds at Different Levels of Rehabilitation*

Sources of Funds	Light Rehab	Moderate Rehab	Intensive Rehab	“Gut” Rehab
New first mortgage	$15,000	$15,000	$15,000	$15,000
9% tax credit equity	$0	$0	$0	$136,000
4% tax credit equity	$0	$12,000	$26,000	$0
HOME funds	$0	$12,500	$22,500	$12,500
Community Development Block Grants (CDBGs)	$4,500	$0	$0	$0
State Housing Trust Funds	$0	$0	$20,000	$0
Deferred developer fee	$200	$2,000	$3,000	$5,900
TOTAL SOURCES OF FUNDS	$19,700	$41,500	$86,500	$169,400
TOTAL USES OF FUNDS	$19,700	$41,500	$86,500	$169,400

Higher cost transactions require more complex financing approaches.

**Dollars per unit*

COMPLETE EXERCISE 5-2
Determine the Sources of Funds

Refinancing the First Mortgage Loan

Choosing whether to refinance the first mortgage loan is an important decision. This section poses a series of questions to think about as you face this decision.

Prepay or wait? Your first choice is whether to prepay your existing first mortgage loan or wait until you've made your last payment. Sometimes there are advantages to prepaying, but there may be advantages to waiting, as well. Discuss this question with your preservation team. (See Chapters 2 and 3 for details.)

Refinance with HUD? Another choice is whether to refinance with the U.S. Department of Housing and Urban Development (HUD), with your State HFA, with a bank, or with a conventional mortgage lender. You're probably already comfortable working with HUD, and refinancing with a loan insured by the Federal Housing Administration (FHA) is one way to continue that existing relationship. HUD's 223(f) loan program is designed for recapitalization transactions involving moderate levels of upfront repairs. HUD's 221(d)(4) loan program is a good choice if your recapitalization involves higher levels of upfront repairs. On the other hand, you may find an especially attractive loan outside of HUD.

Pick a loan type or a lender first? You might think that the next step would be to choose a loan type and then look for a lender, but actually the process often works the other way around. In fact, most borrowers select a lender first, and then they work with their lender to figure out the best type of loan. One reason the process often works this way is that most lenders offer a wide variety of loan types. Another reason is that, for most borrowers, the most important thing is their relationship with the lender. Later in this chapter's Common Questions section, we provide a list of questions to ask a lender.

How will your lender work with you? Most lenders work in teams. An originator works with you at the start. Once you select a lender, an underwriter and an analyst take over. Your day-to-day conversations may be with either the underwriter or the analyst. This team approach reduces the lender's costs and allows the lender to charge lower fees. The disadvantage is that you deal with several different people. Other lenders may offer a single point of contact. If you care which staffing approach the lender will use, be sure to ask about it up front.

Choose a short or long amortization? Another key choice is the amortization term (the number of years it will take to pay off the loan). The longer the amortization term, the lower your monthly payment will be. However, a shorter amortization period means your loan pays down ("amortizes") a lot quicker, leaving the property debt-free or nearly debt-free much sooner. Because typical apartment properties have high capital needs roughly every 15 years, there is a lot to be said for using 15-year loans. That way, the property is debt-free or nearly debt-free when the next wave of large capital needs hits.

Choose a balloon or self-amortizing loan? You'll also have to choose a loan term (the number of years before you have to pay off the loan balance). Many multifamily first mortgage loans are balloon loans that are due while a significant balance still remains (a 30-year loan that matures in 10 years is a very common loan type in the market-rate apartment business). A balloon loan will generally have a lower interest rate, but you'll have to refinance again in order to pay it off. The alternative is a self-amortizing loan, for which the loan term matches the amortization term. This loan will have a higher interest rate, but you won't have to refinance later on.

Be prepared for changes. You should expect that things will change as you go through the loan application and underwriting processes. For example, the loan amount may change, or the lender may impose special approval conditions. Discuss with your lender how you want the lender to keep you informed about the changes. Do you want all the details? Or just the highlights? Do you want to know the moment an issue arises? Or only after the lender has tried to resolve the issue first?

Major Types of Multifamily Refinancing Loans

Loan Type	Strongest Features	Weakest Features
FHA	Interest rate; small borrowers and small loans are welcome; specializes in affordable housing; national availability	Transaction costs
HFA	Specializes in affordable housing; may offer an unusual loan type that fits your needs	Varies by HFA and by loan type
LIHTC Syndicator	Single approval for LIHTC equity and first mortgage loan	Interest rate; requires significant guarantees for LIHTC equity
Fannie/Freddie	Interest rate; national availability; wide variety of loan products	Transaction costs; prepayment restrictions
Banks	Local presence; processing time; transaction costs	Difficultly obtaining a long-term loan; significant guarantees

Other Considerations

Make sure your lender will find you acceptable as a borrower, given a certain loan type. Some lenders specialize in large borrowers; and some loan products require significant borrower net worth.

Make sure your lender will find your loan amount acceptable, given the loan type. Some lenders and some loan products are focused primarily or even exclusively on large loans.

What will be the lender's level of control? Understand what refinancing would mean in terms of your control of the property. Ask the lender about reports, inspections, and compliance requirements. Usually, lenders make relatively modest requirements, but only for as long as you make the payments on time and otherwise comply with the loan terms. If the property gets into financial trouble, the lender will have a lot of rights and may even take control of the property.

Will there be a Section 8 rent impact? Sometimes, refinancing will result in lower Section 8 rents (for example, if your Section 8 rents are based on your budgeted costs). Sometimes, refinancing may be an essential step in becoming eligible for increased Section 8 rents.

Will there be a Section 8 renewal option impact? Check with your HUD representative or performance based contract administrator (PBCA) to see if the type of refinancing that you are considering would affect your choice of Section 8 renewal options. In particular, carrying out a second refinancing for a Section 202 property could affect your future Section 8 renewal options.

The Financial Modeling Tool includes a finance calculator that will help you estimate the potential amount of a new first mortgage loan.

Why might it be a good idea to take out a new first mortgage loan?

1. It could raise money by lengthening the amortization period, but amortization beyond 15 to 20 years adds viability risks. This is because the property will still owe most of the mortgage loan 15 years from now when the next big wave of capital needs hits.
2. It could raise money by reducing the interest rate.
3. It could raise money by increasing the mortgage payment, but that entails viability risks. This is because a higher mortgage payment means less cash flow available for repairs and for unexpected expenses.

Why might it be a bad idea to take out a new first mortgage loan?

1. You already have a favorable loan.
2. The transaction costs are too high to pay, no matter what advantages the new loan might provide.
3. The property really shouldn't have a first mortgage loan at all, because all of the cash flow is needed to pay for repairs and cover possible unexpected expenses.

What should I do if I decide to take out a new first mortgage loan? Prepare a revised long-term cash flow projection. Start with the status quo cash flow projection and make the appropriate changes. It may be that the only change is in debt service, but there commonly are changes in the reserve deposit, as well, and there may be other ripple effects of the new financing.

COMPLETE EXERCISE 5-2
Determine the Sources of Funds

COMPLETE EXERCISE 5-3
First Mortgage Debt

Cash Flow Projection, Revised to Reflect Proposed New First Mortgage Loan*

Cash Flow	2014	2015	2016	2017
Revenues	$575	$585	$725	$740
Expenses	($445)	($454)	($463)	($472)
Reserve deposit	($40)	($40)	($90)	($90)
Debt service	($75)	($75)	($110)	($110)
OPERATING CASH FLOW	$15	$16	$62	$68

New first mortgage. Financed rehab plus additional R4R funds.
Rent closer to market.

**Dollars in thousands*

Choosing the Best Options for Funding the Costs

Here are five types of preservation transactions, from simplest to most complex:

- Using the property's reserve and operating accounts, which are sufficient to cover preservation costs.
- Using a simple refinancing of the first mortgage loan (also known as a debt-for-debt recapitalization).
- Adding soft debt or grant funding (examples: HOME or CDBG funds from your local or State government, or a loan from the State Housing Trust fund).
- Adding 4-percent LIHTCs to the mix, but you'll need tax exempt bonds plus an LIHTC investor, and you'll probably have to refinance the first mortgage even if you otherwise wouldn't want to.
- Using a costly or complicated funding approach that involves 9-percent LIHTCs or other funding that's difficult to get.

Consider whether the existing operating account and/or reserve for replacement (R4R) account can be used to help pay for the transaction. If you have an FHA-insured loan now and are refinancing with another FHA-insured loan, generally the answer is no. (FHA generally requires the project accounts to stay with the property.) If you have a different set of circumstances, you may be able to use some of these project account balances to help pay for your transactions.

Some HUD-assisted properties have what is called a residual receipts account. Residual receipts funds are accumulated from positive cash flow from prior years, over and above the amount that could be distributed to you. There are two very different types of residual receipts accounts: the first has funds that belong to you once the property's first mortgage loan is paid off; the second has funds that belong to HUD.

COMPLETE EXERCISE 5-4
Choosing the Best Mix of Funding Sources

Recapitalizations That Require a Sale

If your recapitalization requires any form of tax credits, it will also generally require a sale. If your recapitalization does not require tax credits, it's likely you will have a choice in deciding whether to sell or not. If you must sell the real estate, you may have an opportunity to stay on as general partner/managing member, or in some other role that doesn't give you full control, but will allow you to have some influence on property operations.

When deciding whether you want to stay on, and if so, in what role, pay close attention to the requirements of each of your funders. Ideally, you will have a combination of general experience, financial guarantees, and experience with the type of funding that each funder will find acceptable. In that situation, you should have an option to remain in full control of the property. If not, you would need to sell to or partner with someone who does meet these requirements. For example, it's very common for tax credit investors to require the owner-developer to have prior tax credit experience, significant financial guarantees, and larger portfolios.

If you decide that bringing in a partner while retaining some control for yourself is the best approach, discuss it thoroughly with potential partners. Make sure that you and your potential partner are compatible, and that you are in agreement about how you will make decisions, share responsibilities, and share control.

In the Common Questions section later in this chapter, we include a list of things to look for in a potential purchaser/partner and a list of questions to ask.

COMPLETE EXERCISE 5-5
Recapitalizations That Require a Sale

COMPLETE EXERCISE 5-6
Revisit Preservation Goals

Common Questions

Q If my existing loan matures and I don't refinance, will my rents decrease as a result of not having a mortgage payment any longer?

A If your rents adjust according to a factor (for example, an operating cost adjustment factor), no. However, if your rents adjust according to your proposed operating budget, your rents probably would decrease the next time you request a budget-based rent adjustment.

Q I estimate that my property needs about $10,000 per unit of repairs/rehab. If I raise $10,000 per unit, will that be enough to cover the recapitalization transaction?

A Probably not. For a typical recapitalization involving a general contractor and developer, refinancing the first mortgage loan, and involving rehab costing $10,000 per unit, the total cost of the recapitalization might be $20,000 per unit or more. Refer to the chart, "Total Uses of Funds/ Total Development Cost" at the beginning of this chapter. You'll see that typically, the **total** cost of the transaction tends to be about twice the rehab cost.

Q Why should I think about making energy-saving retrofits?

A There are many opportunities for smart investments: modest additional upfront investment can produce very significant energy savings in the future. Also, more energy-efficient systems can help make the property more marketable and can help reduce tenant turnover.

Q What are some examples of smart energy-saving retrofits?

A Carefully select heating and cooling equipment that will give you a good ratio of upfront cost to energy savings (and lower utility bills) over time. Recent advances in boilers and lighting offer significant energy savings, as does increasing your building insulation. You can also invest in water-saving toilets, low-flow shower heads, and low-flow faucet aerators. Additionally, most experts expect utility costs to rise faster than general inflation, which means it would be smart to make investments in energy efficiency.

Q What questions should I ask a potential lender?

A Will I need to make any changes to the property or to the ownership entity's legal structure to be eligible for this loan?

How likely is it that this loan will be approved? Are there any characteristics of this loan that are aggressive, relative to the normal underwriting and approval criteria for this type of loan?

How long is it likely to take between now and loan approval? Between loan approval and closing? At what point can I lock the interest rate?

Will any of your requirements affect any of the other funding sources that I'm considering?

What due diligence reports will you require?

Will you provide a good faith estimate of the transaction costs?

Does this type of loan impose any restrictions on tenant incomes or rents?

Is the loan assumable, if I decide to sell the property during the loan term?

What are the requirements for replacement reserve, real estate tax escrow, and insurance escrow? Will any other reserves or escrows be required?

Are there any restrictions on prepayment?

What types of financial reports or operating reports will this loan require?

Q What should I look for in a potential partner, who will share responsibility for the property with me in the future?

A
- Whether they've recently completed a recapitalization with the same HUD office for a similar property
- Whether they listen to you and treat you like a partner, not a commodity
- Whether they can talk to you about complicated topics in a way that you can understand
- Whether they're comfortable with your preservation goals, including how you want to work with tenants (especially concerning relocation and rehab coordination)
- Whether they're ready to work with you in a way that meets your needs for the amount, type, and frequency of feedback
- Whether they accept the role you want to play after the sale
- Whether they tell you up front about any features of your recapitalization that might be problematic
- Whether they are prepared to compensate you with an amount and in a way that's acceptable to you
- If I decided to work with you, who exactly would I be in contact with throughout the process?
- Whether you have reason to believe they can and will bring the transaction to a successful and timely close without having to come back to you to renegotiate

Q What questions should I ask a potential partner, who will share responsibility for the property with me in the future?

A What is your track record with this type of recapitalization? Have you done similar recapitalizations recently, in this geographic area? Can you provide references?

How would you work with me to figure out the best approach to the recapitalization?

Do you accept the type of role I want to play after we close the sale?

Why should I partner with you instead of one of your competitors?

If I decided to work with you, who, exactly, would I be in contact with throughout the process?

Based on your experience, how long should it take to complete this transaction? What could speed it up or slow it down?

I'm planning to rehab the property by doing [describe] and estimate that it will cost $[cost] per unit. Does that sound reasonable? How could I increase or decrease those costs?

Do you have any other suggestions for me regarding recapitalization or anything else?

Q What's the difference between a general partner and a managing member?

A If the ownership entity is structured as a limited partnership, the partner who makes the day-to-day operating decisions is called a general partner, and the other partners are called limited partners. If the ownership entity is structured as a limited liability company, the member who makes the day-to-day operating decisions is called the managing member, and the other partners are simply called members.

Q What's involved in becoming a co-general partner or a co-managing member?

A Some recapitalizations involve one general partner who is responsible for financial and property management, and an original owner as a co-general partner (or perhaps as a "special limited partner") responsible for specified tasks, such as resident relations, supportive services, or acting as a local community liaison. If the ownership entity is structured as a limited liability company, the original owner might become a co-managing member responsible for specific tasks.

Q What should I look for in a potential purchaser when I'm planning to sell and won't be involved in the property after the sale?

A

- Whether they've recently completed a recapitalization with the same HUD office for a similar property
- Whether their preservation approach is acceptable to you, including how you want to work with tenants (especially concerning relocation and rehab coordination)
- Whether they tell you up front about any features of the proposed sale that might be problematic
- Whether they are prepared to pay a price that's acceptable to you
- Whether you have reason to believe they can and will bring the transaction to a successful and timely close without having to come back to you to renegotiate

Q What questions should I ask a potential purchaser when I'm planning not to be involved in the property after a sale?

A

- What is your track record with this type of purchase and sale transaction
- Have you recently done similar acquisitions in this geographic area
- Can you provide references
- Why should I sell to you instead of one of your competitors
- If I decided to work with you, who exactly would I be in contact with throughout the process
- Based on your experience, how long should it take to complete the sale
- What could speed it up or slow it down
- Do you have any other suggestions for me regarding the sale or anything else

Next Steps

You have designed a recapitalization transaction that will preserve your property and meet your preservation goals. Your plan includes all of the costs that will be required to carry out the transaction, and it includes an appropriate mix of funding sources. Now you're ready to fine-tune your recapitalization plan. Turn to Chapter 6.

Exercises

For exercises requiring the Financial Modeling Tool, go to https://www.hudexchange.info/resource/5239/recapitalization-excel-tool

Exercise 5-1, Estimate the Uses of Funds (Costs)

☐ Go to the worksheet of the Financial Modeling Tool titled, "S+U Calculator." In the section titled, "Key Assumptions," fill in the first six key assumptions, through developer fee. What is the total estimate for uses of funds, in dollars per unit?

Exercise 5-2, Determine the Sources of Funds

☐ Go to the worksheet of the Financial Modeling Tool titled, "Finance Calculator." Complete this worksheet by filling in the cells with light green background and dark green bold font. If you hold the mouse pointer over a TIP cell you will find guidance for that row of the calculator.

Estimated Low Income Housing Tax Credit (LIHTC) equity is: ___ per unit and ___ % of the total development cost (TDC)

Estimated hard debt is: ___ per unit and ___% of the TDC

Estimated soft debt is: ___ per unit and ___% of the TDC

☐ Now go to the worksheet of the Financial Modeling Tool titled, "S+U Calculator." In Exercise 5-1, you estimated the uses of funds. Update this estimate to reflect what you learned in the first part of this exercise (your more detailed estimate of costs).

☐ Now go to the worksheet of the Financial Modeling Tool titled, "Key Assumptions." Enter your assumptions, starting with "Supportable Hard Debt ($ per unit)." If you hold the mouse pointer over a TIP cell you will find guidance for that row of the calculator. Review the resulting sources and uses of funds statement to make sure it reflects your current best estimate.

☐ Save and print the "S+U Calculator" worksheet so you have a record of your calculations.

☐ Does this estimate raise any concerns or identify any good or bad preservation issues?

Exercise 5-3, First Mortgage Debt

☐ Are you inclined to prepay your existing loan, or take out a new first mortgage loan? Explain why.

____

____

Exercise 5-4, Choosing the Best Mix of Funding Sources

☐ What do you think is the best mix of funding sources for your recapitalization transaction? Why?

____

____

Exercise 5-5, Recapitalizations That Require a Sale

☐ Do you think that selling the property is likely to be part of your recapitalization transaction? If so, do you plan to stay on in some role, or to sell outright? If you want to stay on, what role do you think is appropriate? Briefly discuss why you came to these conclusions.

____

____

Exercise 5-6, Revisit Preservation Goals

☐ Go back to the preservation goal exercises you completed for Chapters 2, 3, and 4. Did you learn anything in Chapter 5 that changes your preservation goals?

____

____

Chapter 6 – Fine-Tuning Your Recapitalization

This chapter outlines key steps that you and your preservation team will need to take to fine-tune your recapitalization plan.

In this chapter, you'll work on these tasks:

- Estimate uses of funds line by line.
- Carefully estimate revenues and expenses during construction and/or completion on a month-by-month basis.
- Carefully estimate sources and uses during construction and/or completion on a month-by-month basis.
- Create a long-term preservation cash flow projection.
- Revisit preservation goals.
- Understand the underwriting and approval processes.

Estimate Uses of Funds Line by Line

At this point, you should make a more accurate and more detailed estimate of the uses of funds. Obtain a fairly complete list of the costs you might incur. The Financial Modeling Tool includes a sample list on the "Preservation Sources and Uses" worksheet. The following questions also will help you develop a more detailed estimate.

Note: This is an iterative process!

Changes in funding strategy may result in changes in cash flow, which may change the amount of your new first mortgage, which may have ripple effects on your soft debt and grant funding. Each new funding source adds transaction costs, and so forth.

WHAT IS...

the difference between the total uses of funds and the total development cost (TDC)?

There is no difference; they mean the same thing.

Paying Off an Existing First Mortgage Loan

What costs should I expect related to paying off the existing first mortgage loan? If your transaction involves prepaying (or otherwise paying off) your existing first mortgage loan, you can expect the following types of costs:

- Paying off the remaining principal balance
- Paying any interest since the most recent monthly payment
- Potentially, a prepayment penalty
- A small fee to the lender for processing the payoff
- Small fees for recording the associated legal documents

Rehab/Construction Costs

Do I need a general contractor for my rehab projects? If repairs are significant, you will probably need a general contractor. However, a modest repair list could be within the capabilities of your property management company. If your property management contract does not cover these types of tasks, you would need to work with your property management company to negotiate a fair level of compensation.

Do I need a payment and performance bond?
The purpose of a payment and performance bond is to guarantee that construction will be completed in accordance with the plans and work specifications. Some funders may require a bond, and you may decide that you will require one, as well. Basically, the bond guards against the bankruptcy of the general contractor, and against any other failure of the general contractor to complete the project. The provider of the bond (usually a large insurance company) will decide whether the general contractor is an acceptable risk and will decide what to charge for the bond. Typical bond costs are in the range of 1 percent of the construction contract. Be aware that small or less experienced general contractors are unlikely to qualify for a bond, so if your project will require one, be sure to make it very clear when you solicit bids from general contractors that you will require them to be bondable.

How much of a contingency do I need to add to the known costs to cover potential costs and overruns?
Industry rule of thumb says to estimate at least a 20 percent hard cost contingency early in the transaction; then less once there are plans and specifications in place; and then less again once there is a firm-fixed-price construction contract. Typically, you should estimate a final hard-cost contingency of at least 10 percent for rehab and at least 5 percent for new construction.

Does a payment and performance bond guarantee that I won't have any cost overruns?

No. The bond does not cover the risk of change orders. However, the bond does cover the risk of cost overruns in completing the project in accordance with the plans and work specifications.

Hiring a Development Consultant

Should I hire a development consultant for my recapitalization transaction? You and your preservation team may be able to carry out a relatively modest recapitalization on your own, but a more complex transaction is likely to require a developer or development consultant who is experienced in this particular type of recapitalization. The development consultant needs to be experienced not only in managing the costs for this transaction, but also in obtaining the sources of funds for this transaction and in meeting the various requirements of the funding providers. For example, if your transaction will involve historic preservation tax credits, the tax credit investor is very likely to require a developer or development consultant who is experienced in historic preservation tax credit transactions.

Interim Financing and Associated Financing Costs

Do I need cash to cover costs between now and when the recapitalization is ready to be implemented? Yes. The industry term for the costs you're likely to incur between now and then is "pre-development costs." Examples might include fees for the experts on your preservation team, initial architectural studies, costs for preparing funding applications, and costs for any "third party reports," such as a capital needs assessment (CNA) or environmental report. Typically, HUD does not allow for these costs to be paid from the property's operating account, so you will need either special permission from HUD, or another source of funds.

Do I need cash to cover negative cash flow while the upfront repairs are being done? If your repairs will require temporary relocation of residents, or if occupancy will be lower than normal during the repair period for any other reason, you need to consider how much revenue will be lost during the repair period. If the revenue losses will be significant, you will need cash to cover any negative cash flow. The industry term for this is "operating deficit escrow."

Will I need interim financing while repairs are being made and the property is being stabilized operationally? Often, recapitalizations involve paying off your existing first mortgage loan before the start of the repairs and obtaining your new first mortgage loan only after repairs are completed and the property is fully leased. It's also common for some sources of funds (notably, tax credit equity) to be received relatively late in the development period. In those types of transactions, you may need a short-term loan during the repair period. The industry terms for these types of loans are "interim financing," "construction loan," and "bridge loan."

Where would I obtain interim financing? Often, the first mortgage lender offers a construction loan, and the tax credit equity investor offers a bridge loan. In other situations, you will need interim financing from a third party. The most common source is a bank. The bank will pay very close attention to the conditions that you must satisfy to receive the funding that, in turn, you will use to repay the bank. The bank also is likely to require you to guarantee that the interim financing will be repaid.

What sorts of guarantees am I likely to be asked to give in a recapitalization transaction? Following is a brief discussion of the most common types of guarantees. Typically, funders will want a "guarantee of completion": a guarantee that the upfront repairs will be completed in accordance with plans and specifications, and that the local government will issue certificates of occupancy. Often, funders will want an "operating deficit guarantee": a guarantee that, until the property's cash flow reaches the underwritten level and stays there for some period of time, the property owner will promise to fund any negative cash flow. If there will be a construction loan, bridge loan, or other interim financing, you will likely be asked to guarantee that the loan will be repaid.

WHAT IS...

the difference between a construction loan and a bridge loan?

These two terms are basically interchangeable; both refer to interim financing during the development period. Generally, the term "construction loan" is used when the source of repayment is the new first mortgage loan. The term "bridge loan" is used when the source of repayment is tax credit equity or some other source of funds besides a new first mortgage loan.

What financing costs should I expect for the interim financing? There will be an interest expense, called "construction period interest" or "construction loan interest." There also may be an upfront financing fee that is often a percentage of the loan amount, and upfront transaction costs, such as a requirement for the borrower to pay the lender's legal fees.

What costs should I expect for third party reports? You should expect to pay for a set of third party reports as part of the underwriting process. Typically, these are required by the first mortgage lender and are shared with the other funders. Commonly, these reports include:

- An appraisal estimating what the likely market value of the property will be after all rehab is completed.
- A boundary survey of the property as it currently exists. After completion of construction, typically an additional as-built survey will be required, updating the initial boundary survey to include locations of all buildings and other improvements made during the rehab.

- A Phase I Environmental Site Assessment to determine any environmental risks, such as underground storage tanks, risks associated with prior uses of the property, lead-based paint, asbestos, and radon.
- A capital needs assessment (CNA) to help the lender determine the best plan for funding the replacement reserve account.
- A seismic report if the property is located in an earthquake hazard zone.

Less commonly, the lender may require additional third party reports, such as a structural engineering assessment (if, for example, there are cracks in a building's foundation).

Closing Costs

Certainly there will be legal fees. You should also expect to pay for title insurance, plus "recordation fees" that your attorney will have to pay, to deposit ("record") important legal documents such as your mortgage in the local land records.

At the initial closing, you will be reimbursed for most or all of the pre-development costs that you have paid until now. These might include application fees, lender fees, building permit fees, architect fees, and so forth.

WHAT IS...

the difference between initial closing and final closing?

Typical preservation transactions involve two closings. The first is an initial closing that takes place once all funding sources are fully committed and all permits and other entitlements are in place to allow the transaction to go forward. At the initial closing, typically the borrower (you) receives the "first draw" of funds from the interim financing to cover upfront costs of the transaction. Each month thereafter, until the end of the development period, you'll receive a monthly draw from the interim financing to cover construction costs and other costs incurred since the previous draw.

The final closing takes place after construction is completed. Usually, the final closing is the time when the permanent first mortgage loan is put in place (typically, the first mortgage lender requires completion of construction, issuance of certificates of occupancy, achievement of stabilized occupancy, and achievement of stabilized cash flow before the permanent loan is eligible to be funded).

Tip: Each new funding source adds a new set of transaction costs.

When you receive initial funding offers, known as "conditional commitments," read them carefully. They not only state the potential amount of funding and the conditions that you must satisfy to receive the funding, but they also discuss the fees and other costs that you will be required to pay.

Permanent Financing and Associated Financing Costs

What financing costs should I expect for a new first mortgage loan?

- An origination fee/financing fee, usually stated as a percentage of the loan amount.
- Other percentage fees for specific services the lender is providing, which may include a placement fee, processing fee, or a custodial fee.
- Often, the lender requires the borrower to pay the lender's legal fees.
- If the first mortgage is insured or guaranteed (the industry term is "credit enhancement"), there will be upfront fees associated with the credit enhancement. For example, if the loan will be insured by the Federal Housing Administration (FHA), there will be a FHA examination fee, FHA inspection fee, and FHA initial mortgage insurance premium.

What financing costs should I expect for new soft debt, such as from HOME Investment Partnerships Program funds, Community Development Block Grants (CDBGs), or State Housing Trust funds?

Talk to the lender. It's relatively common for the lender to require the borrower to pay the lender's legal fees. Other upfront application fees and/or financing fees are relatively uncommon for these types of loans.

What financing costs should I expect for tax credit equity?

- There will be application fees that you will pay to the State allocating agency.
- You will have accounting fees to cover reports that are required under the tax credit program. Typically, this includes a cost certification report that establishes the amount of development cost that you actually incurred.
- Typically, the tax credit investor does not charge financing fees to the project; instead, the tax credit investor considers its financing costs when deciding how much tax credit equity to offer to pay.
- However, there is usually a fee for compliance monitoring or asset management or investor services, to cover the investor's ongoing costs to make sure the project is maintaining compliance with tax credit requirements. Sometimes 100 percent of that fee is charged upfront as a development cost, and sometimes it is charged only as an annual fee to be paid from project cash flow.
- The tax credit investor may require you to pay inspection fees to cover the cost of a construction monitor hired by the tax credit investor.
- It is very common for tax credit investors to require significant initial reserves, which are discussed later in this section.

Other Soft Costs

Will I need special insurance during the rehab period?

Commonly, you will need builders risk insurance during the rehab period. Among other things, this covers the risk of fire damage caused by the construction/rehab process.

Do I need an architect? If your repair list is modest, you may not need an architect. If you're reconfiguring units, constructing a new building, or changing the exterior of a building, you will need an architect. Architect fees vary considerably. A typical range is 2 to 7 percent of the construction cost.

What other expert help do I need? Typical transactions require an attorney, and you may need an accountant as well. If you haven't done this type of transaction before, you will need a housing consultant who is experienced with the type of transaction your property will need. You may also need an engineer to evaluate structural issues, environmental issues, or a complex heating or cooling system.

Will I need building permits? Typically, repairs above a minimal level will require a building permit from the local government. You will need someone, typically an architect, to complete the application, and you will need to pay the permit fees.

Will I need a resident relocation plan? If your transaction will involve temporary relocation of residents, you will need to develop a relocation plan for approval by the U.S. Department of Housing and Urban Development (HUD). A best practice is to hire a consultant who has managed similar relocation efforts, not only to carry out the relocation effort, but also to help you design it and to estimate its cost. Also see HUD's Real Estate Acquisition and Relocation website at **http://www.hud.gov/relocation**.

- ☑ Relocation Costs
- ☑ Moving costs
- ☑ Temporary housing
- ☑ Utilities
- ☑ Relocation consultant

Initial Reserves and Escrows

Do I need new cash to bolster my reserve for replacement (R4R) account? Once you have a good year-by-year estimate for your future repairs, you and your preservation team will figure out the best way to pay for those future repairs using some combination of an initial deposit to replacement reserve (IDRR) and an ongoing annual deposit to replacement reserve (ADRR). The IDRR is a use of funds, whereas the ADRR is paid every month from operating cash flow. You may need an IDRR if your existing reserve balance is below the required minimum or if the future repairs are particularly heavy in the early years (a front-loaded capital needs schedule).

Do I need new funds to establish new reserves such as a debt service reserve or operating reserve? If your transaction will utilize tax credits, it is likely that the tax credit investor will require an operating reserve, a debt service reserve, or both.

What other initial reserves might be required by a funder?

- If your property has project-based Section 8 rental assistance or some other rental assistance that is not under a long-term contract, a funder might require an additional reserve to cover the risk that the rental assistance contract is not renewed in the future, the Section 8 subsidies might not be paid on time, and/or the property might have additional vacancy losses as a result.

WHAT IS...

the difference between an operating reserve and a debt service reserve?

Both types of reserves are intended to be available to cover negative cash flow in the future. Typically, the amount of an operating reserve is defined as a particular number of months of budgeted operating expenses, and the amount of a debt service reserve is defined as a particular number of months of first mortgage payments. It is common for tax credit transactions to include both an operating reserve and a debt service reserve.

- If your property is located in a storm hazard zone, a funder might require an additional reserve to protect against the risk of insurance cost spikes (unfortunately, it is common for insurance costs to increase dramatically after a major storm).

Do I need new cash to cover escrow shortfalls? Typically, the first mortgage lender will require an escrow for real estate taxes and an escrow for property insurance. The property makes monthly payments into each escrow, so that when the taxes and insurance are due, there will be enough money in the escrow accounts to make the payments. If your transaction is likely to result in increased tax or insurance costs, you will need to make room in your uses of funds estimate to cover the needed additional deposits to these escrows.

Lease-Up Costs

Will I have one-time costs to lease up the property? In a preservation transaction, you would not typically have these sorts of costs, but you might, especially if your rehab plan calls for residents to move out for long periods of time (some residents may relocate permanently rather than face a move-out, which requires living in a temporary residence for some time and then moving back in).

Will I need to purchase new furniture, etc.? In a preservation transaction, you would not typically have these sorts of costs, but you might. For example, if you are adding a community room, you might incur such costs.

COMPLETE EXERCISE 6-1
Estimate the Uses of Funds, at the end of the chapter

Estimate Revenues and Expenses Month by Month

During the rehab period, and until the property returns to normal operations, revenues, expenses, and cash flow will fluctuate month by month. It is important to estimate these fluctuations, so that you can be prepared to cover any negative cash flow. Here are the sorts of fluctuations that might occur:

- **Rents.** If you have a large number of unassisted units with rents at or near market rates, you may find the need to reduce rents during the rehab period to maintain occupancy.
- **Vacancy.** If your rehab plan includes temporary relocation, one common strategy is to maintain a 20-percent or higher vacancy rate during rehab, using the vacant (but rehabbed) units to provide temporary lodging for residents during the time their units are being rehabbed. If you follow this strategy, your cash flow will drop and may well turn negative during the rehab period.
- **Staffing costs.** You may have higher staffing costs during the rehab. For example, you may need to hire a relocation coordinator.
- **Maintenance.** The costs necessary to maintain the grounds may be higher during the rehab, because you (or your grounds contractor) will have to deal with construction equipment and construction workers.

Typically, owners use spreadsheet software and a revenue and expense format that they are familiar with, such as the format they normally use for operating budgets, to estimate revenue and expenses.

Make room in your uses of funds budget for an operating deficit escrow if you expect negative cash flow during any part of the rehab period.

COMPLETE EXERCISE 6-2
Month by Month Cash Flow Estimate During Rehab

Month by Month Revenue and Expense Estimate*

Revenue and Expenses	Now	Month 1	Month 2	Month 3
Gross potential rent	$51	$51	$51	$51
Vacancy loss	($3)	($10)	($10)	($10)
Expenses	($37)	($37)	($37)	($37)
Reserve deposit	($3)	($3)	($3)	($3)
Debt service	($6)	($6)	($6)	($6)
OPERATING CASH FLOW	$2	($5)	($5)	($5)

Account for rehab and relocation by projecting higher vacancy loss.

**Dollars in thousands*

Estimate Sources and Uses Month by Month

Develop an estimate of construction period interest. Commonly, owners estimate construction period interest using a rule of thumb like this: "My construction loan is $2 million, construction will take 12 months, and the interest rate is 5 percent. The average amount I've borrowed will probably be $1 million. So, $1 million multiplied by 5 percent for 12 months is $50,000." But this rationale is problematic for several reasons. First, it's common for the first draw to be large. If that happens, then the average balance will be well above half of the loan amount. Second, it's very common for there to be many months between construction completion and the new permanent loan. During that period, the entire construction loan is outstanding, and interest will be accruing at a rapid rate.

Accordingly, it's a best practice not to use a rule of thumb; instead, make a careful month by month estimate of sources and uses. Start with the initial closing, and end when all of the permanent sources of funds will have been received.

Use spreadsheet software and a sources-and-uses format that is convenient (perhaps a format that one of your funders already requires).

Month by Month Sources and Uses Estimate*

Sources and Uses	Initial Closing	Month 1	Month 2	Month 3
New first mortgage	$0	$0	$0	$0
9% tax credit equity	$10,000	$0	$0	$0
HOME funds	$5,000	$0	$7,500	$0
Deferred developer fee	$5,900	$0	$0	$0
Construction loan	$2,000	$18,500	$11,000	$18,500
TOTAL SOURCES OF FUNDS	$22,900	$18,500	$18,500	$18,500
Hard cost of repairs	$2,500	$10,000	$10,000	$10,000
Hard cost contingency	$500	$2,000	$2,000	$2,000
General contractor costs	$400	$1,700	$1,700	$1,700
Miscellaneous soft costs	$10,000	$4,000	$4,000	$4,000
Soft cost contingency	$2,000	$800	$800	$800
Developer fee	$7,500	$0	$0	$0
TOTAL USES OF FUNDS	$22,900	$18,500	$18,500	$18,500

Note the big draws on the construction loan in months 1 and 3.

** Dollars per unit*

Construction Loan Interest. In the previous table, interest on the construction loan (and/or bridge loan) is included in the "miscellaneous soft costs" line. Construction loan interest will be a small amount early in the development period, but often it becomes a very large amount later on. Once you know how much each month's construction loan (and/or bridge loan) draw is likely to be, it's easy to calculate the likely construction period interest. In the previous example, if the interest rate is 5 percent, the calculation would look like this:

Month by Month Construction Period Interest*

Construction Loan	Initial Closing	Month 1	Month 2	Month 3
Beginning balance	$0	$2,000	$20,500	$31,500
Draws	$2,000	$18,500	$11,000	$18,500
Ending balance	$2,000	$20,500	$31,500	$50,000
MONTHLY INTEREST AT 5%	$0	$8	$85	$131

** Dollars per unit*

COMPLETE EXERCISE 6-3
Month by Month Sources and Uses Estimate

Create a Long-Term Preservation Cash Flow Projection

Starting with the status quo cash flow projection, create a long-term cash flow projection reflecting how the property should perform if the recapitalization is carried out.

The first year or two will come from your month by month revenue and expense estimate during the development period.

- Does the recapitalization change the rents and/or vacancy losses?
- Does it add or subtract other income, such as laundry and vending income?
- Will it change your real estate tax expense?
- Will it change your insurance expense?
- Will you have asset management fees or investor service fees because of how you're financing the recapitalization?
- Will it change the composition of your onsite staff?
- Will it change your utility costs?
- Will it change your property management fee?

Long-Term Preservation Cash Flow Projection*

Cash Flow	2014	2015	2016	2017
Revenues	$575	$585	$725	$740
Expenses	($445)	($454)	($463)	($472)
Reserve deposit	($40)	($40)	($90)	($90)
Debt service	($75)	($75)	($110)	($110)
OPERATING CASH FLOW	$15	$16	$62	$68
Financed rehab plus additional R4R funds; new first mortgage; rent increase closer to market				

** Dollars in thousands*

COMPLETE EXERCISE 6-4
Long-Term Preservation Cash Flow Projection

Revisit Preservation Goals

The next step is to determine whether anything you've learned in this chapter changes your mind about your preservation goals.

COMPLETE EXERCISE 6-5
Revisit Preservation Goals

Understand the Underwriting and Approval Processes

First you will apply for funding. Next, the potential funders will underwrite the project and your preservation plan. After underwriting is completed, each funder will decide whether to offer a conditional commitment. Once you accept the conditional commitment and satisfy all of the conditions, you will be ready to schedule the initial closing.

What should I expect during the underwriting process?

- **Guarantees.** Tax credit investors, in particular, are likely to require the owner-developer to provide a guarantee of completion (a guarantee that the project will be completed and will receive certificates of occupancy) and an operating deficit guarantee (a guarantee that any negative cash flow during lease-up and stabilization will not exceed a stated amount). A funder who requires these types of guarantees will also require a high net-worth guarantor.

- **Flood hazard zone.** If any part of the property is located inside the 100 year or 500 year flood hazard zone, you will need flood insurance. If any part of the property is in a flood hazard zone, that's a more significant problem.
- **Wetlands.** If any part of the land is a designated wetland, you will likely be required to agree not to disturb the wetland. If any part of the improvements lies within a wetland, that's a more significant problem.
- **Zoning.** If the zoning rules have changed since the property was developed, you will need one or more special endorsements (additions) to your new title insurance policy.
- **Parking.** If the amount of parking at the property is below the amount that was originally required when the property was developed, that's a big problem. If you met the original parking requirement but don't meet the current parking requirement for your zoning, that's a more manageable problem that often can be solved in various ways. The most common solution is to add an endorsement to the title insurance policy.
- **Storage tanks.** If the Phase I Environmental Site Assessment reveals an underground storage tank at your property, it is likely that you will be required to remove it. You may have an option to replace it with an above-ground storage tank that meets all current requirements. If you have an above-ground storage tank, expect it to be evaluated to determine whether it meets all current requirements.
- **Lead-based paint and asbestos.** If your property has lead-based paint (LBP) or asbestos-containing materials (ACMs), you will need to decide whether to remove (abate) or develop and implement an operating and maintenance plan that otherwise mitigates the LBP/ACMs. Typically, the firm that prepared the Phase I Environmental Site Assessment can help you make this decision and, if you choose, can prepare a recommended plan and provide training to your staff on how to implement it.
- **Radon.** If the property is tested and found to have an elevated level of radon, it is very likely that you will be required to provide radon mitigation. If the property is located in a radon hazard area, and the property does not already have radon mitigation, it is possible that you will be required to provide radon mitigation even if the property is tested and found to have only low levels of radon.
- **Earthquake/seismic.** If the property is located in an earthquake-prone area ("Seismic Zone 3 or 4"), you will likely be required to obtain a "seismic report" to evaluate whether the buildings meet current requirements for earthquake resistance.
- **Revenues and expenses.** All of the potential funders will closely examine your revenue and expense projections for reasonableness. In particular, they will look for:
    - **Real estate taxes.** Your rehab plans could result in increased or decreased real estate taxes.
    - **Property insurance.** A lender or other funder may require you to increase the level of property insurance coverage, which would cause your ongoing property insurance cost to go up, as well.
- **Repairs.** A funder may require you to replace or upgrade something that you were not planning to include in your rehab budget.
- **Replacement reserve.** Each of the funders may have different replacement reserve requirements.
- **Other initial reserves.** It is common for different funders to have different requirements for initial reserves.
- **Compliance requirements.** Each funder will need to understand the compliance requirements of the other funders, particularly any requirements regarding maximum rents, utility allowances, tenant selection criteria, and tenant income limits.
- **Agreements between secured lenders.** If your transaction has more than one secured lender, they likely will want to negotiate an inter-creditor agreement spelling out what will happen in the

event the property goes into default on any of the secured loans. Typically, the junior lenders will have to surrender significant rights to the senior lender as part of this process. In addition, the senior lender may require each junior lender to sign a subordination agreement giving the senior lender significant rights in the event of a loan default.

In addition, the underwriting process may bring up other issues that are specific to your property.

When you consider the list of potential underwriting issues, you can see why we say that things are likely to change as you go through the underwriting and approval processes. But these types of issues are normal; practically every transaction faces several of them and, in practice, most of these issues get worked out to the satisfaction of all parties. Your funders and the experts on your preservation team will have faced these types of issues many times, and they will be experienced in resolving them so your transaction can go forward. The important thing for you, as the owner, is to stay focused on your preservation goals, and to make sure that—in the end—the transaction will meet those goals.

Common Questions

Q What is a lease up reserve?

A A cash fund (part of the uses of funds for a preservation transaction) that pays for any loss of cash flow during the rehab period. Commonly, occupancy will drop during rehab, and some operating expenses may be higher during rehab.

Q Will I need a debt service reserve or operating reserve?

A That will depend on the requirements of your new first mortgage lender and other funders. Typically, HUD does not require these reserves, but they are common in Low Income Housing Tax Credit (LIHTC) transactions.

Q What determines the developer fee?

A The most important factors are the complexity of the preservation transaction and the level of risk the developer takes for guarantees and other promises. In the industry, developer fees tend to range from 10 to 15 percent of the total sources of funds, or even higher for extremely complex transactions or small transactions.

Q How much of a hard cost contingency reserve will I need?

A The most important factor is the level of uncertainty in your current hard cost estimate. If you don't have plans and specifications yet, 20 percent is a prudent contingency reserve. Once you have plans, specifications, and a firm-fixed-price bid from a creditworthy general contractor, a lower contingency would be appropriate because now your risk is reduced to that of change orders. In the industry, final contingency reserves may be as low as 10 percent for typical preservation transactions.

Q Why should I make a careful, month by month estimate of revenues and expenses during the development period?

A The primary reason is so that you can anticipate the need for an operating deficit escrow. This estimate will also help you develop your tenant relocation plan.

Q Why should I make a careful, month by month estimate of sources and uses of funds during the development period?

A This will help you to make a more accurate estimate of construction loan interest. It will also identify any months during which you might face a potential shortage of funds.

Next Steps

Congratulations! You have a good, thoughtful plan for preserving your property over the long term. You and your preservation team can now begin putting that plan into action.

Exercises

For exercises requiring the Financial Modeling Tool, go to https://www.hudexchange.info/resource/5239/recapitalization-excel-tool

Exercise 6-1, Estimate the Uses of Funds (Costs)

- ☐ Go to the worksheet of the Financial Modeling Tool titled, "Preservation Sources and Uses." Complete the Uses of Funds portion of this worksheet. If you are not sure about some of the costs, include a relatively high soft cost contingency estimate.
- ☐ Does this more detailed estimate raise any concerns or identify any good or bad preservation issues?

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Exercise 6-2, Month by Month Cash Flow Estimate During Rehab

- ☐ When you make a month by month cash flow estimate for the period during rehab, does it reveal a negative cash flow in any month? If so, how much? What can you do about it?

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Exercise 6-3, Month by Month Sources and Uses Estimate

- ☐ Using a spreadsheet format that's convenient, estimate your monthly sources and uses, and then estimate the monthly construction loan interest. What is the total construction loan interest?
  $_______ per unit and $_______ total.

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Exercise 6-4, Long-Term Preservation Cash Flow Projection

- ☐ Complete the worksheet of the Financial Modeling Tool titled, "Preservation CF Projection," reflecting how you estimate your property will perform during and after the recapitalization. Does this exercise raise any concerns or identify any good or bad preservation issues?

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Exercise 6-5, Revisit Preservation Goals

- ☐ Go back to the preservation goals exercises you completed for Chapters 2, 3, 4, and 5. Have you learned anything in Chapter 6 that changes your mind about any of your preservation goals?

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Appendix A:
HUD's Office of Multifamily Housing Preservation Glossary

HUD's Office of Multifam ily Housing Preservation Glossary

U.S. Department of Housing and Urban Development
Office of Recapitalizatio

Release Date: April 2017. Source: https://www.hudexchange.info/resource/4429/glossary-of-multifamily-affordable-housing-preservation-terms/

Administering PHA: An administering PHA is one that administers rental assistance, which may include HCV, MOD REHAB, or PBV programs.

Affordable Housing Preservation: This refers to the successful recapitalization of affordable rental housing in order to:

- **Safeguard** long-term rental assistance for current and future generations;
- **Improve** and **modernize** properties through capital repairs; and
- **Stabilize** properties by placing them on solid financial footing.

Annual Contributions Contract (ACC): The ACC is the written grant agreement between HUD and a PHA under which HUD agrees to provide funding for a program, such as public housing or HCV**.**

Budget-Based Rent Increase: Many HUD-assisted properties have rents that are approved by HUD (or by a CONTRACT ADMINISTRATOR) based on the estimated costs to operate the property, under the budget-based rent increase procedures documented in HUD Handbook 4350.1 Chapter 7. Other rent adjustment methods include the OPERATING COST ADJUSTMENT FACTOR (OCAF) method.

Capital Improvements: A capital improvement is an outlay of funds for the improvement of a fixed asset that extends the life or increases the productivity of the asset. In the context of a building, capital improvements typically refer to replacement of major structural elements and mechanical equipment. Capital improvements are typically paid for from a RESERVE FUND FOR REPLACEMENTS or through loan proceeds. Also see CAPITAL REPAIRS.

Note: Terms that appear fully capitalized in definitions are also defined terms within this Glossary.

Note: Where the U.S. Department of Housing and Urban Development (HUD) Office of Multifamily Housing Programs (Multifamily) definition and the standard industry definition differ, this document uses the HUD Multifamily definition.

Capital Needs Assessment (CNA): A CNA is a report on a property that estimates its repair and replacement needs over an extended period of time, often analyzing the way in which resources need to be accumulated to pay for these needs (reserve analysis). A CNA is also known as a Physical Needs Assessment (PNA), Physical Condition Assessment (PCA), reserve study, HUD Comprehensive Needs Assessment (CNA), or capital plan. In January 2017, HUD released a new CNA e-Tool suite of software, which is now the standard platform for capital needs assessments for HUD and for the Department of Agriculture's Rural Housing Service.

Capital Needs Assessment e-Tool (CNA e-Tool): The CNA e-Tool suite provides an automated process for preparation, review, submission, approval, and periodic updating of CAPITAL NEEDS ASSESSMENTS. The CNA e-Tool has two parts: an Excel-based Assessment Tool, and a CNA Validation and Submission Web Portal. Data entry begins offline in the Excel-based CNA Assessment Tool and the resulting Excel document is then uploaded to the Web Portal where reports are generated for review.

Capital Repairs: Sometimes a distinction is made between capital improvements (adding a new feature to a property, or replacing a major building system when it has reached the end of its useful life) and capital repairs (repairs made to a building system during its useful life to extend it, or to improve its efficiency, or to cure a maintenance issue). Also see CAPITAL IMPROVEMENTS.

Cash Flow: Cash flow is cash that property investors or owners receive after deducting operating expenses, replacement reserve deposits, and debt service payments from the EFFECTIVE GROSS INCOME (gross rental income less vacancy and bad debt loss plus miscellaneous income) for a rental property.

Choice-Mobility: Choice-Mobility is a feature of the Project-Based Voucher (PBV) program. Choice-mobility provides that if a family has elected to terminate the assisted lease at any time after the first year of occupancy, in accordance with program requirements, the PHA must offer the family the opportunity for continued tenant-based rental assistance, in the form of either assistance under the voucher program or other comparable tenant-based rental assistance. If, as a result of participation in RAD, a significant percentage of the PHA's HCV program becomes PBV assistance, it is possible for most or all of a PHA's turnover vouchers to be used to assist those RAD PBV families who wish to exercise mobility.

Commitment to Enter Into a Housing Assistance Payments Contract (CHAP): A CHAP is a conditional commitment provided to the PHA for public housing units that have been selected under the First Component of RAD. The commitment describes the terms under which HUD would enter into a HAP contract once the PHA and Project Owner comply with all of the requirements in the CHAP, as well as the Rental Assistance Demonstration - Final Implementation Notice, Revision 3.

Continuum of Care (CoC): HUD developed the concept of the Continuum of Care (CoC) in 1995 through its annual competition for homelessness assistance grants. The CoC was envisioned as a local network that plans and coordinates funding for services and housing to assist homeless individuals and families. The HEARTH Act amendments to the McKinney-Vento Homeless Assistance Act codified in law the role and functions of the CoC; thus, each community must establish a CoC in compliance with the new CoC Program interim rule.

Contract Administrator: Each Section 8 HOUSING ASSISTANCE PAYMENTS (HAP) Contract is funded by HUD and administered by a CONTRACT ADMINISTRATOR who usually is a third party. Most HAP Contracts are administered by statewide PERFORMANCE BASED CONTRACT ADMINISTRATORS, most others are administered by "Traditional Contract Administrators," and a few are administered directly by HUD. Typically, Traditional Contract Administrators gained a long-term right to be the contract administrator at the time the HAP Contract was originally funded.

Contract Expiration: Section 8 HOUSING ASSISTANCE PAYMENT Contracts, and contracts for other types of rental assistance, specify the ending date for the contract, also called the "contract expiration date." HUD's

Section 8 Renewal Policy Guide discusses owners' options for renewing expiring Section 8 contracts. Expiring contracts for other types of rental assistance (for example, RENT SUPPLEMENT (Rent Supp), RENTAL ASSISTANCE PAYMENTS (RAP), and SECTION 8 MODERATE REHABILITATION (MOD REHAB)) typically are not eligible for renewal, but can be converted to project-based vouchers under the Second Component of the RENTAL ASSISTANCE DEMONSTRATION (RAD) Program.

Contract Rent: Rental assistance contracts, such as Section 8 HOUSING ASSISTANCE PAYMENTS Contracts, specify the total rent that the owner may collect. Contract Rent is the total rent paid by the tenant plus rental assistance paid by HUD under the contract, and it does not include any tenant-paid UTILITY ALLOWANCE (see GROSS RENT). The Contract Rent is specific to the property and typically varies by unit type.

Converting Project: This refers to a pre-conversion property that will have its rental assistance converted from one form of rental assistance to another under RAD.

Covered Project: This refers to a post-conversion property with assistance that is converted from one form of rental assistance to another under RAD.

Critical Repairs: A needs assessor who is preparing a CAPITAL NEEDS ASSESSMENT identifies needed repairs as "critical" or "non-critical." Typically, critical repairs must be completed prior to initial/final closing of an FHA-insured mortgage and/or RAD conversion.

Davis-Bacon: The Davis-Bacon Act of 1931 established a requirement to pay the local prevailing wages for public works projects. Many HUD programs require Davis-Bacon compliance; for example, substantial rehabilitation carried out in connection with an FHA-INSURED 221(d)(4) loan is subject to Davis-Bacon prevailing wage requirements. HUD's Office of Labor Relations oversees Davis-Bacon compliance.

Debt Service: Debt service is payment of interest and principal on a debt (such as a mortgage), typically made on a monthly basis. For FHA-INSURED loans, debt service also includes the monthly mortgage insurance premium.

Effective Gross Income: Effective Gross Income is the gross income of a property if fully rented, less an allowance for estimated or actual vacancy, plus miscellaneous income, such as laundry revenue and tenant late charges.

Emergency Low Income Housing Preservation Act (ELIHPA): The ELIHPA statute authorized the first federal affordable housing preservation program in 1987, and was active from 1987 until 1992. ELIHPA was codified in response to Congress' concern that the mortgages of most HUD-assisted multifamily housing properties (i.e., SECTION 236 and 221(d)(3) Below Market Interest Rate loan (BMIR)) were reaching the 20-year point, signaling owners' rights to prepay their mortgages and abandon their property's affordability restrictions. Under ELIHPA, owners could receive certain federal incentives for maintaining the property as affordable housing. ELIPHA was replaced by the LOW-INCOME HOUSING PRESERVATION AND RESIDENT HOMEOWNERSHIP ACT (LIHPRHA). Typical ELIHPA Use Agreements expired at the originally scheduled maturity date of the underlying mortgage loan; accordingly, most ELIHPA Use Agreements have already expired.

Enhanced Vouchers: See TENANT PROTECTION VOUCHERS (TPVs), INCLUDING ENHANCED VOUCHERS (EVs)

Excess Income: In HUD's SECTION 236 program, some residents pay a rent that is higher than the Section 236 Basic Rent. The portion of rent above the Basic Rent is called "excess rent." The Section 236 program requires owners to make a monthly report to HUD detailing all excess rent and calculating the total excess rent that is to be repaid to HUD (this total is called "excess income"). Owners can retain excess income, with HUD permission, under certain circumstances.

Expiring Use Restrictions (EUR): Expiring use restrictions are low- and moderate-income affordability requirements associated with subsidized mortgages under the SECTION 221(d)(3) BMIR and SECTION 236 programs that terminate when/if the mortgage is prepaid.

Fair Market Rent (FMR): Each year, HUD's Office of Policy Development and Research publishes Fair Market Rents for each Metropolitan Statistical Area (MSA), and for each non-MSA county, in the United States. The FMRs represent typical rents paid for units in the middle of the price range in the local market. The primary use of FMRs is to establish maximum rents for various HUD programs, many of which use a percentage of FMR as one factor in determining maximum rents. It is important to recognize that the FMR is an MSA-wide (or county-wide) measurement and does not represent an accurate comparable market rent for any particular property. Recently, HUD has begun to publish FMRs for areas smaller than an MSA or county as well.

FHA-Insured: A mortgage loan that has FHA mortgage insurance is said to be "FHA-insured." Also see HUD-HELD.

Financing Plan: The documentation provided by a PHA or Owner converting a property under RAD to demonstrate that the COVERED PROJECT can be sustained physically and financially for the term of the HAP Contract at the rent levels permitted under RAD. The Plan must show how the project's immediate and long-term capital needs will be addressed.

Flexible Subsidy Loan (Flex Sub): This program was part of HUD's effort to preserve affordable housing originally developed under federal government programs. It provided loans to owners of troubled, federally assisted, low- and moderate-income multifamily rental properties. This program was created in 1978 and was active through the early 1990s. Additionally, a significant amount of Flex Sub funding was used to repair properties damaged by the 1996 Northridge earthquake in California. The Flex Sub program had two distinct direct loan components:

(1) Operating Assistance Program (OAP), which provided temporary funding to replenish property reserves, cover operating costs, and pay for limited physical improvements. The OAP provided non-amortizing "contingent" loans that are repaid from RESIDUAL RECEIPTS or paid in full if the property is sold, the mortgage is terminated, or the mortgage matures.

(2) Capital Improvement Loan Program (CILP), which paid for major CAPITAL IMPROVEMENTS when the property reserve was inadequate. CILP assistance was provided in the form of an amortizing loan, generally with an interest rate of six percent.

Gross Income: Gross income is the total income derived from the operation of a property, and is calculated before deducting costs such as routine maintenance, debt service, etc. Also see GROSS POTENTIAL INCOME and EFFECTIVE GROSS INCOME.

Gross Potential Income: Gross Potential Income is the total rental income that a property would generate, if all units were occupied, all residents were charged the maximum, scheduled rent, and all rent were collected. It is sometimes also called "Gross Potential Rental Income."

Gross Rent: The Gross Rent includes the CONTRACT RENT plus any tenant-paid UTILITY ALLOWANCE.

Homeless Preference: The multifamily homeless preference is an optional owner-adopted preference that applies to HUD-assisted multifamily housing with SECTION 8 PROJECT-BASED RENTAL ASSISTANCE (PBRA) or PROJECT RENTAL ASSISTANCE CONTRACT (PRAC) rental subsidy. By employing the preference, as part of a federal effort to address homelessness, owners of these properties may place homeless families and individuals at the top of their properties' waiting list.

Housing Assistance Payment (HAP): Section 8 Housing Assistance Payments Contracts ("HAP Contracts") provide that the resident pays a portion of the CONTRACT RENT (the resident's portion is limited to a percentage of the resident's income), with the remainder of the Contract Rent being paid under the HAP Contract as a Housing Assistance Payment. For example, if the Contract Rent is $600 and the resident's portion is $200, the HAP portion would be $400.

Housing Choice Voucher (HCV) Program: This is HUD's largest program, providing rental assistance to roughly 1.5 million low-income households. Eligible tenants pay 30% of adjusted income toward rent and utilities, and the balance of the CONTRACT RENT is paid by the PHA that administers the HCV program. Most HCVs remain with the tenant after move-out and are called "tenant-based;" others remain with the property / unit after move-out and are called "project-based."

Housing Finance Agency: Each State has a Housing Finance Agency. HFAs are State-chartered, were established to help meet the affordable housing needs of State residents, have statewide authority to finance affordable housing, and typically are governed by a board of directors appointed by the governor. In addition to the 50 States, the following also have HFAs: the District of Columbia, New York City, Puerto Rico, and the Virgin Islands. Typically, the HFA is the State Allocating Agency for the Low-Income Housing Tax Credit (LIHTC) program.

Housing Quality Standards (HQS): Housing Choice Voucher (HCV) program regulations at 24 CFR Part 982 set forth basic housing quality standards (HQS), which all units must meet before the PHA may pay rental assistance on behalf of a family and at least annually throughout the term of the assisted tenancy. HQS define "standard housing" and establish the minimum criteria for the health and safety of program participants. Current HQS regulations consist of 13 key aspects of housing quality, performance requirements, and acceptability criteria to meet each performance requirement. HQS includes requirements for all housing types, including single and multi-family dwelling units, as well as specific requirements for special housing types such as manufactured homes, congregate housing, single room occupancy, shared housing, and group residences.

HUD-Held: A loan that formerly was FHA-insured, but that is now owned by HUD (as a result of paying an FHA mortgage insurance claim), is said to be HUD-Held.

HUD Office of Public and Indian Housing (PIH): HUD's PIH Office oversees three major program offices: public housing programs, the tenant-based Section 8 Housing Choice Voucher (HCV) program, and the Office of Native American Programs. Through the public housing program, PUBLIC HOUSING AGENCIES (PHAs) own and manage affordable housing for low-income residents. PHAs also operate the HOUSING CHOICE VOUCHER program. PHAs in tribal areas operate programs through the Office of Native American Programs, which ensures that safe, decent, and affordable housing is available to Native American families, and creates economic opportunities for Tribes and Indian housing residents.

HUD Office of Recapitalization (Recap): Effective October 5, 2014, the U.S. Department of Housing and Urban Development's former Office of Affordable Housing Preservation (OAHP) was renamed the Office of Recapitalization (Recap). Recap is responsible for the preservation and recapitalization of federally assisted affordable housing; overseeing and processing financial transactions to ensure the long-term physical and financial viability of affordable rental housing; and ensuring compliance with relevant laws and statutes.

Interest Reduction Payment (IRP): In a SECTION 236 property, an Interest Reduction Payment is provided by HUD on a monthly basis to make up the difference between the mortgage DEBT SERVICE at the market rate and the debt service at an effective interest rate of 1 percent. As an example, a MORTGAGE NOTE calls for a loan amount of $1,000,000 at 7.0% for 40 years with 0.5% MORTGAGE INSURANCE PREMIUM; under the note, the monthly debt service would be $6,214.31 for principal and interest, plus the FHA mortgage insurance premium. The monthly principal and interest payment for $1,000,000 at 1.0% for 40 years would be $2,528.56. The

monthly IRP is $3,685.75 ($6,214.31 minus $2,528.56) plus that month's FHA mortgage insurance premium. Accordingly, the effect of the IRP is to reduce the monthly debt service to what it would have been at a 1% interest rate and 40-year term, with no FHA mortgage insurance premium, to facilitate affordable rent levels, as required under the SECTION 236 program.

Interest Reduction Payment (IRP) Decoupling: IRP decoupling is a preservation tool to permit owners or purchasers of HUD SECTION 236 properties to retain the remaining monthly INTEREST REDUCTION PAYMENTS (IRPs) after REFINANCING. In return for approving the owner's decoupling request, HUD requires that the existing use restrictions be extended for five years beyond the originally scheduled maturity date of the SECTION 236 loan.

LIHTC: See LOW INCOME HOUSING TAX CREDIT PROGRAM.

Loan Maturity: The loan maturity date is the final due date of a note at which point all remaining principal and interest are due and payable. A loan that is scheduled to have a zero unpaid balance at maturity is called a "self-amortizing" loan, and a loan that is scheduled to have a balance remaining at maturity is sometimes called a "balloon" or "bullet" loan.

Low-Income Housing Preservation and Resident Homeownership Act (LIHPRHA): LIHPRHA is a 1990 statute enacted to prevent the loss of FHA-insured affordable housing (i.e., SECTION 221(d)(3) and SECTION 236 properties) through PREPAYMENTS of FHA-insured mortgages. HUD provided incentives to owners who agreed to continue the property's affordability restrictions for the remaining useful life of the property. Incentives included federally insured loans for CAPITAL IMPROVEMENTS, additional Section 8 subsidies or Section 8 rent increases, and Capital Grants. In exchange, HUD required Use Agreements that sometimes restricted owner distributions and refinancings. In 1996, Congress restored owners' rights to prepay and removed funding for this program. Unlike EMERGENCY LOW INCOME HOUSING PRESERVATION ACT (ELIHPA) Use Agreements, LIHPRHA Use Agreements remain in effect for the remaining useful life of the property.

Low Income Housing Tax Credit Program (LIHTC): The LIHTC program was created in the Tax Reform Act of 1986, and it includes both competitively allocated "9 percent" tax credits and non-competitive "4 percent" tax credits. Developer-owners of LIHTC properties can claim credits against their federal income tax liability, for up to ten years after the property is completed and leased up, provided that the property remains in compliance with LIHTC requirements. Typically, a LIHTC property is owned by a limited partnership or limited liability company in which the real estate developer is the general partner or managing member and in which corporate investors hold the remaining ownership interests.

Mark-to-Market (M2M): Authorized in 1997, the M2M program was created to preserve FHA-insured or financed multifamily housing by (a) reducing Project-Based Section 8 subsidized rents that were greater than market level down to market rent levels; (b) providing funds for immediate capital repairs; and (c) structuring sufficient reserve deposits for long-term physical viability. These transactions were facilitated through an FHA mortgage insurance claim payment, which paid off any portion of the existing FHA-insured loan that was not supportable at the reduced rents.

Mark-to-Market Full: This is a term used to refer to properties that went through the MARK-TO-MARKET (M2M) program and which also required REFINANCING to achieve supportable DEBT SERVICE.

Mark-to-Market Lite: This is a term used to refer to properties that went through the MARK-TO-MARKET (M2M) program and which did not require additional debt restructuring in order to achieve supportable DEBT SERVICE.

Mod Rehab: See SECTION 8 MODERATE REHABILITATION PROGRAM and SECTION 8 MODERATE REHABILITATION SRO PROGRAM.

Mortgage Insurance Premium: For each FHA-insured mortgage loan, FHA charges an initial mortgage insurance premium at closing plus a monthly mortgage insurance premium over the life of the loan. The mortgage insurance premium amounts are calculated to cover FHA's risks.

Mortgage Note: A mortgage note is a legal document by which real estate is pledged by the owner, without transfer of title, as security for the repayment of a loan. In some states, a deed of trust approach is utilized rather than a mortgage approach.

Moving to Work (MTW) Agencies: Moving to Work (MTW) is a demonstration program for public housing agencies (PHAs) that provides them the opportunity to design and test innovative, locally-designed strategies that use Federal dollars more efficiently, help residents find employment and become self-sufficient, and increase housing choices for low-income families. MTW gives PHAs exemptions from many existing public housing and voucher rules and more flexibility with how they use their Federal funds. MTW PHAs are expected to use the opportunities presented by MTW to inform HUD about ways to better address local community needs.

Net Operating Income (NOI): NOI is the income remaining after deduction of all operating expenses of a property for a given period, but before payment of debt service.

Non-Critical Repairs: A needs assessor who is preparing a CAPITAL NEEDS ASSESSMENT identifies needed repairs as "critical" or "non-critical." Typically, non-critical repairs must be completed within one year after initial/final closing of an FHA-insured mortgage and/or RAD conversion. However, there are some exceptions and a period longer than 12 months may be allowed, with HUD approval, for certain non-critical repairs.

Operating Cost Adjustment Factor (OCAF): Some Section 8 HOUSING ASSISTANCE PAYMENTS Contracts provide for annual adjustment of the Contract Rents by applying an Operating Cost Adjustment Factor (OCAF). Typically, the OCAF is not applied to the portion of the rent that covers the mortgage payment. HUD's Office of Policy Development and Research publishes OCAFs annually for each state. The OCAFs are based on actual operating expenses for HUD-assisted properties in the state.

Opt-Out: When a property owner decides not to request renewal of an expiring Section 8 HOUSING ASSISTANCE PAYMENTS (HAP) Contract, the owner is said to have "opted out." Opt-outs create affordability risks for affected tenants. Also see TENANT PROTECTION VOUCHERS.

Owner Equity: This term refers to the market value of real property, less the amount of existing indebtedness. Some HUD programs utilize program-specific definitions, typically for purposes of determining the maximum allowable annual cash flow distribution the owner can earn.

Performance Based Contract Administrator (PBCA): Starting in 1999, HUD issued statewide contracts to administer Section 8 HOUSING ASSISTANCE PAYMENTS (HAP) Contracts, to PERFORMANCE BASED CONTRACT ADMINISTRATORS. Accordingly, most HAP Contracts are administered not by HUD, but by PBCAs. PBCA duties include administration of the monthly HAP subsidies, conducting Management and Occupancy Reviews, reviewing and approving adjustments to CONTRACT RENTS, and working with property owners to renew expiring HAP Contracts. Also see CONTRACT ADMINISTRATOR.

Prepayment: When a property owner pays off the balance of a mortgage loan prior to maturity of the loan, the owner is said to have "prepaid" the loan. Prepayment of FHA-insured loans requires HUD approval of a correctly prepared prepayment application and HUD's agreement that the property owner has properly notified residents of the proposed prepayment. In addition, prepayment of some FHA-insured loans requires an additional discretionary HUD approval. Also see SECTION 219 and SECTION 250(a).

Project Based: See SECTION 8 PROJECT-BASED RENTAL ASSISTANCE (PBRA).

Project Owner: Per the Rental Assistance Demonstration - Final Implementation Notice, Revision 3, the Project Owner is the owner of the COVERED PROJECT, including but not limited to any owner pursuant to a HAP CONTRACT. For purposes of HAP CONTRACTS, the Owner is a private person, partnership, or entity (including a cooperative), a non-profit entity, a PHA or other public entity, having the legal right to lease or sublease the dwelling units subject to the HAP CONTRACT.

Project Rental Assistance Contract (PRAC): Beginning in 1991, HUD replaced the Section 202/8 and Section 202 PAC programs with assistance through PRACs for projects developed with Section 202 or Section 811 Capital Advances. The PRAC provides a rental subsidy on behalf of tenants in these properties that covers the difference between the HUD approved operating costs of the project and the tenant's contribution toward the rent.

Prospective Conversion: The Second Component of the RENTAL ASSISTANCE DEMONSTRATION program (RAD) allows for conversion of expiring RENT SUPPLEMENT, RAP, and MOD REHAB contracts to project-based vouchers or project-based rental assistance. The conversion can be "prospective" (when the underlying FHA-insured loan will be prepaid in the future) or "retroactive" (when the underlying FHA-insured loan was previously prepaid). Also see RENTAL ASSISTANCE DEMONSTRATION (RAD).

Public Housing Agency (PHA): A PHA is an agency of local (or sometimes state) government, authorized to own and operate affordable housing. Typical PHAs operate a "conventional public housing" program (owning and operating public housing under Section 9 of the U.S. Housing Act) and a HOUSING CHOICE VOUCHER (HCV) program, although some PHAs operate only one of these two programs. HUD's OFFICE OF PUBLIC AND INDIAN HOUSING (PIH) oversees the conventional public housing and HCV programs. PHAs in tribal areas also operate programs under HUD's Office of Native American Programs (ONAP). Some PHAs also own and operate other types of affordable housing.

RAP: See RENTAL ASSISTANCE PAYMENT (RAP) PROGRAM.

Real Estate Assessment Center (REAC): The objective of REAC is to ensure that all HUD-assisted housing properties are decent, safe, and sanitary for tenants. REAC is responsible for data collection and analysis, involving establishment of a database of comprehensive and objective information about the condition of properties in the HUD portfolio. Trained inspectors conduct physical inspections and the results are compiled, along with other data, to produce a REAC score for each property in the system. The top REAC score is 100. REAC scores are made available to government agencies, property owners, and HUD staff. Property owners are required to complete needed repairs.

Recap: See OFFICE OF RECAPITALIZATION.

Recapitalization: As applied to real estate, "recapitalization" is a process whereby the type, amount, income, return, or priority of a loan, ownership interest, or other securities of a property are adjusted, restructured, or replaced. With regard to preservation of HUD-assisted multifamily housing, recapitalization refers to REFINANCING or restructuring of FHA-insured outstanding mortgages or other financing.

Refinancing: A "refinancing" is the payment of an outstanding or existing debt with funds obtained by securing a new debt, often at a different interest rate and terms.

Regulatory Agreement: The Regulatory Agreement is a contract between HUD and a property owner that describes the property that is the subject of the agreement, and that enumerates the roles and responsibilities of the owner regarding how the property is to be managed and maintained, use of the property, sales restrictions, and enforcement, including violations of the agreement and remedies in the event of a default. Many HUD programs require a Regulatory Agreement (sometimes called a USE AGREEMENT).

Rental Assistance Demonstration (RAD) Program: Authorized by Congress under the FY12 HUD appropriations act, the Rental Assistance Demonstration (RAD) allows public housing agencies (PHAs) and owners of other HUD-assisted properties to convert units from their original sources of HUD rental assistance to long-term, project-based Section 8 rental assistance contracts - either SECTION 8 PROJECT-BASED VOUCHERS or PROJECT-BASED RENTAL ASSISTANCE. The primary benefit of RAD is that properties that convert are able to secure private sources of capital financing, and the owners are therefore enabled to address deferred maintenance issues that have caused Public Housing and other HUD rental stock to deteriorate nationwide. Public housing properties convert under the "First Component" of RAD. RENT SUPPLEMENT, RENTAL ASSISTANCE PAYMENT, and SECTION 8 MODERATE REHABILITATION (including MODERATE REHABILITATION SINGLE ROOM OCCUPANCY convert under the "Second Component" of RAD. See also PROSPECTIVE CONVERSION and RETROACTIVE CONVERSION.

Rental Assistance Payment (RAP) Program: The RAP program was an early HUD program, similar to Section 8, through which a Rental Assistance Payment (RAP) agreement was made available to SECTION 236 properties that were experiencing escalating operating costs. The RAP agreement allowed low-income tenants to pay an affordable rent based on income and provided a RAP payment to the property owner covering the balance of the SECTION 236 Basic Rent. The program was suspended under the housing subsidy moratorium of January 5, 1973. As rents escalated in the 1980s, contract funds were insufficient to subsidize contract units for the full term of the contract. Most FHA-insured properties and SECTION 202 properties were able to convert their RAP assistance to Section 8 assistance during the 1980s in order to avoid contract amendment problems.

Rent Supplement Program ("Rent Supp"): Rent Supplement is an older HUD project-based rental subsidy program used to assist some SECTION 221(d)(3) and FHA-insured SECTION 236 properties. Each Rent Supp subsidy contract had the same term as the mortgage. Most Rent Supp contracts in FHA-insured properties were converted to Section 8 in the 1970s. The remaining Rent Supp contracts are expiring in the next few years and may be replaced, under certain circumstances, with SECTION 8 PROJECT-BASED VOUCHERS.

Reserve Fund for Replacements (RfR or R4R): As stated in HUD Handbook 4350.3 REV 1, the REGULATORY AGREEMENT for FHA-insured multifamily properties specifies that the borrower must establish and maintain a Reserve Fund for Replacement account, with a specified monthly amount to be deposited, for defraying certain costs of replacing major structural elements and mechanical equipment of the insured property, and for other purposes. The balance in the account is a restricted asset; disbursements can only be made with HUD's consent.

Residual Receipts: "Residual receipts" refer to certain funds held by borrowers whose mortgages are insured or held by HUD. Residual receipts are calculated after first determining the amount of SURPLUS CASH. Certain borrowers then may make any distributions permitted under the REGULATORY AGREEMENT and other program obligations. For mortgage insurance programs that provide for distributions, Residual Receipts is the term used for the SURPLUS CASH remaining after distributions are paid.

Retroactive Conversion: The Second Component of the RENTAL ASSISTANCE DEMONSTRATION (RAD) program allows for conversion of expired or terminated RENT SUPP, RAP, and MOD REHAB contracts to project-based vouchers or project-based rental assistance. The conversion can be "prospective" (when the underlying FHA-insured loan will be prepaid in the future) or "retroactive" (when the underlying FHA-insured loan was previously prepaid). Also see RENTAL ASSISTANCE DEMONSTRATION (RAD) and PROSPECTIVE CONVERSION.

Section 8 Moderate Rehabilitation Program (Mod Rehab): The Section 8 Moderate Rehabilitation program provided project-based rental assistance pursuant to a HOUSING ASSISTANCE PAYMENT (HAP) Contract between a PUBLIC HOUSING AGENCY and a property owner, who would rehabilitate a property and rent the units to low-income families. It was an expansion of the existing rental certificate program, and was intended to facilitate moderate levels of rehabilitation to upgrade and preserve rental housing stock. Tenant rent and utility

costs were capped at 30 percent of adjusted income. While expiring HAP contracts can be renewed for existing MOD REHAB properties, the program itself was repealed by Congress in 1991.

Section 8 Moderate Rehabilitation SRO Program: Under the SRO program, HUD entered into annual contributions contracts (ACCs) with public housing agencies (PHAs) in connection with the moderate rehabilitation of residential properties. These PHAs made Section 8 rental assistance payments to participating landlords on behalf of homeless individuals who rented the rehabilitated dwellings. The rental assistance payments generally covered the difference between a portion (usually 30 percent) of the tenant's adjusted income and the unit's rent that must be within the fair market limit established by HUD.

Section 8 New Construction and Substantial Rehabilitation: Active from 1974 through the mid-1980s, this program stimulated the construction of several hundred thousand units of affordable housing. The program involved a contract between HUD and a private developer or housing authority that agreed to construct or rehabilitate housing units and rent the housing units to eligible tenants. HUD provided long-term (20- to 40-year) Section 8 project-based rental subsidies on behalf of tenants, pursuant to a HOUSING ASSISTANCE PAYMENT (HAP) Contract. Tenants living at these properties pay 30 percent of adjusted income for rent and utilities; subsidies from HUD cover the balance up to a HUD-approved FAIR MARKET RENT. The project-based rental assistance stays with the property when tenants move. This program was repealed by Congress in 1983, but there are still many units that continue to receive these HUD subsidies.

Section 8 Project-Based Rental Assistance (PBRA): A Section 8 HAP contract is called “project-based” if the rental assistance remains with the property when a tenant moves. Section 8 assistance that remains with the tenant is called “tenant-based” (for example, the HOUSING CHOICE VOUCHER program is primarily tenant-based). Also see SECTION 8 PROJECT-BASED VOUCHERS.

Section 8 Project-Based Vouchers (PBVs): A public housing agency may allocate up to 20 percent of its HOUSING CHOICE VOUCHERS to specific housing units by contracting with property owners for a term of up to 15 years, with the possibility of a renewal for up to an additional 15 years. Usually, no more than 25 percent of the units in a property can have PBVs. Tenants pay 30 percent of their adjusted income for rent and utilities. The Section 8 subsidy stays with the housing unit when a tenant moves.

Section 202: The Section 202 program was created in 1959 and ran through 1991, providing direct government loans to nonprofits for the purpose of developing affordable rental housing for the elderly, and also for persons with disabilities under subsequent authorizations. The program provided interest-free capital advances beginning in 1990 through 2011 to finance the construction, rehabilitation, or acquisition (with or without rehabilitation) of supportive housing for very low-income elderly persons. The program also provides rental assistance subsidies for certain properties.

Section 219 of the 1999 Appropriations Act: FHA-insured (or HUD-Held) loans that ***do not*** require a discretionary HUD approval in order to prepay are described in Section 219 of the 1999 Appropriations Act. In summary (and with some exceptions), these loans are for properties that were developed by for-profit developers, that did not accept FLEXIBLE SUBSIDY assistance, and that do not currently have RENT SUPPLEMENT contracts. The Section 219 requirements include a tenant notice requirement.

Section 221(d)(3) Below Market Interest Rate (BMIR): The BMIR program was a HUD program that was active from 1963 – 1970 and that accounted for the development of roughly one hundred thousand units of affordable housing. The BMIR program provided mortgage loans at a below-market interest rate (3 percent) and FHA mortgage insurance to private developers of low- and moderate-income multifamily housing. The below-market interest rate was possible because Congress directed Fannie Mae to purchase the loans at the same price that would have been paid for a market-interest-rate loan. In return for a lower overall debt service, HUD required

assisted property owners to lease their units to moderate-income families at HUD approved rents for the term of their 40-year mortgage.

Section 236: The Section 236 program was active from 1968 – 1975 and accounted for the development of several hundred thousand units of affordable housing. The program's key feature was a monthly INTEREST REDUCTION PAYMENT (IRP) that reduced the mortgage DEBT SERVICE to the level consistent with a 1.0% mortgage interest rate. Most Section 236 loans were made by private lenders, with FHA mortgage insurance. Other Section 236 loans were made by State housing finance agencies (HFAs) without FHA mortgage insurance. In return for a lower overall debt service, HUD required assisted property owners to lease their units to low- and moderate-income families at HUD approved rents for the term of their 40-year mortgage.

Section 250(a) of the National Housing Act: Properties with FHA-insured (or HUD-held) loans that require a discretionary HUD approval are subject to the requirements of Section 250(a) of the National Housing Act. In summary (and with some exceptions), these loans are for properties that were developed by nonprofit developers, or that accepted FLEXIBLE SUBSIDY assistance, or that currently have RENT SUPPLEMENT contracts. The Section 250(a) requirements include a tenant notice requirement; HUD also requires rehabilitation of the property and a Use Agreement that extends at least through the scheduled maturity of the original loan.

Senior Preservation Rental Assistance Contracts (SPRAC): The purpose of SPRAC is to prevent the displacement of income-eligible elderly residents of SECTION 202 Direct Loan properties, and otherwise preserve and maintain the affordability of Section 202 Direct Loan properties with original interest rates of 6 percent or less. Under this program, HUD provides eligible properties with 20-year contracts for project-based rental assistance to subsidize the rents of units not currently assisted under an existing rental assistance contract. The program received $16 million of funding during FY 2012, with awards made in December 2013.

Single Room Occupancy (SRO): Single Room Occupancy (SRO) housing means housing consisting of single room dwelling units that are the primary residences of their occupants. HUD's definition of SRO has been revised to require the unit to contain either food preparation areas or bathrooms (they may contain both) only if the property consists of new construction, conversion of non-residential space, or reconstruction. For acquisition or rehabilitation of an existing residential structure, neither food preparation nor sanitary facilities are now required to be in the unit. If the units do not contain sanitary facilities, the building must contain sanitary facilities that are shared by tenants.

Substantial Rehabilitation (HUD Definition): HUD considers substantial rehabilitation of HUD-assisted multifamily rental housing to occur under one of the following circumstances: 1) when the required repairs, replacements, and improvements involve the replacement of two or more major building components, or 2) the costs of the rehabilitation exceed the greater of 15 percent (exclusive of any soft costs) of the property's replacement cost (fair market value) after completion of all required repairs, replacements, and improvements; or $6,500 per dwelling unit (adjusted by HUD's authorized high cost percentage); or 20 percent of the mortgage proceeds applied to rehabilitation expenses.

Surplus Cash: Surplus Cash is the cash (including Section 8 HAP payments earned, but not yet received) remaining after all expenses and obligations of the property are paid for, or funds are set aside for their payment in the current reporting period. Normally, nonprofit owners are required to deposit all surplus cash into their RESIDUAL RECEIPTS account. Limited distribution owners are required to deposit any surplus cash remaining after subtracting their allowable distributions.

Tenant-Based Voucher: A Housing Choice Voucher that remains with the tenant after move-out is referred to as "tenant-based;" if the voucher remains with the property or unit after move-out, it is referred to as "project-based."

Tenant Protection Vouchers (TPVs), including Enhanced Vouchers (EVs): These are special HOUSING CHOICE VOUCHERS (HCVs) that are issued to protect low-income tenants who might otherwise face significant rent increases as the result of PREPAYMENT of an FHA-INSURED (or HUD-held) loan, or in certain other circumstances. However, TPVs are not provided when a mortgage matures. ENHANCED VOUCHERS (EVs) are TPVs that are allowed to cover a higher approved rent; EVs are intended to allow tenants to remain in their units even though the market rent for the unit is above the level that a normal TPV would cover.

Triggering Event: "Triggering Event" is a term used in connection with TENANT PROTECTION VOUCHERS (TPVs). A Triggering Event is an event, such as a prepayment, that allows HUD to issue TPVs.

Uniform Physical Condition Standards (UPCS): UPCS is a set of standards used by REAC inspectors to assess the physical condition of HUD-assisted, HUD-insured, and public housing units. Using UPCS, inspectors report on the condition of the building site, building exterior, building systems, common areas, and individual units.

Use Agreement: A Use Agreement is a contract between HUD and a property owner that binds the owner to specific requirements, including the following:

- The property must be maintained and operated as an affordable multifamily housing property and comply with the program rules of the section of the National Housing Act under which it was originally developed and financed (such as SECTION 236, SECTION 221 (d)(3) BMIR, SECTION 202, etc.) for a specific time period, as specified by HUD.
- The property must maintain any use restrictions imposed by other federal assistance and comply with all applicable federal guidelines (such as civil rights and fair housing legislation).
- The property must comply with habitability standards, maintenance guidelines, requirements for submitting periodic reports to HUD, and any other applicable requirements.

Some HUD programs require Use Agreements; others require REGULATORY AGREEMENTS with similar provisions.

Utility Consumption Baseline: A utility consumption baseline is a building's energy performance in a 12-month period, against which a PROJECT OWNER measures the property's energy consumption after making energy efficiency improvements to the property. The utility consumption baseline is recorded in the Environmental Protection Agency's Portfolio Manager system.

Utility Allowance: Utility allowances are estimates of utility costs (except cable television and telephone) for an average family occupying a unit of a particular size in a specified geographic area. Utility allowances apply to HUD-assisted multifamily rental housing that receives rental subsidy assistance, where all or some of the utilities are paid directly by the resident. In HUD-assisted multifamily rentals with Section 8 contracts, the residents in units assisted with Section 8 may pay no more than 30 percent of their adjusted gross monthly income toward rent and utilities. The balance is covered by the Section 8 payment. Also see GROSS RENT.

Sources:

CPD Notice 94-01, Using HOME Funds for Single Room Occupancy (SRO) and Group Housing, at http://www.hud.gov/offices/cpd/lawsregs/notices/priorto95/cpd9401.pdf

Establishing and Operating a Continuum of Care, 2012, at https://www.hudexchange.info/resources/documents/EstablishingandOperatingaCoC_CoCProgram.pdf

Fact Sheet: What is a Continuum of Care, National Alliance to End Homelessness, January 14, 2010, at http://www.endhomelessness.org/library/entry/fact-sheet-what-is-a-continuum-of-care

HUD Handbook 4350.1, Multifamily Asset Management and Project Servicing at http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/handbooks/hsgh/4350.1

HUD Handbook 4355.1, Flexible Subsidy Handbook, Chapter 1, Overview of Flexible Subsidy Program, at http://www.hud.gov/offices/adm/hudclips/handbooks/hsgh/4355.1/43551c1HSGH.pdf

HUD Handbook 4660.1, REV 1, Chapter 4, Rehabilitation at http://portal.hud.gov/hudportal/documents/huddoc?id=44601c4HSGH.pdf

M2M Operating Procedures Guide (OPG) Glossary of terms at http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh/presrv/presmfh/opglinks

PIH Notice 2012032 (HA) H-2017-03, REV-3, Rental Assistance Demonstration - Final Implementation, Revision 3, at https://portal.hud.gov/hudportal/documents/huddoc?id=17-03hsgn.pdf.

The Real Estate Dictionary, Financial Publishing Company, Fourth Edition; LISC Glossary of Affordable Housing Terms at http://oregonon.org/files/2009/10/LISC-Preservation-Glossary.pdf

Appendix B: Preservation Financing Resource List

Preservation Financing Resource List

Release Date: April 2017. Source: https://www.hudexchange.info/resource/4854/preservation-financing-resource-list/

Note: The Web addresses (URLs) listed below are accurate as of April 2017, but may change in the future.

General Resources for Preservation Transactions

- General information on multifamily housing preservation is located on the Office of Recapitalization page of HUD's website at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh/hsgmfbus/aboutahp and on the HUD Exchange at: https://www.hudexchange.info/multifamily-housing-preservation. Specific preservation program information on Section 236 preservation and RAD are located here:
  - https://www.hudexchange.info/section-236-preservation/
  - https://www.hudexchange.info/rad/
- The application for Section 236 preservation and related resources are located on the Multifamily Preservation Resource Desk at: http://www.hudmfpreservation.net/index.cfm.
- Detailed information on RAD is available on HUD's RAD website at: http://hud.gov/rad and the RAD Resource Desk at: http://radresource.net/index.cfm.
- Contact your HUD Field Office Multifamily staff. Contact information is available at: http://portal.hud.gov/hudportal/HUD?src=/localoffices.
- Contact your State Housing Finance Agency (HFA). Contact information is available at: https://www.ncsha.org/housing-help.
- Consider attending your HFA's annual housing conference.
- Consider training opportunities such as:
  - NeighborWorks® Training Institute: http://www.neighborworks.org/training-services/training-professional-development
  - National Development Council: https://ndconline.org/site/training/category/online_training

Resources for Regulatory Options

202 Prepayment and Refinancing

Notice H-2013-17—Updated requirements for prepayment and refinance of Section 202 Direct Loans is available at: http://portal.hud.gov/hudportal/documents/huddoc?id=13-17hsgn.pdf.

Ability of Nonprofit Borrowers to Retain Sales Proceeds

Nonprofit owners of FHA-insured and HUD-held (formerly insured) properties generally are not able to retain any net proceeds from a sale. Notice H-2011-31 discusses exceptions to this general rule and is available at: http://portal.hud.gov/hudportal/documents/huddoc?id=11-31hsgn.pdf.

Conversion of Efficiency Units

Notice H-2011-03 discusses requirements for conversion of unmarketable efficiency units into a smaller number of larger unit sizes and is available at: http://portal.hud.gov/hudportal/documents/huddoc?id=11-03hsgn.pdf.

Flexible Subsidy

Notice H-2011-05 discusses requirements for deferred repayment of Operating Assistance Flex Sub Loans and is available at: http://portal.hud.gov/hudportal/documents/huddoc?id=11-05hsgn.pdf.

Prepayment Requirements

Notices H-2004-17 and H-2006-11 discuss requirements for prepayment of FHA-insured and HUD-held (formerly insured) loans that require an additional discretionary permission from HUD (these are sometimes called "Section 250a" prepayments). The Notices and a related policy clarification are available at:

- https://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/notices/hsg
- https://portal.hud.gov/hudportal/documents/huddoc?id=DOC_14941.pdf

Tenant Protection Vouchers

- Notice H-2012-03 discusses situations in which TPVs can be issued and the requirements for issuing TPVs. The Notice is available at: http://portal.hud.gov/hudportal/documents/huddoc?id=12-03hsgn.pdf.
- Notice PIH-2001-41 provides additional information on TPVs and is available at: http://www.hud.gov/offices/adm/hudclips/notices/pih/01pihnotices.cfm.
- Notice PIH-2014-04 amends Notice PIH-2001-41 and is available at: http://portal.hud.gov/hudportal/documents/huddoc?id=14-04pihn.pdf.

IRP Decoupling

- Notices 2000-08 and 2013-25 discuss refinancing of insured Section 236 projects into non-insured Section 236(b) projects and guidelines for continuation of IRP after refinancing; "decoupling," as allowed by the National Housing Act, under Section 236(e)(2). The Notices are available at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/notices/hsg/00hsgnotices and http://portal.hud.gov/hudportal/documents/huddoc?id=13-25hsgn.pdf.

LIPHRHA/ELIHPA Use Agreement Modification

- Notice H-2012-25 discusses the policy for amended and restated use agreements for multifamily projects subject to the Low-Income Housing Preservation and Resident Homeownership Act of 1990 (LIHPRHA). The Notice is available at: http://portal.hud.gov/hudportal/documents/huddoc?id=12-25hsgn.pdf.

Resources for the Second Component of RAD

- The latest version of Notice PIH-2012-32 (HA) H-2017-03, REV-3, Rental Assistance Demonstration – Final Implementation, Revision 3, published on January 12, 2017, is available at: https://portal.hud.gov/hudportal/documents/huddoc?id=17-03hsgn.pdf.
- Information on submitting a RAD Second Component application is available here: http://www.radresource.net/Submitting%20a%20RAD%20Second%20Component%20Application.pdf.

Resources for Types of Multifamily Refinancing Loans

FHA Refinancing

All of the following resources are from the HUD.gov website.

- FHA's refinancing program for existing multifamily properties that are not undergoing either "substantial rehabilitation" or new construction is called Section 223(f). The term "substantial rehabilitation" has a specialized meaning in FHA multifamily programs; be sure to discuss this with your FHA lender when deciding which FHA program is appropriate for your preservation transaction. Information on the FHA 223(f) program is available at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh/progdesc/purchrefi223f .
- Existing multifamily properties that will be undergoing "substantial rehabilitation" or new construction are called Section 221(d)(4). Information is available at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh/progdesc/rentcoophsg221d3n4 .
- FHA has two additional refinancing programs that are used exclusively or primarily to reduce the interest rates on existing loans that already have FHA mortgage insurance:
  - Interest Rate Reduction – this is an FHA initiative, started in 2013, that allows FHA-insured lenders and borrowers to negotiate reduced interest rates for existing loans without changing the loan amount and without paying off the existing loan. FHA has a streamlined approval process for the Interest Rate Reduction initiative.
  - Section 223(a)(7) – this is a long-standing FHA program that allows existing FHA mortgage insurance to be reused, to insure a new loan that pays off the existing loan and that can have a larger loan amount than the existing loan (the new loan amount can be up to the original amount of the existing loan). By comparison to the Interest Rate Reduction initiative, Section 223(a)(7) has the advantage of allowing a higher loan amount, but the disadvantage of a more time-consuming approval process.

- FHA maintains a listing of leading FHA multifamily lenders (by number of closings) at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh/mfdata/mec_lend.
- In addition, experts in the industry rely on FHA's Multifamily Accelerated Processing (MAP) Guide. The MAP Guide contains detailed guidance for FHA multifamily lenders and is available at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips/guidebooks/hsg-GB4430.

State Housing Finance Agency (HFA) Refinancing

Contact your state's HFA. Contact information is available from the National Council of State Housing Agencies at: https://www.ncsha.org/housing-help.

Other Multifamily Refinancing Loans

A variety of other lenders offer refinancing for multifamily properties. Ask people you know who are knowledgeable about preservation transactions in your area to see which lenders have been active with transactions like the one you are considering.

Fannie Mae and Freddie Mac Refinancing

- Fannie Mae works with a network of "Delegated Underwriting and Servicing (DUS)" lenders to finance apartment buildings and cooperatives. The benefits of the Fannie Mae DUS program include a lower interest rate. Fannie Mae maintains a Multifamily Business webpage at: https://www.fanniemae.com/multifamily/ .
- Freddie Mac purchases multifamily loans from a network of "seller / servicer" lenders and then securitizes those loans. The benefits of Freddie Mac securitization include a lower interest rate. Freddie Mac maintains a Multifamily webpage at: http://www.freddiemac.com/multifamily/.

Resources for Various Types of Tax Credits

Federal Low-Income Housing Tax Credits

- Mississippi Home Corporation LIHTC Guide: http://www.mshc.com/wp-content/uploads/2014/11/HTC-Homeownership-Policy-Guide.pdf
- National Council of State Housing Agencies (NCSHA) website:
  - NCSHA LIHTC reference guide: https://www.ncsha.org/resource/housing-credit-reference-guide
- Novogradac LIHTC webpage: http://www.novoco.com/low_income_housing/lihtc/index.php

Federal Historic Tax Credits

- National Park Service webpage: http://www.nps.gov/tps/tax-incentives.htm
- Novogradac webpage: http://www.novoco.com/historic/
- National Trust for Historic Preservation webpage: http://www.preservationnation.org/take-action/advocacy-center/policy-resources/historic-tax-credits.html

Federal New Markets Tax Credits

- Department of the Treasury NMTC webpage: https://www.cdfifund.gov/programs-training/programs/new-markets-tax-credit/pages/default.aspx
- CohnReznick NMTC webpage: http://www.cohnreznick.com/industries/new-markets-tax-credits
- Novogradac NMTC webpage: http://www.novoco.com/new_markets/
- Enterprise NMTC overview: http://www.enterprisecommunity.org/tag/financing-and-development/new-market-tax-credits

State Low-Income Housing Tax Credits

- Novogradac: https://www.novoco.com/low_income_housing/lihtc/state_lihtc.php

State Historic Tax Credits

- Novogradac: https://www.novoco.com/historic/htc/state_programs.php
- National Trust for Historic Preservation: http://www.preservationnation.org/take-action/advocacy-center/additional-resources/historic-tax-credit-maps/state-rehabilitation-tax.html#.VS-oYr50xi4

Resources for Soft Loan / Grant Financing

HUD Home Investment Partnerships Program (HOME)

- HUD HOME program webpage: http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/affordablehousing/programs/home/
- HUD Exchange HOME Resource Center: https://www.hudexchange.info/home/

Community Development Block Grant Program (CDBG)

- HUD CDBG program webpage: http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/communitydevelopment/programs

National Housing Trust Fund

- HUD Exchange NHTF webpage: https://www.hudexchange.info/htf

State Housing Trust Funds

- Center for Community Changes Housing Trust Fund Project website: http://housingtrustfundproject.org/housing-trust-funds/state-housing-trust-funds/

Federal Home Loan Bank Affordable Housing Program (AHP) Funds

- Each of the Federal Home Loan Banks has a website that will include information on the AHP program. Here is a link to the FHLB San Francisco website: http://www.fhlbsf.com/community/grant/ahp.aspx

In addition, it is a good idea to check with your State Housing Finance Agency, local government housing agency, and local foundations to see if there are local resources that may be useful for your preservation transaction.

Resources for Energy-Saving Retrofit Financing

General Resources for Energy-Saving Retrofits

- https://www.hudexchange.info/programs/better-buildings-challenge/
- Enterprise Green Communities Technical Assistance Providers Database: http://www.enterprisecommunity.com/solutions-and-innovation/enterprise-green-communities/resources/technical-assistance-providers-database
- Partnering For Success: An Action Guide for Advancing Utility Energy Efficiency Funding for Multifamily Rental Housing, National Housing Trust: http://www.nhtinc.org/downloads/partnering-for-success-action-guide.pdf
- National Housing & Rehabilitation Association's *Preservation Though Energy Efficiency Initiative:* https://www.housingonline.com/about/preservation-energy-efficiency-initiative/ptee-initiative/

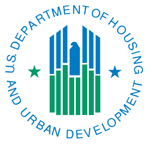
Federal and State Renewable Energy Tax Credits

- Department of Energy: http://energy.gov/savings/residential-renewable-energy-tax-credit
- Directory of State Incentives: http://www.dsireusa.org/

Utility Rebates

- Department of Energy: http://energy.gov/savings

Note: This resource list does not address preservation of USDA Rural Housing Service properties. See USDA's webpage at: http://www.rd.usda.gov/programs-services/housing-preservation-revitalization-demonstration-loans-grants.



Appendix C: Financial Modeling Tool

To download the Financial Modeling Tool, go to:
https://www.hudexchange.info/resource/5239/recapitalization-excel-tool

This appendix presents a sample report generated by the tool.

The property owner will complete this worksheet as part of Exercises 1-1 to 1-6 in Chapter 1 "Know Your Property." This worksheet captures information about the property--its existing financing, project-based rental assistance contracts, current unit mix and rents, physical characteristics, and repair history.

Bennington Square (236)
Property Information

Property Identification and Unit Mix

Cells with light green background are for you to enter information. Yellow-background TIP cells contain additional information; move your mouse over the cell to reveal the contents. Text in italics contains instructions or explanations. You can increase the size of comment boxes by clicking below the row number and dragging the bottom edge of the comment box downwards.

	Property Name	**Bennington Square**
	Property Street Address	**123 Main Street**
	City, State Zip	**Anywhere, OH 12345**
TIP	FHA Project Number	**123-45-6789**
TIP	Property Type	**236**

		Revenue Units				
TIP	**Unit Mix**	**Project Based Section 8**	**Other Project Based**	**Tenant Based Vouchers**	**Units With No Rental Assistance**	**Non Revenue Units**
	0 BR units (efficiencies)	0	0	0	0	0
	1 BR units	15	0	0	10	0
	2 BR units	40	0	0	9	1
	3 BR units	15	0	0	10	0
	4BR and larger units	0	0	0	0	0
	Total	**70**	**0**	**0**	**29**	**1**
TIP	**Total Revenue Units**	**99**				
	Total Units	**100**				

[Owner comments on unit mix and rental assistance]

Is this a family property, elderly property, mixed tenancy, something else? Discuss any unusual features of the tenant mix.

[Tenant profile]

Is the current owner a nonprofit? A limited dividend owner? Something else? Discuss any unusual features of the property's ownership structure.

Bennington Square (236)
Property Information

[Owner type]

TIP | **Estimating When Your First Mortgage Loan Will Mature**

TIP *Please indicate when the property was developed (that is, when the first mortgage loan was put in place). If the loan is FHA-insured or HUD-Held and you know the FHA "final endorsement" date, please provide that as well.*

The property was new construction, with construction completed in 1977. Don't have the final endorsement date.

	Original loan amount	**$2,500,000**			
TIP	Recent unpaid principal balance	**$125,000**	as of	**December 31, 2014**	
TIP	Interest Rate	**7.000%**			
	Original Loan Term	**480**	months	40	years

The information you entered above suggests that the loan will mature in January 2017. Please discuss whether that agrees with your records.

That agrees with what my lender told me.

Indications Whether HUD Permission Is Required In Order to Prepay Your First Mortgage Loan
Note -- the final determination must be made by HUD; the questions below will help you to reach a likely or approximate answer.

If your first mortgage is a conventional loan (not from HUD, never insured by FHA), skip this section.

Is there now, or has there ever been: (1) a default (monetary default or 'covenant' default) under the loan documents? (2) A Forbearance Agreement? (3) Foreclosure proceedings? (4) A Partial Payment of Claim? (5) A loan modification? (6) A workout or other restructuring? This information is important because these events often resulted in a requirement that HUD approve any prepayment.

None

Briefly discuss any transfers of ownership since the property was originally developed. For each, include the date of transfer, the legal name of the seller, and the legal name of the purchaser. Indicate whether any of the owners were nonprofit or were controlled by a nonprofit.

We've owned it from the beginning. We're a nonprofit.

Bennington Square (236)
Property Information

Did the property ever receive preservation incentives under the ELIHPA ("Title Two") or LIHPRHA ("Title Six") preservation program?

No

Did the property ever participate in the Portfolio Re-Engineering Demonstration Program? Was the debt restructured under the Mark-to-Market program? Is there a Contingent Repayment Note (CRN) or Mortgage Restructuring Note (MRN)?

No

Debts Other Than the First Mortgage Loan; Other Unusual Features

Please indicate whether there is any existing debt (secured or unsecured) other than the first mortgage loan. For example, the property may have received Flexible Subsidy or HELP (earthquake relief) funding through HUD, or it may have received a supplemental loan from the city or county or state. For each debt, please briefly explain why it was incurred, who the lender is, how much is currently owed, the payment requirements, and whether the debt will accelerate (become due in full) when your first mortgage loan matures or is prepaid.

No other debts

Please explain any unusual features of the property (for example: if the first mortgage loan was from a State Housing Finance Agency, if the first mortgage loan was bond-financed, if there is more than one project-based Section 8 contract, if there is a RAP or Rent Supplement contract, if there is any other type of project-based rental assistance contract, if the property has multiple Section 236 or Section 202 loans, if the property is owned by a tenant co-operative, if there is any sort of Use Agreement or deed restriction, if the land is leased, or if the property has any sort of tax credit funding).

None

TIP Indications of Major Capital Needs

When was the property originally constructed? When (if ever) did it have a full ("gut") rehab (replacing everything inside the exterior walls)? When (if ever) did it have a substantial rehab (bringing all or almost all systems up to date, but not replacing the interior walls or insulation or pipes)?

New construction completed 1977. No rehab since that time.

What type of roof do you have? When is the next replacement likely to be needed?

Pitched asphalt shingle, last replaced in 1997. Next replacement probably 2017.

Bennington Square (236)
Property Information

When will the property next need exterior painting? What did that cost the last time you did it?

Probably 2019. Last time (2012) it cost $45,000.

What type of exterior wall surface do you have? When will it need major repairs or replacement?

Mix of brick veneer and T-111 plywood siding. Siding is original and is showing its age.

Does the property have any elevators? If so, how many, and when were they installed? Have there been any major repairs or replacements to the mechanicals, controls or cabs since original installation?

None

What type of windows do you have? When will they need to be replaced?

Single pane aluminum sliders, from original construction. They're inefficient but we don't have money to replace them.

When will the parking lots need to be resurfaced (typically every 20 years)?

Last done in 1999. Probably will need resurfacing in 2019.

What type of heating and air conditioning equipment does the property have? How much of it has been replaced recently? When will the remaining equipment need to be replaced?

Individual "split system" natural gas furnaces with electric central air conditioning. Furnaces were all replaced in the 2000s. Air conditioners have all been replaced once (in the 1990s) and about half have been replaced a second time (in the last five years).

What type of hot water heating equipment does the property have? How much of it has been replaced recently? When will the remaining equipment need to be replaced?

Individual 40 gallon natural gas hot water heaters. All have been replaced at least twice. In a typical year, we replace about ten of these.

Please estimate the number of refrigerators that likely will need to be replaced in each of the next ten years. Please provide similar information for ranges and any other major appliances.

All have been replaced at least once. Probably ten refrigerators and ten ranges per year, on average.

What types of floor coverings (carpet, vinyl tile, hardwood, ceramic tile) are in the dwelling units? How much of that floor covering is likely to need to be replaced in each of the next ten years?

Mix of vinyl tile (kitchens and baths) and carpet (everywhere else). Vinyl has been replaced once and most units are about to need vinyl replacement. Carpet replacement is on a steady cycle now; in a typical year we replace about 15-20 carpets.

Please indicates the gallons-per-flush (gpf) rating for the toilets. Typical water-saving toilets have 1.6 gallons per flush or less. Older toilets may have 3.5 gpf or more.

Toilets are original. No flush rating, but probably 3.5 gpf or more.

Bennington Square (236)
Property Information

Have you already installed low-flow shower heads and low-flow faucet aerators?

No

Have you already upgraded common area lighting and exterior lighting to LED fixtures? If not, what types of fixtures does the property currently have?

No. Common are lights are T12 fluorescent, exit lights are incandescent, exterior lights are incandescent. All date from original construction.

Are you aware of any environmental issues? Any accessibility issues?

None

The property owner will complete this worksheet as part of Exercise 3-2 in Chapter 3, "Identify Your Best Preservation Option without a Recapitalization." This worksheet captures information from the property's historical financial statements.

Bennington Square -- Information from Annual Financial Statements

Selected Data from Balance Sheet	AFS For 12/31/13	AFS For 12/31/14	AFS For 12/31/15	2016 N/A
1320 Reserve for Replacements	$0	$0	$75,000	$0
2170 Mortgage Payable - Current Portion	$0	$0	$0	$0
2320 Mortgage Payable	$0	$0	$0	$0

Selected Data from Income Statement / P&L	AFS For 12/31/13	AFS For 12/31/14	AFS For 12/31/15	2016 N/A
5120 Rent Revenue - Gross Potential	$0	$300,000	$300,000	$0
5121 Tenant Assistance Payments	$0	$290,000	$290,000	$0
5140/5170 Commercial Revenue	$0	$0	$0	$0
Total Rent Revenue	$0	$590,000	$590,000	$0
5220 Apartments (enter as a negative amount)	$0	($16,000)	($16,000)	$0
5250 Rental Concessions (enter as a negative amount)	$0	$0	$0	$0
Total Vacancies (enter as a negative amount)	$0	($16,000)	($16,000)	$0
5410 Financial Revenue - Project Operations	Do not enter	Do not enter	Do not enter	Do not enter
5440 Revenue from Investments - Replacement Reserve	Do not enter	Do not enter	Do not enter	Do not enter
Total Financial Revenue	Do not enter	Do not enter	Do not enter	Do not enter
Total Other Revenue	$0	$16,000	$16,000	$0
6310 Office Salaries	$0	$0	$0	$0
6320 Management Fee	$0	$45,000	$46,000	$0
6330 Manager or Superintendent Salaries	$0	$40,000	$41,000	$0
6370 Bad Debts (enter as a positive amount)	$0	$2,000	$2,000	$0
Total Administrative Expenses	$0	$117,000	$119,000	$0
Total Utilities Expense	$0	$55,000	$60,000	$0
6510 Payroll	$0	$50,000	$51,000	$0
6525 Garbage and Trash Removal	$0	$0	$0	$0
6530 Security Payroll/Contract	$0	$0	$0	$0
Total Operating and Maintenance Expenses	$0	$218,000	$208,800	$0
6710 Real Estate Taxes	$0	$50,000	$52,000	$0
6711 Payroll Taxes (Project's Share)	$0	$7,000	$7,200	$0
6720 Property & Liability Insurance (Hazard)	$0	$35,000	$36,000	$0

Bennington Square -- Information from Annual Financial Statements

	AFS For 12/31/13	AFS For 12/31/14	AFS For 12/31/15	2016 N/A
6721 Fidelity Bond Insurance	$0	$0	$0	$0
6722 Workmen's Compensation	$0	$0	$0	$0
6723 Health Insurance and Other Employee Benefits	$0	$20,000	$21,000	$0
6790 Misc. Taxes, Licenses, Permits and Insurance	$0	$0	$0	$0
Total Taxes and Insurance	$0	$112,000	$116,200	$0
Total Operating Expenses	$0	$502,000	$504,000	$0
6820 Interest on Mortgage Payable	$0	$2,000	$1,200	$0
6850 Mortgage Insurance Premium/ Service Charge	$0	$2,000	$1,000	$0
Part II (enter as positive amounts)				
Total principal payments required	$0	$73,000	$73,800	$0
Total Replacement Reserve deposits required	$0	$40,000	$40,000	$0
R4R releases included as expenses	$0	$32,000	$34,000	$0

From Notes to Financial Statements	AFS For 12/31/13	AFS For 12/31/14	AFS For 12/31/15	2016 N/A
Monthly P&I calculated from Income Statement	$0	$6,250	$6,250	
Monthly principal and interest from Notes	$0	$6,250	$6,250	$0
Interest rate	0.000%	7.000%	7.000%	
Final payment due date	01/00/00	01/01/17	01/01/17	
Remaining balance on first mortgage loan	$0	$0	$0	

Following is a calculated revenues and expenses statement based on the information you entered above.

Revenues and Expenses	AFS For 12/31/13	AFS For 12/31/14	AFS For 12/31/15	2016 N/A
Gross Potential Apartment Rent	$0	$590,000	$590,000	$0
Gross Potential Commercial Rent	$0	$0	$0	$0
Other Gross Potential Rent	$0	$0	$0	$0
Apartment Rent Loss (Vacancy / Bad Debt /	$0	($18,000)	($18,000)	$0
Concessions) Commercial Vacancy Loss	$0	$0	$0	$0
Other Income Available for Operations	$0	$16,000	$16,000	$0
Effective Gross Income	**$0**	**$588,000**	**$588,000**	**$0**
6310 Office Salaries	$0	$0	$0	$0
6320 Management Fee	$0	$45,000	$46,000	$0
6330 Manager or Superintendent Salaries	$0	$40,000	$41,000	$0
Other Administrative Expenses	$0	$30,000	$30,000	$0
Owner-Paid Utilities	$0	$55,000	$60,000	$0
6510 Payroll	$0	$50,000	$51,000	$0
6525 Garbage and Trash Removal	$0	$0	$0	$0
6530 Security Payroll/Contract	$0	$0	$0	$0
Other Operations & Maintenance Expenses	$0	$168,000	$157,800	$0

Bennington Square -- Information from Annual Financial Statements

	AFS For 12/31/13	AFS For 12/31/14	AFS For 12/31/15	2016 N/A
Minus R4R releases included as expenses	$0	($32,000)	($34,000)	$0
6710 Real Estate Taxes	$0	$50,000	$52,000	$0
6711 Payroll Taxes (Project's Share)	$0	$7,000	$7,200	$0
6720 Property & Liability Insurance (Hazard)	$0	$35,000	$36,000	$0
Other Taxes & Insurance Expenses	$0	$20,000	$21,000	$0
Total Operating Expenses	**$0**	**$468,000**	**$468,000**	**$0**
Replacement Reserve Deposits Required	$0	$40,000	$40,000	$0
Net Operating Income	**$0**	**$80,000**	**$80,000**	**$0**
Section 236 principal & interest payments	$0	$75,000	$75,000	$0
Mortgage Insurance Premium	$0	$2,000	$1,000	$0
Operating Cash Flow	**$0**	**$3,000**	**$4,000**	**$0**

This first section of this worksheet shows totals from the previous worksheet. The property owner will record comments and observations in the second section of this worksheet.

Bennington Square -- Annual Financial Statements Summary

Revenue / Expense Category	Dec 2013 AFS	Dec 2014 AFS	Dec 2015 AFS	2016 N/A
Gross Potential Apartment Rent Apartment	$0	$590,000	$590,000	$0
Rent Loss (Vacancy / Bad Debt /	$0	($18,000)	($18,000)	$0
Concessions) Other Revenue	$0	$16,000	$16,000	$0
Effective Gross Income	**$0**	**$588,000**	**$588,000**	**$0**
Real Estate Taxes	$0	$50,000	$52,000	$0
Property Insurance	$0	$35,000	$36,000	$0
Owner-Paid Utilities	$0	$55,000	$60,000	$0
Other Operating Expenses	$0	$328,000	$320,000	$0
Total Operating Expenses	**$0**	**$468,000**	**$468,000**	**$0**
Replacement Reserve Deposits Required	$0	$40,000	$40,000	$0
Net Operating Income	**$0**	**$80,000**	**$80,000**	**$0**
First Mortgage Debt Service	$0	$77,000	$76,000	$0
Operating Cash Flow	**$0**	**$3,000**	**$4,000**	**$0**

Owner's Comments, Notes, and Concerns

Review the cash flow summary information above. Are there any items you want to discuss with your property management company? Are there any trends that are particularly favorable or unfavorable? Are there any changes you may want to make, to the way your property operates financially as part of your preservation strategy?

[owner's cash flow trend comments]

What other concerns and goals and objectives have you identified for preserving your property? These might include -- for example -- regulatory options such as prepayment or Section 8 contract renewal, physical changes such as rehab or improving accessibility or adding community space, changes in the way the property is managed, and/or changes in the profile of residents you wish to serve.

[owner's initial preservation objectives]

The property owner will complete this worksheet during Exercise 3-3 in Chapter 3, "Identify Your Best Preservation Option without a Recapitalization." The completed worksheet will allow the property owner to see what is likely to happen financially if current operations continue and if the current Replacement Reserve funding is adequate.

Bennington Square -- Status Quo Cash Flow Projection ($ in thousands) -- Before CNA

	Actual 2014	Actual 2015	Est'd 2016	Est'd 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2026	Projected 2031	Projected 2036
Gross Potential Rents	$590	$590	$605	$605	$605	$620	$636	$652	$737	$834	$944
Vacancy / Bad Debt / Concessions	($18)	($18)	($18)	($30)	($30)	($31)	($32)	($33)	($37)	($42)	($47)
Other Income	$16	$16	$16	$16	$17	$17	$17	$18	$20	$22	$24
Effective Gross Income	**$588**	**$588**	**$603**	**$591**	**$592**	**$606**	**$621**	**$637**	**$720**	**$814**	**$921**
Real Estate Taxes	($50)	($52)	($53)	($54)	($56)	($57)	($59)	($60)	($68)	($77)	($87)
Property Insurance	($35)	($36)	($37)	($38)	($39)	($40)	($41)	($42)	($47)	($54)	($61)
Owner-Paid Utilities	($55)	($60)	($65)	($67)	($68)	($70)	($72)	($74)	($83)	($94)	($107)
Other Operating Expenses	($328)	($320)	($330)	($338)	($347)	($355)	($364)	($373)	($422)	($478)	($541)
Total Operating Expenses	**($468)**	**($468)**	**($485)**	**($497)**	**($510)**	**($522)**	**($536)**	**($549)**	**($620)**	**($703)**	**($796)**
Replacement Reserve Deposit	($40)	($40)	($40)	($40)	($41)	($42)	($43)	($44)	($50)	($57)	($64)
Net Operating Income	**$80**	**$80**	**$78**	**$54**	**$41**	**$42**	**$42**	**$44**	**$50**	**$54**	**$61**
Principal and Interest (net of IRP)	($75)	($75)	($75)	$0	$0	$0	$0	$0	$0	$0	$0
Mortgage Insurance Premium	($2)	($1)	($1)	$0	$0	$0	$0	$0	$0	$0	$0
Operating Cash Flow	**$3**	**$4**	**$2**	**$54**	**$41**	**$42**	**$42**	**$44**	**$50**	**$54**	**$61**
Rent Increase This Year		0.0%	2.5%	0.0%	0.0%	2.5%	2.6%	2.5%	2.5%	2.5%	2.5%
Debt Service Coverage Ratio	1.04	1.05	1.03	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expense Cushion	0.6%	0.9%	0.4%	10.9%	8.0%	8.0%	7.8%	8.0%	8.1%	7.7%	7.7%
Key Economic Assumptions:											
Trending for Gross Potential Rents						2.5%					
Rent Loss % of GPR				5.0%							
Trending for Other Income				2.0%							
Trending for Operating Expenses				2.5%							
Trending for R4R Deposit					2.5%						

The property owner will complete this worksheet during Exercise 3-4 in Chapter 3, "Identify Your Best Preservation Option without a Recapitalization." The property owner will need a Capital Needs Assessment (CNA) or similar estimate of long-term capital needs to complete this worksheet. Typically, a CNA is an essential component of long-term property planning, because roof replacements and similar major repair costs need to be anticipated and funding needs to be set aside many years before it's time to make the repair.

HUD published an electronic CNA tool in December 2016:

https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh/cna.

Bennington Square -- Long Term Capital Needs from CNA ($ in thousands)

	Est'd 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2022	Projected 2023	Projected 2024	Projected 2025	Projected 2026	Projected 2027	Projected 2028	Projected 2029
Long Term Capital Needs	$171	$317	$326	$336	$346	$362	$0	$265	$273	$294	$0	$0	$298

	Projected 2030	Projected 2031	Projected 2032	Projected 2033	Projected 2034	Projected 2035	Projected 2036	Projected 2037	Projected 2038	Projected 2039	Projected 2040
Long Term Capital Needs	$307	$320	$192	$191	$376	$387	$395	$0	$0	$551	$1,553

The property owner will complete this worksheet during Exercise 3-4 in Chapter 3, "Identify Your Best Preservation Option without a Recapitalization." This worksheet allows the property owner to include the capital needs information from the CNA into the owner's preservation planning process. Owners often find that, once the long-term capital needs are better known, it's necessary to provide additional funding, either in the Replacement Reserve or through a recapitalization transaction.

HUD published an electronic CNA tool in December 2016:
https://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh/cna.

Bennington Square -- Status Quo Cash Flow Projection ($ in thousands) -- With CNA

	Actual 2014	Actual 2015	Est'd 2016	Est'd 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2026	Projected 2031	Projected 2036
Gross Potential Rents	$590	$590	$605	$715	$725	$743	$762	$781	$883	$999	$1,131
Vacancy / Bad Debt / Concessions	($18)	($18)	($18)	($36)	($36)	($37)	($38)	($39)	($44)	($50)	($57)
Other Income	$16	$16	$16	$16	$17	$17	$17	$18	$20	$22	$24
Effective Gross Income	**$588**	**$588**	**$603**	**$695**	**$706**	**$723**	**$741**	**$760**	**$859**	**$971**	**$1,098**
Real Estate Taxes	($50)	($52)	($53)	($54)	($56)	($57)	($59)	($60)	($68)	($77)	($87)
Property Insurance	($35)	($36)	($37)	($38)	($39)	($40)	($41)	($42)	($47)	($54)	($61)
Owner-Paid Utilities	($55)	($60)	($65)	($67)	($68)	($70)	($72)	($74)	($83)	($94)	($107)
Other Operating Expenses	($328)	($320)	($330)	($338)	($347)	($355)	($364)	($373)	($422)	($478)	($541)
Total Operating Expenses	**($468)**	**($468)**	**($485)**	**($497)**	**($510)**	**($522)**	**($536)**	**($549)**	**($620)**	**($703)**	**($796)**
Replacement Reserve Deposit	($40)	($40)	($40)	($100)	($103)	($105)	($108)	($110)	($125)	($141)	($160)
Capital Needs			($60)	($171)	($317)	($326)	($336)	($346)	($294)	($320)	($395)
Replacement Reserve Withdrawals			$60	$157	$103	$105	$108	$110	$125	$141	$160
Net Operating Income	**$80**	**$80**	**$78**	**$84**	**($121)**	**($125)**	**($131)**	**($135)**	**($55)**	**($52)**	**($93)**
Principal and Interest (net of IRP)	($75)	($75)	($75)	$0	$0	$0	$0	$0	$0	$0	$0
Mortgage Insurance Premium	($2)	($1)	($1)	$0	$0	$0	$0	$0	$0	$0	$0

Bennington Square -- Status Quo Cash Flow Projection ($ in thousands) -- With CNA

	Actual 2014	Actual 2015	Est'd 2016	Est'd 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2026	Projected 2031	Projected 2036
Operating Cash Flow	**$3**	**$4**	**$2**	**$84**	**($121)**	**($125)**	**($131)**	**($135)**	**($55)**	**($52)**	**($93)**
Rent Increase This Year		0.0%	2.5%	18.2%	1.4%	2.5%	2.6%	2.5%	2.4%	2.5%	2.5%
Debt Service Coverage Ratio	1.04	1.05	1.03	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Expense Cushion	0.6%	0.9%	0.4%	16.9%	-23.7%	-24.0%	-24.4%	-24.6%	-8.8%	-7.4%	-11.6%
Replacement Reserve Balance											
Beginning Balance			**$75**	$56	$0	$0	$0	$0	$0	$0	$0
Plus Interest			$1	$1	$0	$0	$0	$0	$0	$0	$0
Plus Deposits			$40	$100	$103	$105	$108	$110	$125	$141	$160
Subtotal			$116	$157	$103	$105	$108	$110	$125	$141	$160
Minus Withdrawals			($60)	($157)	($103)	($105)	($108)	($110)	($125)	($141)	($160)
Ending Balance			$56	$0	$0	$0	$0	$0	$0	$0	$0
Key Economic Assumptions:											
Trending for Gross Potential Rents						**2.5%**					
Rent Loss % of GPR				**5.0%**							
Trending for Other Income				**2.0%**							
Trending for Operating Expenses				**2.5%**							
Trending for R4R Deposit					**2.5%**						
R4R Interest Rate			**1.0%**								

The property owner will complete this worksheet during Exercise 6-1 in Chapter 6, "Fine-Tune Your Recapitalization." Chapter 6 contains detailed discussions of the various line items that appear below. This worksheet allows the property owner to develop a more detailed sources-and-uses estimate, than the abbreviated version found on the S+U Calculator worksheet. You can customize the Sources of Funds descriptions in rows 11-14.

As noted in the two prior worksheets, this owner selected a non-LIHTC transaction with modest rehab, because this simpler and less expensive transaction was sufficient to preserve the property long-term.

Bennington Square -- Sources and Uses of Funds for Preservation Transaction
Dollars in Thousands

Sources of Funds	Amount ($000)	$ / Unit	Comment
Refinanced First Mortgage Loan	$1,700	$17,000	FHA 223f loan
HOME funds	$1,000	$10,000	15 units with HOME restrictions
CDBG funds	$0	$0	
State Housing Trust funds	$625	$6,250	10 Units with Housing Trust Fund restrictions
LIHTC Equity	$0	$0	
Deferred Developer Fee	$128	$1,280	
Existing Project Account Balances	$75	$750	R4R, tax escrow, insurance escrow
Total Sources of Funds	**$3,528**	$35,280	

Uses of Funds	Amount ($000)		Comment
Pay Off Existing 236 Loan	$125	$1,250	
Rehab Hard Cost	$1,700	$17,000	
Hard Cost Contingency	$340	$3,400	Contingency at 20% (no plans or specs or bids yet)
Other Construction Contract Costs	$20	$200	Bond premium
General Reqts, Builder Ovhd, Builder Fee	$200	$2,000	
Developer Fee	$400	$4,000	
Construction Loan Interest	$0	$0	None; rehab is funded with 1st mortgage and HOME
Other Construction Loan Costs	$0	$0	
Closing Costs (Initial Closing)	$25	$250	
Architect Fees	$60	$600	
Engineering, Environmental, Survey	$25	$250	
Building Permits, Inspection Fees	$45	$450	
Accounting Fees	$0	$0	No cost certification required
Tenant Relocation	$35	$350	Plan to relocate within the property
Market Study, Appraisal	$10	$100	
Capital Needs Assessment	$8	$80	
Permanent Loan Costs	$110	$1,100	
Establish new Replacement Reserve	$200	$2,000	
Establish Other Initial Reserves	$0	$0	
Establish Tax and Insurance Escrows	$50	$500	
Closing Costs (Final Closing)	$50	$500	
Marketing, Lease-Up	$0	$0	None; property will remain occupied during rehab
Furniture, Fixtures and Equipment	$0	$0	None anticipated
Soft Cost Contingency	$125	$1,250	About 20% of costs other than const contract & dev fee
Total Uses of Funds	**$3,528**	$35,280	

The property owner will complete this worksheet during Exercise 3-8 in Chapter 3, "Identify Your Best Preservation Option without a Recapitalization." Once completed, this worksheet will show the property owner's selected best option, based on changes that do not require a recapitalization transaction.

Bennington Square -- Preservation Cash Flow Projection ($ in thousands)
Preservation Transaction Closes at the Start of 2017

	Actual 2014	Actual 2015	Est'd 2016	Est'd 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2026	Projected 2031	Projected 2036
Gross Potential Rents	$590	$590	$605	$750	$769	$788	$808	$828	$937	$1,060	$1,199
Vacancy / Bad Debt / Concessions	($18)	($18)	($18)	($38)	($38)	($39)	($40)	($41)	($47)	($53)	($60)
Other Income	$16	$16	$16	$16	$17	$17	$17	$18	$20	$22	$24
Effective Gross Income	**$588**	**$588**	**$603**	**$728**	**$748**	**$766**	**$785**	**$805**	**$910**	**$1,029**	**$1,163**
Real Estate Taxes	($50)	($52)	($53)	($54)	($56)	($57)	($59)	($60)	($68)	($77)	($87)
Property Insurance	($35)	($36)	($37)	($38)	($39)	($40)	($41)	($42)	($47)	($54)	($61)
Owner-Paid Utilities	($55)	($60)	($65)	($67)	($68)	($70)	($72)	($74)	($83)	($94)	($107)
Other Operating Expenses	($328)	($320)	($330)	($338)	($347)	($355)	($364)	($373)	($422)	($478)	($541)
Total Operating Expenses	**($468)**	**($468)**	**($485)**	**($497)**	**($510)**	**($522)**	**($536)**	**($549)**	**($620)**	**($703)**	**($796)**
Replacement Reserve Deposit	($40)	($40)	($40)	($100)	($100)	($100)	($100)	($100)	($100)	($100)	($100)
Net Operating Income	**$80**	**$80**	**$78**	**$131**	**$138**	**$144**	**$149**	**$156**	**$190**	**$226**	**$267**
Principal and Interest (net of IRP)	($75)	($75)	($75)	($122)	($122)	($122)	($122)	($122)	($122)	($122)	($122)
Mortgage Insurance Premium	($2)	($1)	($1)	($8)	($8)	($7)	($7)	($7)	($7)	($6)	($4)

Bennington Square -- Preservation Cash Flow Projection ($ in thousands)
Preservation Transaction Closes at the Start of 2017

	Actual 2014	Actual 2015	Est'd 2016	Est'd 2017	Projected 2018	Projected 2019	Projected 2020	Projected 2021	Projected 2026	Projected 2031	Projected 2036
Operating Cash Flow	**$3**	**$4**	**$2**	**$1**	**$8**	**$15**	**$20**	**$27**	**$61**	**$98**	**$141**
Rent Increase This Year		0.0%	2.5%	24.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Debt Service Coverage Ratio	1.04	1.05	1.03	1.01	1.06	1.12	1.16	1.21	1.47	1.77	2.12
Operating Expense Cushion	0.6%	0.9%	0.4%	0.2%	1.6%	2.9%	3.7%	4.9%	9.8%	13.9%	17.7%
First Mortgage Loan:											
Loan Amount ($000 omitted)				**$1,700**							
Interest Rate				**6.0%**							
Mortgage Insurance Premium				**0.45%**							
Remaining Term At Start of Year (months)				**360**	348	336	324	312	252	192	132
Remaining Balance At Start of Year				$1,700	$1,675	$1,653	$1,629	$1,604	$1,455	$1,253	$981
Key Economic Assumptions:											
Trending for Gross Potential Rents					**2.5%**						
Rent Loss % of GPR				**5.0%**							
Trending for Other Income				**2.0%**							
Trending for Operating Expenses				**2.5%**							
Trending for R4R Deposit					**0.0%**						

Recapitalization Excel Tools

Explanations for Affordable Rental Housing Finance Calculator

These instructions will help you estimate your LIHTC equity and your first mortgage debt using the Affordable Rental Housing Finance Calculator. Below are discussions of a few key concepts.

Low Income Housing Tax Credit Calculator. The rows labeled "TDC per unit" through "LIHTC Equity Price ..." will help you estimate the amount of LIHTC equity your project might be able to obtain.

TDC. This stands for "total development cost" -- everything that you will have to spend in order to achieve a completed, leased-up, stabilized project. This includes land, construction, general contractor costs, developer fee, initial reserves, professional fees, lease-up costs, building permits, ...

Basis. Only a portion of TDC counts toward LIHTCs. For example, land does not count. Initial reserves do not count. Neither do any fees you pay to the permanent mortgage lender. The term "basis" comes from the accounting world. On this row, enter the percentage of TDC that "counts" for LIHTC purposes.

Applicable Fraction. Colloquially, this is "the percentage of this project that is LIHTC-eligible". Technically, it's a combination of the fraction of units that are LIHTC-eligible and the fraction of square footage that is LIHTC-eligible.

LIHTC Percentage. In the industry, we speak about "9% LIHTCs" and "4% LIHTCs". The actual percentages are published monthly by the Internal Revenue Service. There have been periods during which Congress required exactly a 9.0% LIHTC percentage for the "9% LIHTC" program, but in other periods the actual percentage varies and usually is less than 9.0%. For the "4% LIHTC" program, the monthly percentages have almost always been below 4.0%. On this row, enter the percentage that you estimate the IRS will publish at the time the project is completed and leased-up. Current rates can be found at: http://www.novoco.com/low_income_housing/facts_figures/index.php

Basis Boost. In the "9% LIHTC" program, the State Allocating Agency (in most states, this is the Housing Finance Agency) can choose to award more than 100%, and up to 130%, of the normal amount of LIHTCs. See your State's Qualified Allocation Plan to see how your State Allocating Agency has chosen to exercise this authority. On this row, enter a percentage between 100% and 130%. Note that "basis boost" is not available under the "4% LIHTC" program.

First Mortgage Calculator. The rows labeled "GPR per unit ..." through "1st Mortgage Amortization ..." will help you estimate the amount of first mortgage debt your project might be able to obtain.

GPR. This stands for "Gross Potential Rent:" the rent that the owner would collect if all units were occupied, no discounts or concessions were offered by the owner, and all tenants paid the full rent.

Vacancy Loss. On this row, enter the total rent loss, from vacancy (i.e., units that are not occupied), bad debt (i.e., the unit is occupied but the tenant doesn't pay), and concessions (i.e., the unit is occupied, the tenant pays the rent, but the owner offered a discount or 'concession' on the rent).

Other Income. For affordable rental housing, typically this is laundry income, vending income, tenant damage charges, late payment fees, and similar income items. Do not include investment earnings on reserve accounts, unless the investment earnings are available to pay for operating expenses or mortgage payments (typically, investment earnings are required to be re-deposited into the reserve accounts).

Operating Expenses. These include the property management fee, payroll for property staff, office expenses, maintenance expenses, real estate taxes, property insurance, and any utilities that are paid by the property owner. "Operating Expenses" do not include the mortgage payment.

Reserve Deposit. This is the annual deposit to the Replacement Reserve account. If you want to pay for all capital needs from the Replacement Reserve, you need a reserve deposit that is sized to adequately fund all of the repairs. However, a more typical practice is to pay for some capital needs from the reserve and to pay for the remaining capital needs by periodically refinancing the property (i.e., borrowing more than it takes to pay off the existing first mortgage loan, and using some or all of the extra funds to do repairs and replacements). Each owner needs to choose the right mix of funding strategies for long-term capital needs; for some properties, the right choice is a very large reserve deposit and no reliance on future refinancing; for other properties, a mix of funding strategies is the right choice.

Net Operating Income ("NOI). This is the revenue (GPR minus vacancy loss plus other income) that is left over after paying the operating expenses (but before making the mortgage payment). This is the commercial real estate equivalent of the interest income on a certificate of deposit, or the dividend on a stock.

Debt Service. This refers to the total mortgage payment (principal plus interest plus any 'credit enhancement' costs such as an FHA mortgage insurance premium or a bond guarantee fee).

Debt Service Coverage Ratio ("DSCR"). This is the relationship between NOI (as the numerator) and the debt service (i.e., total mortgage payment) (as the denominator). A conventional lending rule of thumb is that a 1.20:1 DSCR is a relatively sound loan; a DSCR above 1.20:1 indicates a very sound loan, and a DSCR below 1.20:1 indicates a riskier loan. A DSCR below 1.00:1 means that the NOI is not sufficient even to cover the mortgage payment, indicating a very risky loan.

MIP. This stands for "mortgage insurance premium". Some commercial mortgage loans include, in addition to the interest rate, a 'credit enhancement' charge paid to someone who guarantees (or partially guarantees) repayment of the loan. The most common example is the FHA 'mortgage insurance premium'. Other examples include guarantee fees that are common in bond-financed loans.

Amortization Period. This refers to the period of time on which the mortgage payment is calculated. For commercial mortgage loans, the most common amortization periods are between 15 and 30 years, with 30 years being perhaps the most common. **Amortization Period** is not the same as **Maturity**; "maturity" refers to when the loan must be repaid, whereas "amortization" refers to the period used for calculating the monthly payments. A loan whose maturity is equal to the amortization period is called a **Self-Amortizing Loan**; a loan that matures early (before the end of the amortization period) is called a **Balloon Loan** or a **Bullet Loan**.

The property owner will complete this worksheet during Exercise 5-2 in Chapter 5, "Design a Recapitalization." The user entry cells are found in column D and are "dollars per unit" or "percent" entries. Most entries have yellow background tip cells (in column A) containing additional information. Typical owners will need input from financial experts on their preservation teams, at this point. Your financial expert might be a lender, a consultant, or developer.

The "Estimated Hard Debt Per Unit" amount (in cells F29 and C35) needs to be transferred to the "Supportable Hard Debt per Unit" line (cell C37) of the "S+U Calculator" worksheet.

The "Estimated LIHTC Equity % of TDC" amount (in cell H33) needs to be transferred to the "LIHTC Equity % of TDC" line (cell C40) of the "S+U Calculator" worksheet.

The calculator sample below shows a LIHTC equity computation, but, as noted on the prior worksheet, the owner selected a less complex and less expensive transaction that utilized modest rehab.

Bennington Square -- Affordable Rental Housing Finance Calculator

	Key Economic Assumption	Amount			
	Number of Units	100			
TIP	TDC per unit	$79,800	$7,980,000	TDC	
TIP	LIHTC Basis as % of TDC	75.0%	$5,985,000	Basis if 100% of units eligible	
TIP	LIHTC Applicable Fraction	100.0%	$5,985,000	Basis for Eligible Units	
TIP	LIHTC %	9.0%	$538,650	Annual LIHTCs at 100% Boost	
TIP	LIHTC Basis Boost	100%	$538,650	Annual LIHTCs After Boost	
TIP	LIHTC Equity Price per $ of Basis	$0.900	$4,847,850	LIHTC Equity	60.8% of TDC
			$48,479	Per Unit	
TIP	GPR Per Unit Per Month	$700	$840,000	GPR	
	Vacancy Loss (% of GPR)	7.0%	($58,800)	Vacancy Loss	
TIP	Other Income Per Unit Per Annum	$200	$20,000	Other Income	
TIP	Operating Expenses PUPA	$4,500	($450,000)	Operating Expenses	
TIP	Reserve Deposit PUPA	$500	($50,000)	Reserve Deposit	
			$301,200	NOI	
TIP	Debt Service Coverage Ratio	1.20	$251,000	Maximum D.S.	
	1st Mortgage Interest Rate	6.500%	7.5848%	Constant	
TIP	1st Mortgage MIP	0.450%	8.0348%	Constant including MIP	
TIP	1st Mortgage Amortization (years)	30	$3,123,900	Supportable 1st	39.1% of TDC
			$31,239	Per Unit	

$4,847,850	**Estimated LIHTC Equity ($48,479 per unit)**	**60.8% of TDC**
$3,123,900	**Estimated Hard Debt ($31,239 per unit)**	**39.1% of TDC**
$8,250	**Soft Debt Needed ($83 per unit)**	**0.1% of TDC**

Recapitalization Excel Tools

Explanations for Sources and Uses Calculator

This calculator is designed to help owners make initial rough estimates of preservation costs ("uses of funds") and of how best to pay for those costs ("sources of funds"). By entering estimates in the light green background cells at the bottom of the calculator, the user can generate an estimated "sources and uses of funds statement" for a preservation transaction. Making these sorts of rough estimates, very early in the preservation planning process is a best practice and will help owners make good decisions about preservation goals and preservation strategies. Of course, later in the process, a much more detailed sources and uses statement will be needed. Similarly, you should expect that the sources and uses statement will change many, many times as your preservation planning process moves forward. Here are brief explanations of some of the terms used.

Total Uses of Funds. Sometimes also called **Total Development Cost**. This is the total cost to produce a completed, leased-up, stabilized project. This includes land, construction, general contractor costs, developer fee, initial reserves, professional fees, lease-up costs, building permits, ...

Sources of Funds. This refers to the funds that you will use to pay for the Total Development Cost (TDC).

Do The Sources and Uses Balance? The total sources of funds must equal (or exceed) the total uses of funds, in order to have a viable transaction. In this calculator, if the total sources are not sufficient, you will see a red warning message "Additional funding needed" just above the Total Sources of Funds line.

Hard Cost. This refers to the actual cost of construction / rehab for materials and labor, before any general contractor fees or other 'soft costs'.

Hard Cost Contingency. There are two major types of cost risk in a real estate construction or rehab project: (1) **Cost Overrun Risk:** The risk that the actual cost for a line item (for example, sidewalks) will be higher than the estimated cost; and (2) **Change Order Risk:** The risk that the plans and specs failed to anticipate construction or rehab work that is necessary in order to complete the project. Early in the planning process, before there are plans and specs, the hard cost contingency needs to be quite substantial. Later, when there are plans and specs, a firm-fixed-price construction contract, and perhaps a performance bond as well, the hard cost contingency can be somewhat lower. Note: a performance bond protects against cost overrun risk but does not protect against change order risk, so some level of hard cost contingency is needed even if there is a fixed price bonded construction contract.

General Contractor Costs. Typical construction contracts provide for **General Requirements** (on-site overhead costs such as temporary utilities, construction waste removal, and the site superintendent's payroll costs); **General Overhead** (an allowance for off-site overhead costs such as the contractor's estimating department and purchasing department); and **Builder Profit / Fee** (the contractor's fee / profit).

Miscellaneous Soft Costs. These include professional fees, financing fees, interest during the construction period, application fees, permit fees, initial reserves, lease-up and marketing costs, furniture for the rental office and community areas, any tenant relocation costs, and closing costs such as title insurance and recording fees.

Soft Cost Contingency. Typical transactions include a 'soft cost contingency reserve' to cover two types of risk: (1) The risk that, in carrying out the project, there is a need for a category of soft cost that was not originally anticipated; and (2) The risk that, in carrying out the project, the actual cost for a category of soft cost is higher than the estimated cost.

Developer Fee. This is the compensation to the developer for designing the project, accurately estimating the costs, obtaining the funds necessary to carry out the project, procuring all of the services needed to carry out the project, working with the funders, and resolving the myriad of issues that typically arise in the course of a preservation project.

Developer Fee Deferral. Some projects have sufficient sources of funds to cover all of the development costs, including paying the full developer fee in cash. Other projects require the developer to "defer" part of its fee, to free up funds to pay for other costs. Typically, the developer collects any deferred fee from the first few years of cash flow after the project is completed, leased-up and stabilized.

The property owner will complete this worksheet during Exercises 5-1 and 5-2 in Chapter 5, "Design a Recapitalization." Chapter 5 discusses each of the items that appear below. The user entry cells are found in the second section of this worksheet and are "dollars per unit" or "percent" entries. Most entries have yellow background tip cells containing additional information. Typical owners will need input from financial experts on their preservation teams at this point. Your financial expert might be a lender or a consultant or a developer. If you don't have sufficient sources of funds, a red warning message will appear in row 16.

The sample calculator shows a LIHTC equity amount, but, as you will see in the Preservation CF Projection and Preservation Sources & Uses worksheets, in this sample the owner chose a non-LIHTC transaction using a new first mortgage plus limited soft debt to finance sufficient rehab so that the property could be long-term viable. Also, the calculator example below shows that additional funding is needed (see rows 15 and 16).

Bennington Square -- Sources and Uses Calculator

Dollars Per Unit	**Per Unit**	
New First Mortgage	$15,000	18% of total sources
9% Tax Credit Equity	$49,000	60% of total sources
4% Tax Credit Equity	$0	0% of total sources
Soft Debt (HOME, CDBG, State trust fund, …)	$5,000	6% of total sources
Deferred Developer Fee	$6,200	8% of total sources
Funds Shortage (Excess)	$6,700	8% of total sources
Additional funding needed		
Total Sources of Funds	**$81,900**	
Pay Off Existing First Mortgage	$1,500	2% of total uses
Hard Cost of Repairs	$40,000	49% of total uses
Hard Cost Contingency	$8,000	10% of total uses
General Contractor Costs	$6,700	8% of total uses
Miscellaeous Soft Costs	$11,200	14% of total uses
Soft Cost Contingency	$2,200	3% of total uses
Developer Fee	$12,300	15% of total uses
Total Uses of Funds (Total Development Cost)	**$81,900**	

Key Assumptions		
Hard Construction Cost ($ per unit)	**$40,000**	
Hard Cost Contingency (% of Hard Cost)	**20%**	**TIP**
General Contractor Costs (% of Const. Cost)	**14%**	**TIP**
Misc. Soft Costs (% of Construction Contract)	**20%**	**TIP**
Soft Cost Contingency (% of Misc Soft Cost)	**20%**	**TIP**
Developer (% of Total Uses)	**15%**	**TIP**
Supportable Hard Debt ($ per unit)	**$15,000**	**TIP**
Pay Off Existing Hard Debt ($ per unit)	**$1,500**	
Utilize Low Income Housing Tax Credits?	**9% LIHTC**	
LIHTC Equity (% of TDC)	**60%**	**TIP**
Soft Debt Funds ($ per unit)	**$5,000**	
Maximum Developer Fee Deferral	**50%**	**TIP**