

The background features a green gradient that transitions from a darker shade at the top to a lighter shade at the bottom. Overlaid on this gradient are several sets of concentric blue circles of varying diameters, arranged in a way that they appear to be centered on different points across the page, creating a complex, layered pattern.

Mark-to-Market (M2M) Process

Office of Affordable Housing
Preservation (OAHP)

Goals of the M2M Program

- **Social:**
 - Preservation of the Affordable Housing Stock
 - Maintenance of Housing Quality Standards
 - New 30-Year Use Agreement
- **Economic:**
 - Reduce Rents to Market (Congressional Mandate)
 - Restructured Debt (Ensure financial integrity)
 - Immediate & Long Term Physical Needs Addressed
- **Administrative:**
 - PAE Partnerships, including Public-Entity PAEs
 - Managerial Integrity of the Properties
 - Align Owner Incentives with HUD Interests



Why Mark-to-Market

An Owner has:

- A Section 8 Housing Contract
AND
- An FHA-Insured Loan
AND
- Rents Are or Were Above Market
OR
 - the Property is on the Watch List
- OR**
 - the Owner has Previously Completed an M2M Lite
- OR**
 - Once Eligible, always Eligible



What M2M Does

Owner Incentive Package

- **Capital Recovery Payment (CRP)**
 - Owner contribution towards closing and rehab costs repaid with interest (350BP over like-term Treasuries) over 7-10 years
- **Incentive Performance Fee (IPF)**
 - Payment to Owners equal to 3% of Effective Gross Income
- **Cash Flow Split** - Owner shares up to 25% of surplus cash flow

Owner Incentives

- Competitive financial return to Owners tied to property performance
- First mortgage reduced to level serviceable by Market Rents
- Physical property conditions are addressed (including properties with REAC scores <60 , in some cases), and Reserves are funded
- HUD finances 80% of Rehab & Transaction Costs

and...

Owner Incentives (cont'd)

- Minimal Owner Investment for Significant Additions (HUD finances up to 97%)
 - Neighborhood Networks
 - Major Capital Items Previously Non-Existent
- Owner Participates throughout Restructuring Process
- Property's Marketability Improves
- Unique Advantages for Qualified Non-Profits

Additional Benefits for Early Entry

- Future Section 8 Rents (“Out Year”) Can Be Retained for Property Use and Applied toward:
 - Lowering Debt
 - Building Reserves
- Many Owners have come in early and completed Restructuring
- Free Look at Restructured Scenario
- New 20-Year HAP Contract versus Uncertainty



Mark to Market Process

Potential M2M Outcomes

- Lite
 - Rents marked-to-market without debt restructuring
 - Tier 1 (Rents Only) and Tier 2 (Rents and Expenses)
- Full
 - Rents marked-to-market and debt restructured
 - Operating expenses and reserves are underwritten

Assumption/Subordination Approval for M2M Notes Post-M2M

- **TPAs and Refinancing transactions post-M2M trigger the “due on sale” clause, or require HUD waiver**
 - **Waiver policy is in draft**
- **Policy has three objectives**
 - **Ensure property will be viable under proposed transaction**
 - **Protect value of HUD’s subordinate notes / cash flow**
 - **HUD shares in equity value created / cash-out**

M2M Process: Steps 1 - 2

Full Restructure Process:

- **STEP 1**

- Approximately 120 days prior to HAP Contract expiration, Owner, PBCA or HUD Field Office determines rents above market
 - *Owner must elect to enter M2M*
 - *Interim HAP at contract rents during M2M processing*
 - *Out-year Expirations can request restructure at any time.*
 - *Bond Deals should be reviewed as early as possible*

- **STEP 2**

- HUB/Program Center refers property to OAHP Headquarters OAHP assigns to a Participating Administrative Entity (PAE)

M2M Process: Step 3

- **STEP 3**
 - **PAE develops Draft Restructuring Plan**
 - PAE orders third party Rent Comparability Study; Owner receives copy
 - PAE orders third party Physical Condition Assessment and Environmental Screen; Owner receives copy
 - In consultation with Owner, tenants, local government, and HUD Field Office, the PAE determines market rents, rehab needs, operating expenses, as well as replacement reserves, new supportable debt, and estimated transaction costs.

M2M Process: Step 4

- **STEP 4**
 - PAE submits Restructuring Plan to OAHP for review and approval
 - Underwriting review and corrections
 - Review by Portfolio Director (all)
 - Portfolio Office Loan Committee Approval (some)
 - Headquarters Loan Committee Approval (few)

M2M Process: Steps 5-6

- **STEP 5**

- Owner signs the Restructuring Commitment (Owner has 2 levels of appeal rights)

- **STEP 6**

- Transaction is closed or processing is discontinued

M2M Process: Step 7-8

- **STEP 7**

- OAHP transfers responsibility back to the HUD Multifamily Field Office
 - Deal Transition Memos
 - Calls with Project Managers Regarding Deal Points
 - Closing Dockets Sent

- **STEP 8**

- Owner completes rehab work, generally required within 12 months of closing
 - Rehab Escrow established at Closing
 - OAHP oversight of Rehabilitation

Rehabilitation versus Reserves: What Goes Where

- **Rehab**
 - Broken or otherwise non-working building components or systems
 - New systems or equipment (significant additions like AC or Elevators)
 - Lead-Based Paint hazard abatement or controls
- **Reserve for Replacement**
 - Normal wear and tear items
 - At or approaching end of Estimated Useful Life
 - Schedule of repairs (for out-years) intended as guide, rather than rule
- **Additional Funds (Grants and Tax Credits) are beyond scope of M2M rehab**

M2M Process: Step 9

- **STEP 9**
 - **Post Closing Responsibilities**
 - Operate Project in accordance with M2M terms
 - **Submit Annual Financial Statements**
 - Receive appropriate CRP and IPF, if earned
 - Calculate Surplus cash, apply payments to M2M notes
 - **Continue to meet all standard multifamily/Section 8 requirements**



Program Results

M2M Update (thru Jan '07)

- ❑ Over 2,800 Deals Completed
 - 1,575 Full Debt Restructures closed
 - Over 650 OMHAR-Lites completed
 - Over 600 Other transactions completed
- ❑ Over 225,000 Units Preserved!
- ❑ Active Pipeline of Over 250 Properties
- ❑ Over \$2 Billion in Net Savings to Taxpayers

Office of Affordable Housing Preservation (OAHP)

Reference Material: OAHP Operating Procedures Guide (available at

www.hud.gov/offices/hsg/omhar)

- Appendix C – Qualified Non-Profit Owners
- Appendix D – TPAs
- Appendix R – Additional Funds

OAHP Headquarters:

202-708-0001

General Information:

www.hud.gov/offices/hsg/omhar

Technical Information:

www.oahp.net

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