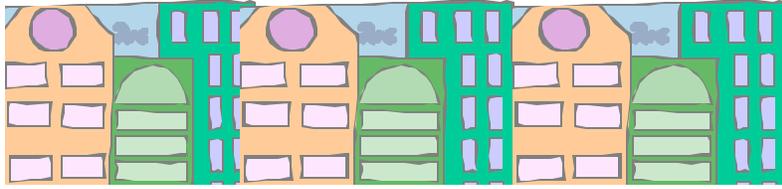


Office of Multifamily Housing Assistance Restructuring



Deal Profile: **Non-Profit Owner, No New First Mortgage, Residual Receipts, Surplus Reserves**

Overview

This OMHAR restructuring involved the use of Residual Receipts to fund the Transaction Costs and Increase the Reserve for Replacement Account when the Net Operating Income was too low to support a new 1st mortgage and the Non-Profit owner had no cash.

Part of the session will be devoted to a general review of the rules governing the use of Residual Receipts and Surplus Reserves in Mark-to-Market transactions.

Characteristics

- 73 Units; Housing for the Elderly in small, rural community
- Section 221(d)(3); Initial Occupancy 1980; Good Physical Condition
- Contract Rents 32% higher than Market Rents
- NOI does not support a new 1st Mortgage

Typically, with no new first mortgage to provide a source of funds, an owner must fund 100% of the M2M Transaction Costs, Rehab Escrow and any increase to the starting balance in the Reserve for Replacement Account. In this transaction, the property did not have any immediate Rehab Escrow needs, but the Non-Profit owner had no funds to contribute towards the transaction costs.

The Solution

When the pre-M2M Reserve for Replacement and Residual Receipts account balances were combined, the PAE first made sure that the restructured Reserve for Replacement starting balance would be sufficient for the long term health of the property. Next, a determination was made that Surplus Reserves were available to use in the restructure to benefit the Owner and HUD.

Pre-M2M RR Balance	\$ 75,000	
Pre-M2M Residual Receipts	+\$199,000	
Pre-M2M Total Reserves	\$274,000	
M2M Starting RR Balance (IDRR)	-\$157,000	Adds \$82,000 to the RR.
Surplus Reserves Available	\$117,000	

The M2M Transaction Costs came to \$30,000. HUD covered 80%, or \$24,000, and the Owner was responsible for 20%, or \$6,000.

In a M2M restructure, the Owner is allowed distribution of up to 10% of the Surplus Reserves. In this deal, the Owner received more than enough to cover the Owner's portion of the Transaction Costs. HUD applied \$24,000 of the Surplus Reserves for HUD's portion of the Transaction Costs and the remaining Surplus Reserves were used to reduce the Payment of Claim.