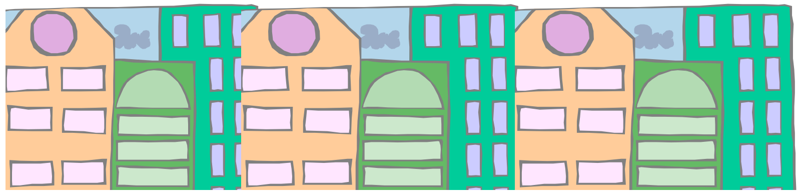
Office of Multifamily Housing Assistance Restructuring



Deal Profile: *Inner City Family, Significant Rehab Needs, Bond Financing, FAF, and Out-Year HAP.*

Date of Presentation: January 28, 2002

Questions and Answers

1. A Question on the Sizing of the 2^{nd} and 3^{rd} Loans.

Q. What are the initial balances on the M2M 2^{nd} and 3^{rd} loans and how were these amounts determined?

A. The 223(a)(7) loan is in first position, and is the amount of debt that the Net Operating Income supports after factoring in the needed annual Reserve for Replacement Deposit, Owner's Capital Recovery Payment (CRP), and including sufficient debt service coverage to pay for an Incentive Performance Fee (IPF). The proceeds of the new first loan covered the Rehab Needs, the necessary build up to the initial Replacement Reserve balance, and HUD's portion of the Transactions Costs. The 2^{nd} is the amount determined to be reasonably repayable, but is limited by the difference between the pre-restructuring UPB, and the principal on the new first. The 3^{rd} loan includes a portion of the claim that couldn't be covered in the second.

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2. Processing Time for Deals with Bond and FAF

Q. Given that the M2M Operating Procedure Guide gives 12 months as the maximum time for processing a restructure, can we expect that bond deals can meet this guideline?

A. Generally, the bonds deals entering the program are able to close within 12 months. It's important to collect and review the documents early in the process so that a lockout period is not missed. Occasionally, a short extension may be approved, but in most cases we don't expect this will be necessary.

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3. Closing Process, PAE Role

Q. When should the Closing PAE be brought in on the complexities?

A. Generally as early as possible, but you should discuss this with your Relationship Manager. The PAE should be able to collect all the pertinent documents and make a preliminary determination of the exempt status of an asset. (Until further notice, forward the documents to OMHAR HQ's, attention Dan Sullivan, to confirm exemption.) Once due diligence concludes that the asset is not exempt, the PAE's closing attorney should review the documents and advise how to address any mechanical issues associated with prepayment, redemption, and or defeasance.

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4. Bond Holder Notice Requirements
Q. Do the Bond Note Holders require any notice prior to pre-payment or defeasance?

A. Typically, yes. In addition to lockout periods, there may also be notice requirements that must be met.

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5. Document Collection
Q. What advice can you give us when the Owner and HFA are not able to produce the requested documents?

A. Check with the local HUD office for documents, especially the Note and any Riders. OMHAR has a list of closed FAF inventory that might be helpful. It's a good idea to make contact with the State HFAs early on to set up a protocol for finding the documents.

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6. Special Reserve Accounts
Q. What if the deal has special bond reserve accounts and the owner claims that part of those funds belong to the owner?

A. Review of the specific documents is required to determine the correct answer.

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7. Source of Funds in Deal Profiled
Q. How was the Owner able to come up with the required equity contribution to close this particular deal?

A. In this case, the Owner was able to obtain a local grant to help fund the Owner's portion of the Transaction Costs and Rehab Escrow.

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8. Special Costs Related to Unwinding the Bond and FAF Documents
Q. Are these fees allowable as Transaction Costs in the M2M program?

A. Yes.

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9. Effect of High Bond Defeasance on Owner's Contribution to Transaction Costs

Q. What if the defeasance costs are really high? Should the restructure be modeled with the owner receiving a Capital Recovery Payment (CRP) correspondingly high?

A. It may be possible to include some of the fees in the new first mortgage. Assuming the costs have been negotiated to a reasonable amount, the PAE could consider reducing the owner contribution to less than the 20% normally contributed by the Owner. Or, it may be possible to structure the deal where the owner is not responsible for a full 20% of those fees added to the transaction costs. In some cases, it may make sense for the Owner to wait until later to bring the deal in for a full restructure.