

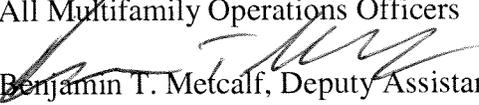


U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-8000

OFFICE OF HOUSING

JUN 12 2014

MEMORANDUM FOR: All Multifamily Hub Directors
All Multifamily Program Center Directors
All Multifamily Operations Officers

FROM: 
Benjamin T. Metcalf, Deputy Assistant Secretary,
for Multifamily Housing Programs, HT

SUBJECT: Better Buildings Challenge Multifamily Partner Incentive: Mark to
Market Incentive Performance Fee Increase

The Department of Housing and Urban Development (HUD), in partnership with the U.S. Department of Energy (DOE) and the White House, expanded the Better Buildings Challenge (BBC) to include multifamily residential buildings in December 2013. BBC Multifamily Partners have made a commitment to reduce their portfolio energy usage by 20 percent within 10 years. The Office of Multifamily Housing Programs has established the Mark to Market (M2M) Incentive Performance Fee increase policy to help participating Owners quickly access additional funds to offset the cost of energy and water efficiency improvements. Participation in this incentive is limited to Multifamily properties that are part of an identified BBC Multifamily Partner's portfolio.

This guidance does not modify or replace current M2M program or policy requirements and processes for non-BBC Multifamily Partners.

PART 1: PURPOSE

Several Owners have expressed a concern that older M2M properties undergoing rehabilitation are not adequately incentivized to complete energy and water saving improvements to their properties, and would like to make such improvements if incentives were available. Currently, M2M Green Initiative properties are eligible for an Incentive Performance Fee (IPF) increase. The BBC M2M IPF incentive will allow M2M properties that were not part of the M2M Green Initiative and are part of a BBC Multifamily Partner's portfolio to receive an IPF increase for completing improvements designed to reduce energy and water usage and spending. This is consistent with the policy for first time M2M Green Initiative properties.

PART 2: APPLICATION PROCESS

The Office of Multifamily Housing Programs is extending the opportunity to increase the IPF to current M2M properties that are part of a BBC Multifamily Partner's portfolio and are not part of the Green Initiative program. M2M properties that are part of a BBC Multifamily Partner's portfolio and that seek the BBC IPF incentive discussed in this memorandum will remain distinct

from Green Initiative M2M properties and will continue to follow the standards and procedures outlined in the standard Mark-to-Market guidance.

1. BBC M2M IPF Incentive Eligibility: M2M properties that are part of a BBC Multifamily Partner's portfolio and that meet the following criteria are eligible for an IPF increase:

- a) Complete 75 percent of the green measures proposed in their Green Capital Needs Assessment (CNA), also known as a Green Physical Condition Assessment (PCA), and
- b) Complete all (100 percent) of the water measures proposed in their Green CNA.

In addition to the requirements outlined above, the following conditions must be met by the property requesting this incentive prior to payment of the IPF:

- a) All project expenses have been paid;
- b) All required payments have been made on the Mortgage Restructuring Note and on any 1st mortgage;
- c) The most recent REAC physical inspection score is 60 or above;
- d) There are no outstanding HUD audit or management findings; and
- e) The Owner is not in default under any business agreements with the Department.

2. Application Requirements: In order to be considered for the BBC M2M IPF incentive, Owners of eligible properties must submit the following to the Office of Affordable Housing Preservation (OAHP):

- a) Cover Letter requesting an IPF increase. Please include the following in the Cover Letter:
 - i. Property Name
 - ii. Property Address
 - iii. FHA number
 - iv. BBC Multifamily Partner name and contact information.
- b) Certification from the Owner that the measures detailed in the application package have been completed;
- c) List of all completed measures;
- d) Copy of the most recent Green CNA;
- e) Print out of the BBC Multifamily Partner's profile page from the Better Buildings Challenge website (<http://www4.eere.energy.gov/challenge/>) and a short description of the applying entity's relationship to the Partner. Please see Appendix A for instructions on accessing the Partner's profile page.

The Cover Letter and supporting documents should be sent to the OAHP, to the attention of Claude Dickson, Claude.C.Dickson@HUD.gov.

PART 3: REVIEW PROCESS

OAHP will review all submissions for completeness and accuracy. OAHP will rely upon its Participating Administrative Entities (PAEs) to review the Green CNA. The PAEs will review the Green CNA and provide OAHP with a recommendation within 30 business days as to

whether the property has met the approval requirements. Owners will be notified by letter of OAHP's decision within 45 business days of OAHP receiving the BBC M2M IPF Incentive request package. In the event that a request is denied, OAHP shall provide the Owner a justification in writing, detailing which requirements were not met.

If approved, this Incentive allows for a 50 percent increase in the original IPF, with a ceiling of 4.5 percent of the property's Effective Gross Income. Funds requested are not guaranteed and are dependent upon the following (repeated from above):

- a) All project expenses have been paid;
- b) All required payments have been made on the Mortgage Restructuring Note and on any 1st mortgage;
- c) The most recent REAC physical inspection score is 60 or above;
- d) There are no outstanding HUD audit or management findings; and
- e) The Owner is not in default under any business agreements with the Department. .

Furthermore, the IPF is earned and paid only from positive Surplus cash, payable to the Owner at the end of the accounting year.

PART 4: POLICY COMPLIANCE

If all conditions are met, the IPF is payable to the Owner at the end of the accounting year. Once a BBC M2M IPF increase has been approved under this guidance, future payments do not require approval from the Office of Multifamily Housing Programs. The Owner will certify that all conditions were met by submitting an Annual Financial Statement (AFS) reflecting that IPF was earned. Improper IPF payments constitute a violation of the Regulatory Agreement (Rider) and can result in enforcement action including acceleration of the Mortgage Restructuring Note and/or Contingent Repayment Note (CRN). Furthermore, a discovery of improper payments may result in the forfeiture of IPFs.

The Department will continue to evaluate this policy and will make adjustments as needed to support the goals of the BBC. Please send feedback to the attention of Lauryn Alleva at MFBBC@hud.gov.

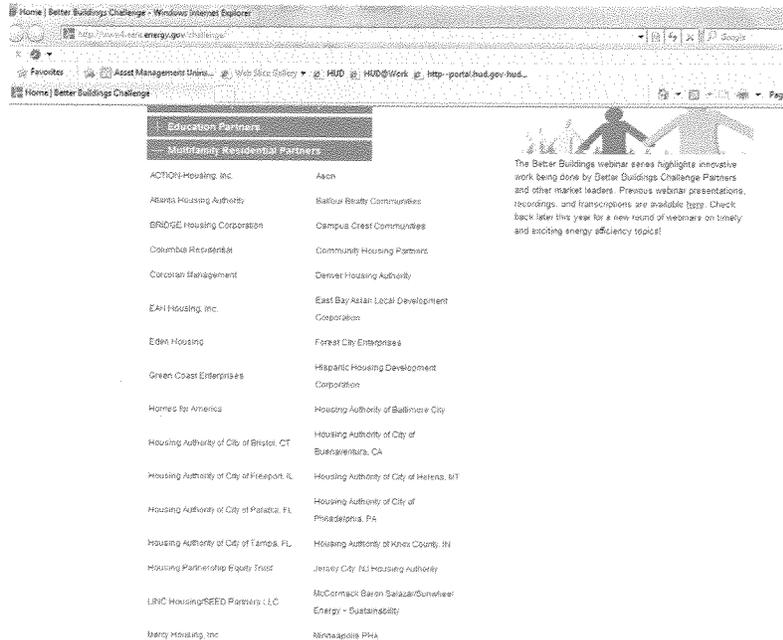
Attachment

Appendix A

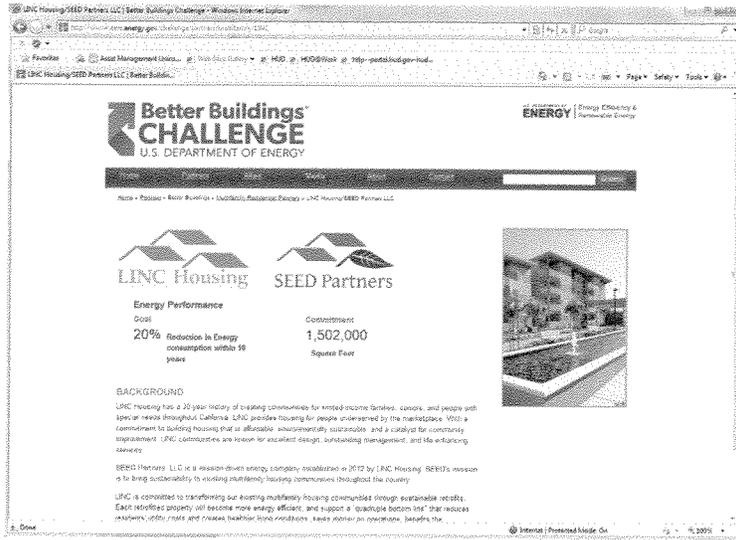
1. Navigate to the Better Buildings Challenge Homepage at <http://www4.eere.energy.gov/challenge/>:



2. Scroll down to the Multifamily Residential Partners' tab:



3. Find and click on the BBC Multifamily Partner's name:



4. Include a short description of the applying entity's relationship to the BBC Multifamily Partner.