January 22, 2003

MEMORANDUM FOR: Participating Administrative Entities and All OMHAR Staff

FROM: S. Paige Warren, Deputy Director for Production, OMHAR

SUBJECT: DECISION NOT TO OFFER ADDITIONAL OUT YEAR INCENTIVES

Summary: OMHAR has decided not to offer additional incentives to owners of “out year” properties (properties whose HAP contracts have not yet expired). Research into a variety of out year scenarios concluded that, for most owners, restructuring now is financially preferable to waiting until out year contract expiration.

Purpose: The purpose of this memo is to encourage PAEs and OMHAR Production Offices to complete the processing of all out year properties whose owners were waiting for additional incentives.

Types of Properties That Are Better Off Restructuring Early: Following are particularly common situations, identified in our research, in which out year owners are better off restructuring now. The common theme is that these properties either are not generating distributions now, or are generating distributions that are smaller than the owner can expect to receive after M2M.

1. Properties With Negative Surplus Cash. These properties had insufficient cash at 12/31/2001 to cover their accounts payable. As a result, these owners do not have a reasonable expectation of receiving any return over the remaining HAP term. PAEs should make these owners aware that it is likely that a Restructuring Plan can be approved that includes paying off payables at the M2M closing. This would position the property to begin paying CRPs, IPFs and distributable cash flow splits, soon after restructuring.

2. Properties Whose HAP Expires Soon After Expected M2M Closing Date. These owners do not have a reasonable expectation of receiving significantly more return by waiting.

3. Properties Whose Current Limited Distribution Is Comparable To or Less Than the Post M2M Return. These owners do not have a reasonable expectation of receiving significantly more return by waiting. PAEs should provide the owners with the projected post-M2M return (IPF plus split as modeled, 2nd loan pro forma page, first year) to enable them to compare it with the current limited distribution (Surplus Cash page of the 12/31/2001 audited financials, “annual distribution earned during fiscal period covered by the statement”).

Other Out Year Properties. OMHAR acknowledges that some owners of out year properties may decide not to restructure now. That remains the owner’s choice. OMHAR will not, however, offer any additional incentives to restructure prior to HAP expiration. OMHAR will classify these properties as Actions Other Than Closing (AOTC) if the owner does not sign a Restructuring Commitment.
PAE’s should make sure that owners are aware that OMHAR is developing additional accounts payable guidance. It is anticipated that this guidance will require an increase in the owner’s contribution towards accounts payable and may limit recovery from the CRP. This additional guidance will apply to properties that have entered OMHAR once and have been closed out via AOTC and subsequently reenter OMHAR

Please contact Norman Dailey (202-708-3856, extension 3786, or Norman_Dailey@hud.gov) if you have any questions about this memorandum.