

# Appendix A: Glossary of Terms

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<b>Affiliate</b>	Any person or entity (including, but not limited to, a general partner or managing member, or an officer of either) that controls a PAE, is controlled by a PAE, or is under common control with a PAE.
<b>Americans with Disabilities Act (ADA)</b>	Federal law that prohibits discrimination against individuals with physical handicaps, including hiring practices and design of buildings intended to serve the public.
<b>Amortization</b>	The reduction of debt by level fixed payments.
<b>Annual Contribution Contract (ACC)</b>	A contract between HUD and a third party (i.e., a PAE or HFA) regulating the administration of Section 8 assistance which the third party pays to an owner of a qualified multifamily housing project on behalf of the tenant.
<b>Annual Debt Service</b>	The annual payment of principal and interest required by a loan agreement.
<b>Applicable Federal Rate (AFR)</b>	An interest rate published by the IRS; it is the maximum rate that can be used for an M2M second or third mortgage.
<b>Capital</b>	The owner's original investment plus any retained profit reinvested and appearing on the balance sheet.
<b>Capital Recovery Payment (CRP)</b>	A monthly project expense allowed after debt restructuring as a return on new capital invested in the project by the Owner/Purchaser. The Fee is subordinate to regular operating expenses, replacement reserves and debt service. See Chapter 5.
<b>Certified General Appraiser</b>	An individual qualified to appraise any property, under the 1998 appraiser certification Law.
<b>Closing Docket</b>	The file of all legal documents that are completed at the closing of a restructuring transaction.
<b>Consolidated Plan</b>	The Consolidated Plan is the document submitted to HUD that serves as the planning document (comprehensive housing affordability strategy and community development plan) of the jurisdiction and an application for funding under any of the Community Planning and Development formula grant programs. The Consolidated Plan provides the framework for a planning

process used by States and localities to identify housing, homeless, community and economic development needs and resources and to tailor a strategic plan for meeting those needs. The Consolidated Plan may be used as a reference for the underwriter in making recommendations.

**Debt Service Coverage Ratio (DSCR)**

The Net Operating Income (NOI) divided by annual debt service (ADS).

**Developer Fee**

An allowed transaction cost that may be included in the restructuring financing for qualified non-profit purchasers only.

**Disabled Family**

Two or more handicapped persons living together, one or more such persons living with another person who is determined (under regulations prescribed by the Secretary) to be essential to their care or well-being, and the surviving member or members of any family described in the first sentence who were living, in a unit assisted, under this section, with the deceased.

**Draft Restructuring Commitment**

A draft document incorporating all the terms and conditions of the proposed Restructuring Plan prior to actual execution by PAE and OMHAR. This document will be provided to the Lender to issue a conditional letter of intent.

**Due Diligence Contractors**

Contractor hired by HUD or another oversight body to assess or hire others to assess the financial and physical condition of the property, security, market, rents, operating costs, and long-term repairs.

**Elderly Household**

A household comprised of one or more persons at least one of whom is 62 years of age or more at the time of initial occupancy.

**Estimated Useful Life (EUL)**

Estimated period of time during which an asset subject to depreciation (i.e., multifamily property) is judged to be in productive use.

**Exception Rents**

Rents higher than comparable market rents used only where the PAE has determined that the housing needs of the tenants and the community cannot be adequately addressed through a Restructuring Plan that provides for market rents.

**Fair Market Rent (FMR)**

The rent "limit" calculated annually by HUD for all areas of the country that establishes the maximum monthly Section 8 tenant-based rental assistance subsidy that eligible recipients may receive. This limit includes rent, utilities, and all maintenance and management charges.

<b>Fidelity Bond</b>	An assurance, generally purchased by an employer, to cover employees who are entrusted with valuable property or funds (i.e., a resident manager entrusted with collecting rents.)
<b>Gross Rent</b>	The sum of the contract rent and the utility allowance. If there is no utility allowance, contract rent equals gross rent.
<b>Housing Assistance Payments (HAP)</b>	The payment made by the Section 8 contract administrator to the owner of an assisted unit provided in the contract. This includes either the difference between the gross rent and the total tenant payment or the difference between a payment standard and 30 percent of the family's monthly adjusted income (voucher program).
<b>Housing Finance Agency (HFA)</b>	Entities established by state legislatures and chartered as state mortgage banks to meet the need for financing decent and affordable single-family and multifamily housing for very low, low and moderate income individuals and families.
<b>Housing Quality Standards (HQS)</b>	The minimum quality standards for housing assisted under HUD's tenant-based programs that owners must meet and maintain. Criteria against which quality is measured include access, space, security, structure, materials, lead-based paint, light and electricity, heat, water supply, sanitary facilities, food preparation facilities, and refuse disposal.
<b>HUD-held Mortgage vs. HUD-owned Project</b>	A HUD-held mortgage is a mortgage that has been assigned to HUD in order for the mortgagee to claim benefits under the applicable FHA insurance program; upon assignment, HUD becomes the mortgagee. HUD-owned project is a property whose title has been tendered to HUD. This results from either HUD foreclosing on a HUD-held mortgage or an insured mortgagee foreclosing on a HUD-insured mortgage who signs-over the title as required by the foreclosure.
<b>Immediate Physical Needs</b>	An estimate of the repairs, replacements, and significant maintenance issues that will be addressed within 12 months of closing. Other immediate needs include the minimum market amenities needed to restore the property to the non-luxury standard adequate for the rental market for which the property was originally approved.
<b>Incentive Performance Fee (IPF)</b>	An annual distribution to the owner subject to satisfactory project operation and management and equal to 3% of Effective Gross Income. The amount is subordinate to regular operating expenses, replacement reserves, debt service and Capital Recovery Payments with a minimum of \$100 a unit and a maximum of \$200 a unit.

Unpaid amounts do not accrue.

**Intermediary Technical Assistance Grant (ITAG)**

Technical assistance grant provided through Intermediary entity such as a non-profit or State or local government agency to assist resident groups or community affiliated non-profit to participate meaningfully in the M2M process.

**Long-Term Affordability and Use Restrictions**

Limitations on the amount of rent an owner may charge and the tenants to whom an owner may rent. Under HUD guidelines, the Restructuring Plan requires a property to maintain affordability and use restrictions for a minimum of 30 years. These restrictions are detailed in a Use Agreement.

**Long-Term Physical Needs**

The repairs, replacement, and significant maintenance items that should be included in the property's capital improvement program over the next 20 years.

**Low Income Housing Tax Credit (LIHTC)**

A program created as part of the Tax Reform Act of 1986 by Congress to promote development of affordable rental housing for low-income individuals and families.

**Major Building Component**

As defined in HUD Handbook 4460.1: Roof structures, wall or floor structures, foundations, plumbing, central heating and air conditioning, electrical systems or any element significant to the building and its use that is normally expected to last the useful life of the building, and is not minor or cosmetic.

**Monthly Contract Rent**

The monthly rent charged per type of rental unit for which HUD pays a subsidy and which is specified in the HAP.

**Mortgage Insurance Premium (MIP)**

The fee paid by a mortgagor to obtain mortgage insurance on a mortgage loan. The fee may be collected as a lump sum at loan closing or as a periodic amount included in the monthly payment, or both.

**Mortgage Restructuring and Rental Assistance Sufficiency Plan**

See "Restructuring Plan". The Mortgage Restructuring and Rental Assistance Plan is required under Section 514 of MAHRA.

**Multifamily Assisted Housing Reform and Affordability Act**

The Multifamily Assisted Housing Reform and Affordability Act of 1997, (MAHRA), is the underlying legislative authority provided to HUD to restructure FHA-insured multifamily mortgages.

**Net Cash Flow**

Net Cash Flow equals the NOI minus debt service on the first mortgage. For purposes of distributions and second mortgage payments after debt restructuring, a surplus cash calculation will be

used.

**Notice of Intent**

Notice to be filed by an owner with the HUD Multifamily Hub or Program Center with jurisdiction over the property identifying their option to opt out of the Section 8 program, restructure debt, or renew without restructuring.

**Office of Multifamily Housing Assistance Restructuring (OMHAR)**

Office established within HUD by the Multifamily Assisted Housing Reform and Affordability Act of 1997 to develop and actively manage, administer, and oversee the Mark-to-Market Program.

**Operating Cost Adjustment Factor (OCAF)**

Factor derived from analysis of the change in operating expenses in various geographic areas to be used in adjusting rents for contract renewals under a Restructuring Plan and to be published annually by HUD.

**Outreach and Training Grant (OTAG)**

Provides funds to resident controlled non-profits, community based organizations and public entities to provide technical assistance to tenants of M2M properties so that the tenants can participate meaningfully in the process.

**Partial Payment of Claim (PPC)**

Section 517(b)(1) of MAHRA specifically directs that a partial payment of claim (PPC) be made as an insurance claim from the appropriate insurance fund under section 541(b) of the National Housing Act, which authorizes partial payments on mortgages not in default in connection with the Mark-to-Market Program. HUD payment of a section 541(b) claim is the means by which one or more FHA-insured or HUD-held mortgages will be paid down to the level of debt that can be supported at market rents.

**Participating Administrative Entity (PAE)**

A public agency (including a State housing finance agency, a local housing agency, or a community development corporation), a nonprofit organization, or a non-public entity (including a law firm or an accounting firm), or a combination of such entities, that meets the statutory and regulatory requirements under section 513(b) of MAHRA to implement mortgage restructuring and rental assistance sufficiency plans (Restructuring Plans) for eligible multifamily housing properties.

**Physical Condition Assessment (PCA)**

Independent evaluation provided by the PAE of the property's immediate physical condition and rehabilitation needs, and its long term maintenance and replacement needs, including review and certification of the accuracy of the owner's evaluation.

**Portfolio Restructuring**

Agreement entered into by OMHAR HQ and all selected PAEs to

<b>Agreement (PRA)</b>	establish each party's obligations and to identify the properties for which the PAE must develop and implement an OMHAR-approved Restructuring Plan. The agreement also requires the PAE to review and certify to the accuracy and completeness of the properties' rehabilitation needs.
<b>Principal</b>	<p>Insofar as it refers to the entity or person that is the principal party in the ownership entity of a HUD multifamily housing project, including:</p> <ul style="list-style-type: none"><li>a) all individuals, joint ventures, partnerships, corporations, trusts, or non-profit organizations that is the mortgagor;</li><li>b) any public or private entity serving as the management agent;</li><li>c) all general partners, any limited partner with at least a 25% ownership interest, and any member of a Limited Liability Company with at least a 10% ownership interest in any such public or private corporation; and</li><li>d) affiliates or individual members of entities that directly or indirectly control the policy of a principal, or that have the power to do so.</li></ul>
<b>Priority Purchaser</b>	An independent tenant endorsed, community based non-profit organization that is given a priority to purchase M2M properties under the provisions of MAHRA. (See Appendix C for Definitions)
<b>Project-Based</b>	Tied to a specific physical building or units for a specified term.
<b>Public Housing Authority (PHA)</b>	Entity that owns and manages low income housing.
<b>Qualified Mortgagee</b>	<p>An entity approved by the Secretary that is capable of servicing, as well as originating, FHA-insured mortgages and that:</p> <ul style="list-style-type: none"><li>a) is not suspended or debarred by the Secretary;</li><li>b) is not suspended or on probation imposed by the Mortgagee Review Board; and,</li><li>c) is not in default under any Government National Mortgage Association obligation.</li></ul>
<b>Real Estate Assessment and Enforcement Center (REAC)</b>	Office within HUD responsible for tracking, monitoring and enforcing the regulatory agreements of multifamily housing projects with FHA insurance or project-based assistance.
<b>REAC Score</b>	The numerical rating generated by the annual evaluation of the multifamily project. The evaluation is produced by HUD's Real Estate Assessment Center. A M2M restructured project must maintain a minimum score of 60 to qualify for the Capital Recovery Payment and the Incentive Performance Fee.

<b>Rent Comparability Review</b>	The study performed by the PAE to make an independent determination in cases where the HUD Field Office disagrees with the owner's assessment that Section 8 contract rents are below comparable market rents. (See Chapter 11)
<b>Rent Supplement Program (SUP)</b>	Rental assistance program similar to but pre-dating project-based Section 8. The Rent Supp contract term (and funding) was commensurate with the insured loan term, generally 40 year insured loans (Section 236, 221(d)(3) market rate, and some 221(d)(3) BMIRs) and 40 year Rent Supp Contracts. Most Rent Supp contracts were converted in the mid 1980's to Section 8 contracts, fewer than 100 Rent Supp projects remain. Section 8 and Rent Supp funds are not interchangeable. Refer to OPG Chapter 3 Program Requirements and Standards, Section 3-4.
<b>Rental Assistance Assessment Plan (RAAP)</b>	Plan developed by the PAE to determine whether assistance should be renewed with project-based assistance or whether some or all of the assisted units should be converted to tenant-based assistance, as in Section 515(c)(2) of MAHRA.
<b>Reserves for Replacement / Replacement Reserve</b>	A fund into which a specified deposit is made each month by the owner and from which withdrawals are used to pay for capital improvements during the life of the property.
<b>Restructuring Commitment</b>	A document prepared by the PAE and executed by the owner and OMHAR setting forth the terms of the debt restructuring and the Section 8 Contract Renewal.
<b>Restructuring Plan</b>	A plan that a PAE in cooperation with the owner develops for each eligible multifamily property undergoing restructuring.
<b>Safe Harbor Standards</b>	Criteria by which a property is guaranteed project-based (rather than tenant-based) assistance in a Section 8 restructuring, including cases where more than 50% of the units in the project are occupied by elderly families, disabled families, or elderly and disabled families.
<b>Section 541 (b) Claim</b>	An insurance claim on one or more FHA-insured mortgages in order to bring down the debt to a level that can be supported at market rents.
<b>Section 8 Contract Administrator</b>	Entity that executes an Annual Contribution Contract (ACC) with HUD in order to administer Section 8 HAP contract(s).
<b>Section 8 Loan Management Set-Aside</b>	In the Loan Management Set-Aside program, HUD contracts with owners of HUD-insured multifamily or HUD-held housing projects

that are experiencing financial problems. Section 8 assistance to those properties provides financial support to prevent default.

**Subsidy Layering Certification**

Procedure to ensure that any HUD assistance provided to the owner of a property under the Restructuring Plan is no more than is necessary to permit the property to continue to house a tenant mix comparable in income to the tenant income mix of the property before the Restructuring Plan is implemented, after taking into account other Federal, State or local governmental assistance of any kind, such as grants, loans, guarantees, tax credits or other tax benefits.

**Substantial Rehabilitation**

As defined in HUD Handbook 4460.1, Chapter 4, required repairs, replacements and improvements involving (1) the replacement of two or more major building systems, or (2) costs which exceed either 15% of the property's replacement cost after completion of all repairs, replacements and improvements or \$6,500 per dwelling unit.

**Tenant-Based**

Tied to the tenant rather than to a specific building or unit.

**Tenant Endorsed, Community-Based, Independent Nonprofit Organization**

A non-profit organization that meets the statutory requirements of MAHRA for priority purchaser status and also qualifies for subordinate debt forgiveness. The detailed requirements are contained in Appendix C.

**Uniform Standards of Professional Appraisal Practices (USPAP)**

The accepted industry standards for, among other things, the appraisal of income producing property.

**Utility Allowance**

An amount used when calculating the payment required by the tenant under certain Section 8 programs when the cost of utilities is not included in the contract rent.

**Weighted Average Rents**

The sum of each rental unit type times the average rent for each type and times the number of units in each type, divided by the total number of units. In FHA programs, unit types are based on the number of bedrooms.