

## INITIATIVES FOR M2M OWNERS & PURCHASERS

(\* “Qualifying” = Independent, Community Based Nonprofit Purchasers With Tenant Endorsement)

Initiative	Stay In Owners	Non-Qualifying Non Profits and For Profit Purchasers	Qualifying* Non-Profit Purchasers
<p><b>Capital Recovery Payment (CRP)- Includes Owner’s Portion of Rehab and Owner’s Portion of Allowable Transaction Costs</b></p> <ul style="list-style-type: none"> <li>• The interest rate is set at corresponding treasuries plus 350bp</li> <li>• The recovery period will normally be 7 years, but may be up to 10 years in some cases</li> <li>• Underwritten ‘above the line’ as an operating expense</li> <li>• Paid monthly as an operating expense (after debt service)</li> <li>- Unpaid amounts can accrue</li> <li>- REAC Score of at least 60 or documentation that problems have been addressed</li> <li>- No management findings remaining from annual audit after notice and opportunity to cure</li> <li>- Does not include amounts (if any) funded via ITAG PDGs</li> </ul>	YES	YES	YES
<p><b>Incentive Performance Fee (IPF) – For Sound Management</b></p> <ul style="list-style-type: none"> <li>• Not included in expenses for underwriting purposes</li> <li>• Up to 3% of Effective Gross Income (exactly 3% unless 1<sup>st</sup> year amount is less than a minimum of \$100 per unit or greater than a maximum of \$200 per unit. The initial percentage remains fixed for subsequent years and is no longer subject to the minimum and maximum limits.)</li> <li>• Paid annually; subject to audited Surplus Cash</li> <li>• Subordinate to expenses, debt service and CRP</li> <li>• Unpaid amounts do not accrue</li> <li>- REAC Score of at least 60 or documentation that problems have been addressed</li> <li>- No management findings remaining from annual audit after notice and opportunity to cure.</li> <li>- Applies only while 2<sup>nd</sup> and 3<sup>rd</sup> mortgage are outstanding</li> <li>- First year Underwriting will provide for the full IPF (including transactions that have no 2<sup>nd</sup> or 3<sup>rd</sup> mortgages)</li> </ul>	YES	YES	YES

Initiative	Stay In Owners	Non-Qualifying Non Profits and For Profit Purchasers	Qualifying* Non-Profit Purchasers
<b>100% Financing of Initial Deposit to Replacement Reserve (IDRR )</b> <ul style="list-style-type: none"> <li>• Current Limit is 80%</li> <li>- Owner/Purchaser must still fund 20% of rehab</li> </ul>	YES	YES	YES
<b>80% Financing of Restructuring Transaction Costs Deemed Reasonable, Customary and Necessary by the PAE (not including Acquisition Transaction Costs, see discussion below)</b> <ul style="list-style-type: none"> <li>- Current limit is 50%</li> <li>- Owners and purchasers must pay their costs directly. If the M2M transaction closes, 80% of the following costs are eligible to be financed in the new 1<sup>st</sup> mortgage.</li> <li>- 1<sup>st</sup> mortgage transaction costs.</li> <li>- Escrow Closing Agent fees.</li> <li>- Title and recording costs.</li> <li>- Owner legal costs for obtaining 1<sup>st</sup> mortgage, required counsel opinion, obtaining required consents, closing.</li> <li>- Additional funding needed for tax / insurance escrows.</li> <li>- Operating Deficit escrow (to cover excess vacancy loss expected during rehab)</li> <li>- Other reasonable, customary and necessary costs approved by the PAE.</li> </ul>	YES	YES	YES
<b>80% Financing of Certain Acquisition Transaction Costs Deemed Reasonable, Customary and Necessary by the PAE (Not Including Developer Fee or Purchase Price, see Developer fee discussion below)</b> <ul style="list-style-type: none"> <li>- Purchasers must pay their costs directly. If the M2M transaction closes, 80% of the following costs are eligible to be financed in the new 1<sup>st</sup> mortgage.</li> <li>- The remaining 20% is an investment recoverable through the CRP.</li> <li>- Deed stamps, transfer taxes, funding new tax/insurance escrows</li> <li>- Purchaser's market study, PCA, environmental. Purchaser's legal costs for due diligence (e.g., regulatory issues). A maximum of \$15K (aggregate) of these due diligence costs is eligible for 80% financing.</li> <li>- Upgrade market study to appraisal (if required by new lender).</li> <li>- Purchaser's legal costs for TPA, P&amp;S, partnership agreement, closing</li> </ul>	N/A	YES	YES

Initiative	Stay In Owners	Non-Qualifying Non Profits and For Profit Purchasers	Qualifying* Non-Profit Purchasers
<p><b>Incentive for Transactions With Out-Year HAP Expirations After 9/30/01</b></p> <ul style="list-style-type: none"> <li>- Long term above market HAP contract will remain in place</li> <li>- Above-market portion will be credited monthly in the manner proposed by the owner/purchaser and approved by PAE and OMHAR. Allowable uses include:               <ol style="list-style-type: none"> <li>(1) 1<sup>st</sup> Mortgage or 2<sup>nd</sup> Mortgage</li> <li>(2) Deposits to the Replacement Reserve.</li> </ol> </li> </ul>	YES	YES	YES
<p><b>ITAG Pre Development Grant (PDG)</b></p> <ul style="list-style-type: none"> <li>• Up to \$70K grant for predevelopment costs (including due diligence costs, acquisition transaction costs, and developer fee, but not including owner's 20% share of rehab)</li> <li>• Grant is not contingent on closing the M2M transaction</li> <li>- Nonprofit must have site control and must apply and compete for funding</li> </ul>	N/A  (Prohibited by NOFA)	NO  (Prohibited by NOFA)	YES  (As Permitted by NOFA)
<p><b>Allowance For A Reasonable Developer's Fee</b></p> <ul style="list-style-type: none"> <li>- Minimum = \$40K, maximum = \$80K</li> <li>- Fee = 3% of total uses</li> <li>- Payable as a transaction cost of the restructure</li> <li>- 100% (not 80%) of the fee can be financed in the new 1<sup>st</sup> mortgage. Amounts not financed within the approved maximum (if any) are included in the CRP.</li> <li>- Subject to the requirements of the take-out financing program</li> <li>- Purchasers bringing non-M2M financial resources (e.g., LIHTC) to the transaction may qualify for a higher developer fee to the extent allowed under other applicable programs</li> </ul>	N/A	YES	YES
<p><b>Forgive Part or All of the 2nd Mortgage</b></p> <ul style="list-style-type: none"> <li>- By statute, only for purchase by a community based / tenant endorsed non-profit</li> <li>- OMHAR will also require the nonprofit to be independent</li> <li>- Purchaser must:               <ol style="list-style-type: none"> <li>(1) accept a 50 year M2M Use Agreement;</li> <li>(2) agree to a 10-year sale restriction</li> <li>(3) agree to a commitment to reinvest additional cash flow into the project on a basis TBD.</li> </ol> </li> <li>- Standard underwriting on the 1<sup>st</sup> mortgage</li> </ul>	No  (Prohibited by statute)	No  (Prohibited by statute)	Yes  (No 2 <sup>nd</sup> mortgage, as permitted by statute)

## Communication and Process Improvements for Owners in the M2M Process

**OMHAR recognizes that owners need adequate information as to their project's status in the M2M system as well as adequate and timely information to prepare their appeals. OMHAR will:**

- Strongly encourage PAE's to meet with the owner to discuss the PAE's conclusions on Lites and Fulls.
  - ⇒ Through November 30, if the PAE does not agree to meet with the owner, OMHAR will offer a meeting at OMHAR HQ (or, at OMHAR's option, at the OMHAR Regional Office).
- Issue revised guidance that includes our expectation that PAEs contact owners early in the M2M process
- Require PAEs to provide owners with a copy of the PAE's appraisal, including the comparative analysis of the owner's appraisal, within 30 days after its receipt.
- Require PAEs to provide owners with a copy of the PCA no later than 30 days after its receipt.
- Require PAEs to provide to the owner, at the time the PAE's conclusions are presented to the owner:
  - ⇒ The PAE's market rent analysis;
  - ⇒ The PAE's analysis of the property's capital needs and reserves; and
  - ⇒ Relevant portions of the PAE's submission to OMHAR, as appropriate to establish the basis for the PAE's conclusions.
- Create an email based system for 48-hour turn around on owners' queries regarding the status of their projects in M2M
- Through November 30, OMHAR will create a HQ "Hotline" to respond within 3 days to any owner who does not receive a timely response to a written appeal.
- Prepare and issue a bulletin highlighting these communication and process improvements