This report was prepared under a contract with USDA to analyze the Rural Development Multi-family Housing Program, identify problems, and provide recommendations for changes to address such problems. USDA is in the process of reviewing this report along with other internal reviews to determine what actions, if any, should be taken to modify the current Multi-family Housing Program. Any statements, recommendations, or conclusions made in this report do not represent the views of the Rural Development Mission Area, the Secretary of Agriculture, or the Administration. This is one of a number of options to be considered when contemplating changes to the program.

ICF CONSULTING

Prepared for the U.S. Department of Agriculture
Rural Development

Rural Rental Housing - Comprehensive Property Assessment and Portfolio Analysis

Final Study Report

November 2004

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Acknowledgements

This report was prepared by the ICF Consulting Team under contract to the U.S. Department of Agriculture (USDA) Rural Development. The Rural Housing Service is an agency of USDA Rural Development.

The ICF Team included Shekar Narasimhan and Tom White of Beekman Advisors; Rick Samson of AEW Capital Management, L.P.; Charlie Wilkins of The Compass Group, LLC; Ned Daly and David Whiston of On-Sight Insight; Patrick Carter of Carter & Associates; and Eric Oetjen and Kevin Blake of ICF Consulting.

The Team expresses its appreciation to the USDA staff for their diligent work and support of our analysis. The USDA's State and Field Offices should also be commended for their support, especially during the physical needs assessments when they helped ensure our access to property managers and owners. Last, the Team thanks the Multi-family Advisory Board for providing invaluable insight into the program's history and how it could evolve to address its current challenges.

Questions or comments on this report should be directed to:

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Memorandum

Date: November 17, 2004

To: Russell Davis
Jack Gleason
Thomas Dorr

CC: Stephanie White

From: ICF Consulting Team

Subject: Comprehensive Property Assessment Study - Final Study Report

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This document and the accompanying briefing slides (see attachment) summarizing the recommended Multi-family Housing Revitalization Strategy constitute the Project Team's Final Study Report for the Rural Rental Housing – Comprehensive Property Assessment Study. Further detail and information can be found in the Market Assessment Report that was prepared as part of the study. This report is included as an Appendix.

Origins of the Multifamily housing program: The Housing Act of 1949; Title V of P.L. 81-171 (October 25, 1949) authorized the USDA to make loans to farmers to construct, improve, repair, or replace dwellings and other farm buildings to provide decent, safe, and sanitary living conditions for themselves, their tenants, lessees, sharecroppers, and laborers. Over time, the Act has been amended to authorize housing loans and grants to rural residents in general. The USDA's Rural Development (RD) mission area administers these programs. The housing loan and grant programs included single and multi-family housing programs. This proposal deals specifically with the multi-family program covered under Section 515 of the Act whereby loans are made at a 1% rate for the development of rural rental housing.

Background to Comprehensive Property Assessment Study (CPA): After the Administration took office, the Department determined that the portfolio of Section 515 properties was in such condition and of such concern that an assessment of the situation was imperative. The study portfolio on November 1, 2003 encompassed 15,899 properties with a total of 434,296 units and excluded farm labor housing. These properties are located across the country in areas defined rural. The CPA was initiated in September 2003 using outside consultants to do the following:

1. Review issues and develop solutions directly pertaining to the market demand for such housing.

2. Review and define potential approaches to address the increasing propensity for owners to prepay RD subsidized loans and thereby displace needy tenants.

3. Analyze and develop solutions for the increasing rehabilitation and recapitalization requirements of the aging existing properties.

This assessment, including 333 detailed field inspections and 32 market studies, has been completed and a revitalization proposal has been developed which has the support of Rural Development and has been reviewed by Office of General Counsel (OGC) and Office of Budget and Program Analysis (OBPA). This memorandum summarizes the findings and the potential implications of the proposal.

Study Results and Implications: The following is a summary of some of the facts gleaned from the study:

- 40% of the loans have been made on age-restricted properties; overall the existing tenant base is 58% elderly, handicapped and disabled, or both; the average property age is 23 years; the average annual adjusted household income is $9,075.
- Based on a sample of properties, which the Department selected in order to be statistically valid, the following was determined.
    - While there are few immediate life & safety issues, *no property* has adequate reserves or sufficient cash flow to do needed repairs and for adequate maintenance over time.
    - *Doing nothing is not an option* … unless the roofs never leak, the paint job lasts forever, no furnaces or air-conditioners ever need replacement, etc.
- *Several factors may contribute to owners lacking motivation to maintain, upgrade, or transfer their properties*, including tax consequences, lack of equity in the property, and the inability to receive a return on investment.
- The location, physical condition and tenant profile of the properties suggest that the *public interest is best-served by revitalizing most of this housing* as affordable housing for the long-term.
- Based on the data we reviewed and reasonable economic assumptions, a large majority of the owners do not have an economically attractive alternative to continuing in the program, and therefore we think prepayment is unlikely to occur at the rates previously assumed.

Using a combination of approaches and adopting market-based solutions with private sector resources, we believe, over time, that Rural Development can address the financial and physical deterioration issues. Under our suggested approach, costs to the Government will be significantly less than if these same issues are addressed using traditional approaches. However, it is clear that addressing these issues will cost more than the current budget "baseline" can support. In any event, continuing the status quo is an unattractive alternative; continued pressure on the Rental Assistance budget as costs go up and tenant incomes remain low; deterioration of the properties causing foreclosures and tense, unproductive relationships with private owners distracting attention from the future of the rural communities being served.

The Multifamily Revitalization Proposal: This proposal has three main components and must be viewed as a package – partial implementation, in our view, will only cause confusion and increase costs substantially:

- *Additional capital and a new bargain with the owners and tenants:* the capital would come primary from debt relief on the current RD loans with built-in recapture provisions and new private capital- including potential co-investment by the owners. The new bargain would be that owners must accept a regulatory and enforcement regime that would ensure affordability and accountability for performance, but also offer incentives for good ownership and good management. A minimum contribution for shelter would be expected from all tenants.

- *Market determines prepayment*: RD would protect current tenants for a finite period (as determined by Congress and the Administration) from the rent burden that would result from prepayment. For purposes of modeling the level of resources needed, we used a five-year period of protection for currently assisted tenants to be consistent with pre-2004 Rental Assistance Contract renewals (a 30-month protection period was used for non-assisted tenants). Allowing the market to determine prepayment avoids potential windfalls to owners, and goes beyond the current focus of preventing prepayment with limited resources.

- *Reorganize the multifamily program*: To meet the challenges of implementing the new functions under the Revitalization Initiative, we recommend expanding the Agency's technical expertise, and making organizational changes that provide the Agency the authority, flexibility, and accountability to succeed. We are proposing the establishment of an empowered Office of Portfolio Revitalization (OPR), which would be exclusively focused on the existing portfolio. We have broken the entire portfolio into five (5) transaction types and analyzed the resources necessary to address the long-term recapitalization needs. This program envisages a significant role for the State RD offices as well as outside experts.

Anticipated Budget Impact: After OBPA reviewed detailed assumptions provided by the consultants, the initial determination was that the budget impact of debt relief, tenant protection, capital advances and administrative costs over the seven years would be approximately $1.0 billion above the baseline. However, to accomplish the same result of preserving affordable housing for 20 years using Rental Assistance (currently the only real tool available) we estimate the cost to be as high as $2.9 billion above current funding levels. We propose a staged approach with periodic check-points and accountability for the Multifamily Revitalization Strategy.

Conclusion: The Multi-Family Section 515 portfolio at USDA, representing a federal investment of nearly $12 billion, was created over 30 years and serves some of the poorest and most underserved in rural communities. The essence of the Multifamily Revitalization Proposal is to comprehensively address all the issues facing the program and to provide all stakeholders with an equitable deal:

- Owners get a reasonable return for providing capital and good management
- Congress and the Administration know they are getting results for the dollars spent
- RD is perceived as providing leadership and focused management
- Local communities have an affordable housing asset in which they have pride and
- Above all, tenants are protected while Department's portfolio is revitalized

Thank you.

ATTACHMENT:

EXECUTIVE BRIEFING

USDA – RD Multifamily Revitalization Strategy

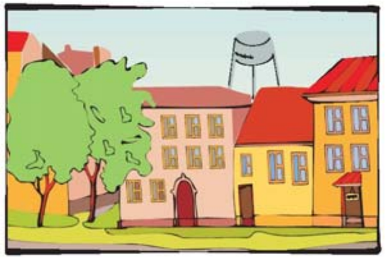
The Comprehensive Property Assessment Report:

Executive Briefing

ICF Consulting Team

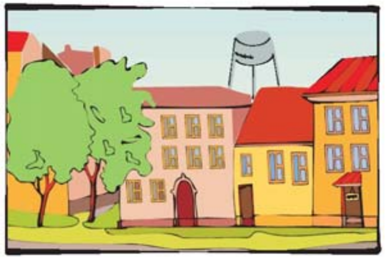
November 17, 2004

ICF CONSULTING



Overview

- Current Situation
- The Opportunity – Revitalization Initiative
- Precursors to Execution
- Highlights of Revitalization Initiative
- Next Steps

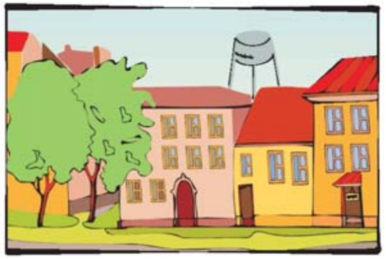


Current USDA Section 515 Portfolio

The portfolio encompassed *15,899 properties* with *434,296 units* as of November 1, 2003

- **Significant segment of existing tenants are elderly, disabled or handicapped, or both (58%)**
- **Average property age is 23 years**
- **Average annual tenant income is $9,075**

As of August 31, 2004, the average outstanding loan balance was $25,722/unit



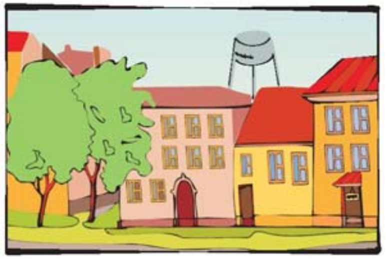
Physical Needs - Study Findings

Random sample of 333 properties received on-site assessments

- Sample of properties selected by USDA economists
- Drawn to be representative of portfolio

During physical needs inspections, we learned that:

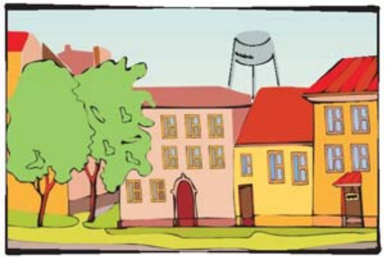
- No serious immediate health & safety problems were discovered
- Many properties face significant physical needs in the immediate future
- No property has sufficient current reserves, or provision for future reserves, to address physical needs over time



Current Situation Is *Not* Sustainable

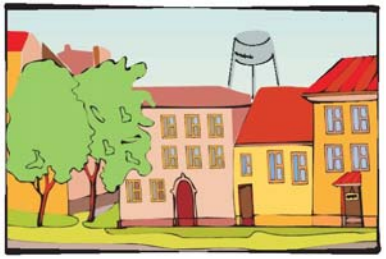
If new funds are not invested in these properties, 2/3rds of the portfolio will only be able to maintain its *current* status if:

- **The roofs *never* leak**
- **The paint job lasts *forever***
- **The building siding is *everlasting***
- **No potholes *ever* develop in the parking lot**
- **No one will *ever* need to replace a furnace *or* air conditioner**
- **No doors will *ever* rust or rot**
- **All windows will work *forever***



Current Situation Is *Not* Sustainable (Cont.)

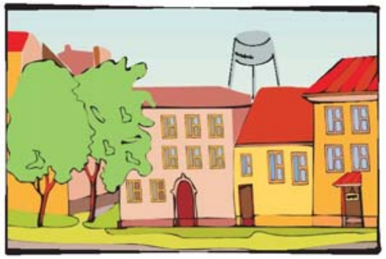
- **If rent increases match inflation:**
  - Properties will not be able to meet their major repair and replacement needs
  - Most 515 loans will go into default
  - And if rent increases are below inflation, problems escalate geometrically!
- **Problem cannot be solved by rent increases because:**
  - Vacancy rates will increase
  - Unassisted tenants will suffer
  - RA costs will be unacceptably high



Doing *Nothing* Is *Not* a Viable Option

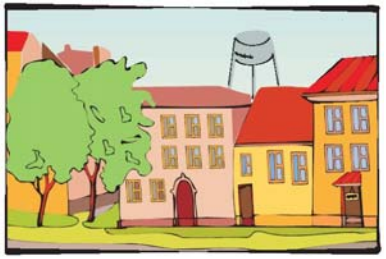
Doing *nothing* is *not* a viable option because:

- Aging, obsolescent properties will only get more so
- The gap between current and needed funding for capital reserves will only grow larger (harder to catch up)
- Delaying action to address physical needs results in greater cost as building systems and components fail causing further physical deterioration.
- Property deterioration will occur risking the health, safety, and ultimately the availability of housing for those most in need – low-income families, and elderly or disabled households
- Several factors may contribute to owners lacking motivation to maintain, upgrade, or transfer their properties, including tax consequences, lack of equity in the property, and the inability to receive a return on investment



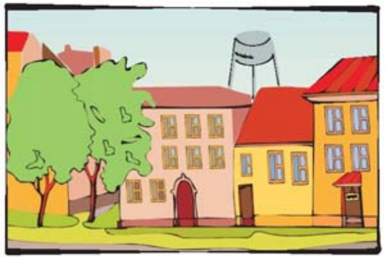
Current Situation: Prepayment

- **Prepayment is a contract right for all pre-1989 loans:**
  - **Available to estimated 61% of properties (62% of units)**
  - **Nearly half of these properties could prepay now & the rest once their 20-year restrictions expire (all by 2009)**
  - **Legislation conditioning prepayment was enacted in 1987, and these conditions have been the subject of recent court rulings. (Note: The Consulting Team did not evaluate the impact of the court decisions because judicial actions affecting the portfolio were outside the scope of the study.)**



Current Situation: Prepayment

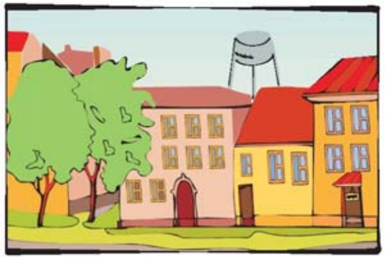
- Of 9,698 properties with the potential to prepay:
  - An estimated 1,648 properties would be economically viable to prepay. This is 10.4% of all properties.
  - This estimate represents 10.6% of total units in the program



The Opportunity

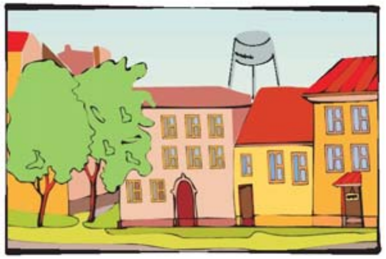
- **RD can resolve these portfolio issues …**

  And should begin immediately!
- **Market analysis results show that the portfolio continues to serve a needed purpose & is worthy of revitalization**
- **RD can address *both* prepayment & physical deterioration in the portfolio using a combination of approaches over time**
- **Done comprehensively, this can be a win-win for the government, owners, tenants and local communities**



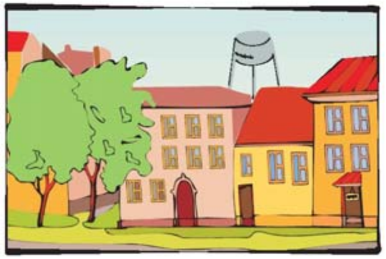
The Opportunity (Cont.)

- **Revitalization will cost budget dollars but a lot less and more viable than doing nothing or continuing with the current program and tools:**
  - **Estimate that our own recommended approach costs less than half what it would cost to stabilize the portfolio with rent increases and RA and new 515 funds**
  - **Achieved primarily through reducing required payments on existing 515 loans with some additional capital tools & creation of a specialized team**
- **Resources can & *should* be leveraged from other housing programs (e.g., LIHTC, HOME funds)**
  - **RD is creating new partnerships with GSE's & State housing agencies**



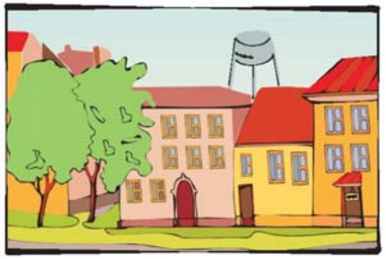
The Opportunity (Cont.)

- **Policy Focus: Allow prepayment & protect the tenants. Protections could take any or all of the following forms:**
  - **Vouchers which might include rent and/or time limits**
  - **Homeownership assistance**
  - **One-time cash award**
- **In prepayment cases, we are proposing to extend rent increase protection to current RA and eligible non-RA tenants (as Congress mandated for HUD)**



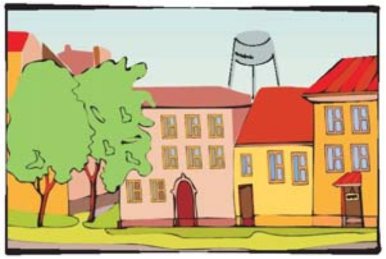
The Opportunity: Policy Decision #1

- Focus on protecting the tenants, not all properties
- Allow prepayment in pre-1989 properties
  - Pre-1979 properties - no restriction
  - 1979 to 1989 properties - upon expiration of established 20-year use restriction
  - Existing tenants protected



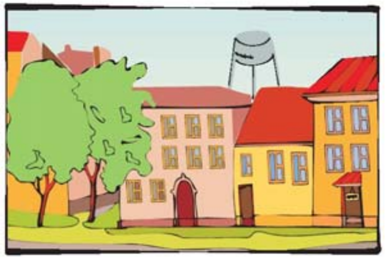
The Opportunity: Policy Decision #2

- **Proactively get ahead of physical deterioration**
  - **In the entire portfolio**
  - **Focus for the next few years on recapitalization of existing properties**
  - **Allocate the significant resources necessary to achieve this**



The Opportunity: Policy Decision #3

- **Revitalize the program in a comprehensive way:**
  - **deregulate certain aspects**
  - **increase utilization of private sector participants**
  - **test new ideas to bring capital to rural rental housing**
  - **demonstrate viability of program particularly for elderly properties to stay in the program**
- **This requires new tools and organizational changes**



Precursors to Execution

Key Federal Actions

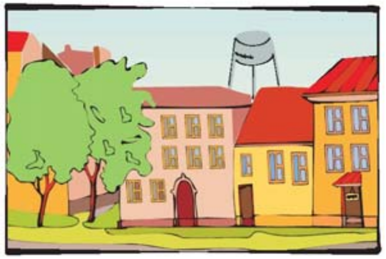
Step 1. RD resolves policy issues outlined in Market Analysis

Step 2. RD presents Revitalization Program recommendations to Congress

Step 3. Congressional action to authorize Revitalization Program & appropriate initial funding

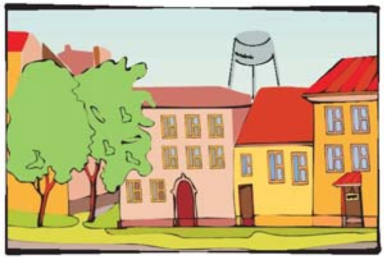
Step 4. RD implements Revitalization Program with Admin Notices and regulations

Step 5. Congress appropriates ongoing funding for Revitalization Program



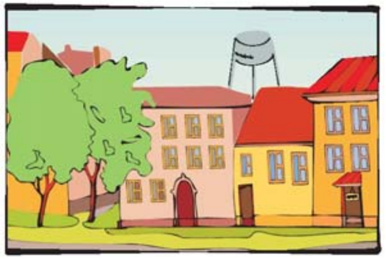
Precursors to Execution (Cont.)

- **RD is taking the first steps by:**
  - **Developing a statement of needed authorizing legislation & funding needs**
  - **Describing RD decisions on major policy issues**
  - **Defining the key elements of the revitalization program, including organizational structure**
- **Congress can *then* discuss and debate the issues, authorize & appropriate initial program funding (See Figure 1)**



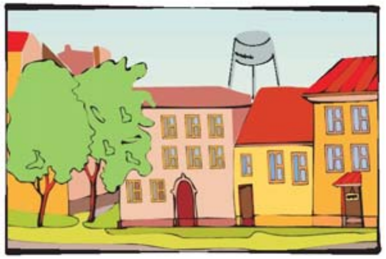
Precursors to Execution (Cont.)

- **After Congressional authorization, but prior to departmental implementation:**
  - **RD will need to act on several key tasks (as Figure 2 illustrates)**
  - **Illustrates the types of tasks necessary, but is *not* intended to be all-inclusive**



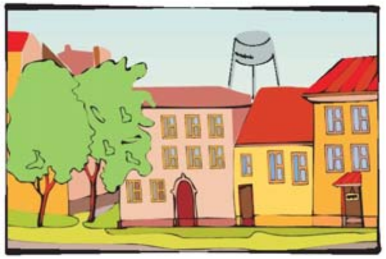
Revitalization Initiative

- RD needs to adopt an effective, workable revitalization program methodology
  - We are proposing that the portfolio be organized into five (5) major transaction types
  - Use efficient tools appropriate to scale & risk
  - Comprehensive, multi-faceted approach is needed
  - Figure 3 describes the tools needed and estimated total implementation costs



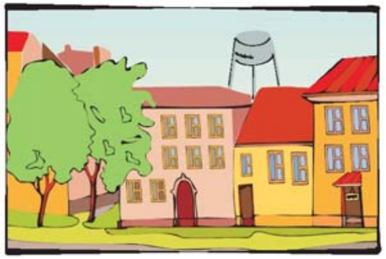
Program Design for Execution of Transactions

- Developed by new Office of Portfolio Revitalization, in consultation with existing RD staff, OGC, OBPA
  - New regulatory structure
  - Streamlined prepayment
  - Debt restructure approach
  - Standard legal documents
  - Regulations
  - Guidance, training, & technical assistance



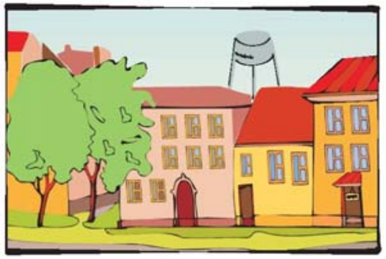
Transaction Type 1: Prepayment

- Tenants protected adequately
  - RD & Congress determine form(s) of protection
- Owners may prepay once RD determines that the project is eligible and that tenants are protected
- We estimate likely prepayment of almost 1,600 properties involving almost 46,000 units
- OPR creates & oversees; administered by States



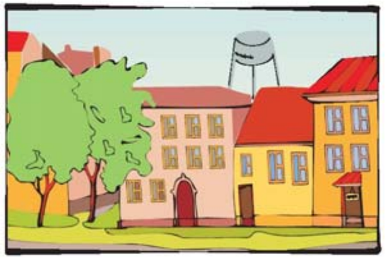
Transaction Type 2: No Restructure

- For properties that can cover their operating and capital replacement needs at current rents
  - Or with rents up to (say) 10% higher
- Future rent increases will match inflation
- Existing regulatory structure continues
- Transaction Type 2 we estimate includes almost 1,500 properties (~ 49,000 units)
- OPR creates; administered by States



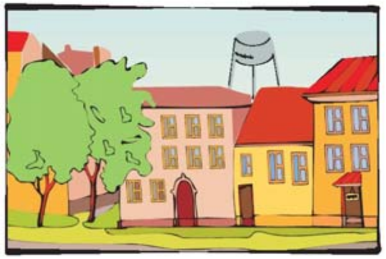
Transaction Type 3: Simple Restructure

- Owner is in "good standing"
- 2-24 unit properties
- Debt relief by itself is sufficient
- Existing 515 loan restructured
  - No required monthly payment
  - New payment is x% of excess cash at year end
  - Standard legal documents, no variation
  - New regulatory structure
- Transaction Type 3 we estimate includes almost 3,800 properties (~ 63,000 units)
- OPR creates; administered by States



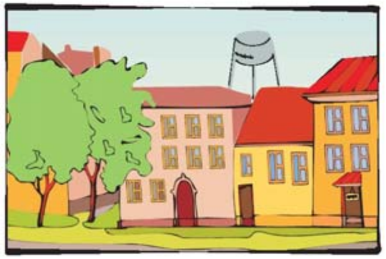
Transaction Type 4: Moderate Restructure

- **Owner is in “good standing”**
- **25-50 unit properties**
- **Debt relief by itself is sufficient**
- **Existing 515 loan restructured**
  - New, lower required monthly payment
  - Additional payment is x% of excess cash at year end
  - Standard legal documents, no variation
  - New regulatory structure
- **Transaction Type 4 we estimate includes almost 2,600 properties (~ 95,000 units)**
- **OPR creates; administered by OPR & States**



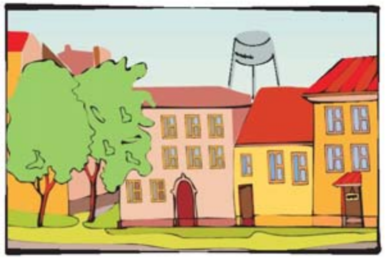
Transaction Type 5: Complex Restructure

- **Any of the following:**
  - Owner is not in "good standing"; or
  - Debt relief by itself is not adequate; or
  - Property is 51+ units
- **Replace bad owners/bad managers**
- **Preserve only those properties worthy of preservation**
- **Utilize debt relief first, then capital advances, then (as last resort) rent increases**
- **Transaction Type 5 we estimate includes almost 6,400 properties (~ 181,000 units)**
- **OPR creates, oversees, & administers**



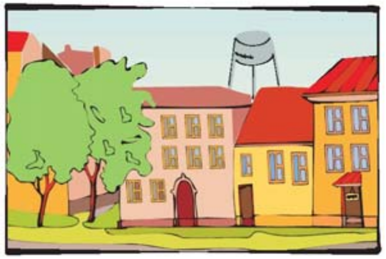
Transaction Type 5: Complex Restructure

- Comprehensive assessment will be done of owner, manager, preservation-worthiness, market, expenses, reserves, repairs
- If preservation-worthy
  - (Typically) no required monthly loan payment
  - New payment is x% of excess cash
  - (Typically) additional funding as needed to stabilize the property
  - Template legal documents reflecting a transaction tailored to the individual property
  - New regulatory structure



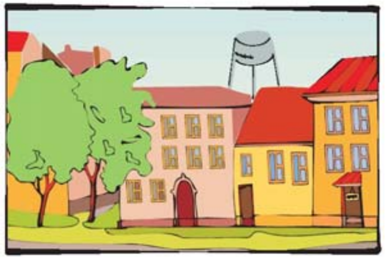
New Regulatory Structure

- For all projects of Transaction Types 3 – 5:
  – New regulatory agreement with improved enforcement provisions
  – Long-term use agreement (e.g., affordability, non-discrimination, maintenance)
  – Performance-based incentives instead of current “owner return” structure
  – Deregulated rent increase approach (e.g., LIHTC-style rent cap, or inflation-factor increases)



Conclusion

- **The MF Revitalization Proposal will *comprehensively address* the critical issues facing the program while treating all stakeholders equitably:**
  - **Owners get a reasonable return for good management and for any new capital provided**
  - **Congress and the Administration know they are getting results for the dollars spent**
  - **RD provides leadership and focused management**
  - **Local communities have an affordable housing asset in which they can have pride**
  - **Above all, tenants are ensured safe, decent, & sanitary housing in the future**



Next Steps

- **RD should:**
  - Discuss the study results with Congress
  - Inform stakeholders of the study's results and RD's strategy going forward
  - Decide on content & timing of Congressional proposals
- **The Team will:**
  - Continue to support RD
  - Assemble the constituencies for briefings

Figure 1. Authorizations Needed From Congress

Authority/Activity	Dollar Impact
1. Debt relief authority	Budget Authority sufficient to support relief totaling $207 mm/yr., reduced by offsets described in next item
2. Authority to convert debt to soft loan that claims a share of future cash flow	Returns will partially offset above costs of future cash flow and resale / refinancing proceeds. Difficult to estimate.
3. Permit charging of minimum rents in RHS projects, similar to HUD authority	$5.7 mm/yr., or $120 mm over 20 years as a partial offset.
4. Capital advances	See next item; generally capital advances (no repayment required so long as the owner maintains compliance) will be used instead of additional RA wherever capital advances would be a lower cost approach.
5. More Rental Assistance for use as a last resort and streamlining RA recapture rules	Budget Authority sufficient to provide $33 million additional annual RA, preferably by using capital advances instead of RA at lower federal cost. Offsets may be available from rent and RA reductions for projects that are currently over-funded.
6. Ability to use RA dollars in more flexible fashion	—
7. 538 for revitalization and ability to risk-share/ use delegated process with GSE's and SHFA's	$300 mm in additional loans costing approximately $17.1 mm in BA based on today's credit subsidy.
8. Authority to create and funding to independently operate the Office for Portfolio Revitalization for an initial period, such as five years	(?) cost for operation of OPR over the life of revitalization program (see Figure 3 for breakdown by activity). Note: There may be offsets to OPR costs from RHIF and restructuring fees.
9. Authority for new regulatory structure and tools, such as: use agreements, rent setting, owner/manager incentives, monitoring and enforcement, and owner investment requirements	—
10. Tenant protection authority, in case of prepayment	45,933 tenants protected via one-time cost incurred at time of prepayment. Averages $88.8 mm/yr. for five years. Includes offset from recapture of 515 interest subsidies from prepaying loans.

Figure 2: RD Actions Pre- and Post-Enactment of Revitalization by Congress

<table>
<tr><th>First Six Months</th><th>12 Months</th></tr>
<tr><td>• Staff OPR
• Define and obtain contract support needs
• Establish eligibility parameters
• Define/implement “good standing” protocol
• Staff should determine transaction priorities
• Streamline prepayments
• Streamline use of alternative subsidies
• Obtain IRS revenue ruling, as feasible
• Streamline asset transfer process</td><td>• Establish and implement market rent protocol
• Draft use agreements
• Draft implementing regulations, issue ANs, and train/provide technical assistance
• New regulations implemented
• Report to Congress and others</td></tr>
<tr><th>18 Months</th><th>24 Months</th></tr>
<tr><td>• Initial restructuring transactions
• Establish new monitoring and enforcement protocols and capacity
• Develop restructuring commitments and new loan documents
• Fully staffed at OPR and States
• Basic production program in-place
• Report to Congress and others</td><td>• Full OPR program operations
• Develop restructuring commitments for each type of solution
• Congress receives report of progress and legislative adjustments are made as necessary
• Report to Congress and others</td></tr>
<tr><th colspan="2">60 Months</th></tr>
<tr><td colspan="2">• Interim review of OPR</td></tr>
</table>

Figure 3a: Assumptions used with RD Section 515 Portfolio Revitalization

Transaction Type	Counts: Properties by Transaction Type	Counts: Units by Transaction Type	Costs by Transaction Type: Annual Cost for Debt Relief	Annual Cost for Rent Increase	One Time Net Cost for Tenant Protections	Potential Addl Savings From Rent Reduction
Simple Restructure (Type 3)	3,772	63,034	$48,446,166	$0	$0	$0
	23.7%	13.7%	23.2%	0.0%	0.0%	0.0%
Moderate Restructure (Type 4)	2,567	95,178	$48,672,705	$0	$0	$0
	16.1%	13.7%	23.2%	0.0%	0.0%	0.0%
Complex Restructure (Type 5)	6,434	180,981	$110,233,021	$31,923,549	$0	$0
	40.5%	13.7%	23.2%	0.0%	0.0%	0.0%
No Restructure (Type 2)	1,479	49,169	$0	$999,617	$0	$30,692,550
	9.3%	13.7%	23.2%	0.0%	0.0%	0.0%
Prepayment (Type 1)	1,648	45,933	$0	$0	$443,962,345	$0
	10.4%	13.7%	23.2%	0.0%	0.0%	0.0%
Total (All Transactions)	**15,899**	**434,296**	**$207,351,891**	**$32,923,166**	**$443,962,345**	**$30,692,550**

Inflation	
2.50%	Annual rate
0	Years inflation for FY 2005

Cost Category	Transaction Counts by Fiscal Year: FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Total
Prepayment (Type 1)	0	500	500	500	148	0	0	0	1,648
No Restructure (Type 2)	1,479	0	0	0	0	0	0	0	1,479
Simple Restructure (Type 3)	0	250	750	1,000	1,272	500	0	0	3,772
Moderate Restructure (Type 4)	0	175	575	750	750	317	0	0	2,567
Complex Restructure (Type 5)	0	0	0	250	750	1,500	2,000	1,934	6,434
Total (All Transactions)	**1,479**	**925**	**1,825**	**2,500**	**2,920**	**2,317**	**2,000**	**1,933**	**15,899**

Figure 3b: Cost Projections, By Fiscal Year, Used with RD Section 515 Portfolio Revitalization

	Costs by Fiscal Year								
Cost Category	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**Total**
Prepayment (Type 1)									
Tenant Protection Costs	$0.0	$134.7	$134.7	$134.7	$39.9	$0.0	$0.0	$0.0	$444.0
No Restructure (Type 2)									
Rent Increase Costs	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$8.0
Addl Savings Rent Decreases	($30.7)	($30.7)	($30.7)	($30.7)	($30.7)	($30.7)	($30.7)	($30.7)	($245.6)
Simple Restructure (Type 3)									
Debt Relief	$0.0	$3.2	$12.8	$25.6	$41.9	$48.3	$48.3	$48.3	$228.4
Moderate Restructure (Type 4)									
Debt Relief	$0.0	$3.3	$14.2	$28.4	$42.6	$48.6	$48.6	$48.6	$234.3
Complex Restructure (Type 5)									
Debt Relief	$0.0	$0.0	$0.0	$4.3	$17.1	$42.8	$77.1	$110.2	$251.5
Rent Increase Costs	$0.0	$0.0	$0.0	$1.2	$4.9	$12.3	$22.2	$31.8	$72.4
Totals (Without Inflation)									
Tenant Protection Costs	**$0.0**	**$134.7**	**$134.7**	**$134.7**	**$39.9**	**$0.0**	**$0.0**	**$0.0**	**$444.0**
Debt Relief	**$0.0**	**$6.5**	**$27.0**	**$58.3**	**$101.6**	**$139.7**	**$174.0**	**$207.1**	**$714.2**
Rent Increases	**$1.0**	**$1.0**	**$1.0**	**$2.2**	**$5.9**	**$13.3**	**$23.2**	**$32.8**	**$80.4**
Rent Decreases	**($30.7)**	**($30.7)**	**($30.7)**	**($30.7)**	**($30.7)**	**($30.7)**	**($30.7)**	**($30.7)**	**($245.6)**
Total (No Inflation)	**($29.7)**	**$111.5**	**$132.0**	**$164.5**	**$116.7**	**$122.3**	**$166.5**	**$209.2**	**$993.0**
Totals (With Inflation)									
Tenant Protection Costs	**$0.0**	**$138.1**	**$141.5**	**$145.1**	**$44.0**	**$0.0**	**$0.0**	**$0.0**	**$468.7**
Debt Relief	**$0.0**	**$6.7**	**$28.4**	**$62.8**	**$112.1**	**$158.1**	**$201.8**	**$246.2**	**$816.1**
Rent Increases	**$1.0**	**$1.0**	**$1.1**	**$2.4**	**$6.5**	**$15.0**	**$26.9**	**$39.0**	**$92.9**
Rent Decreases	**($30.7)**	**($31.5)**	**($32.3)**	**($33.1)**	**($33.9)**	**($34.7)**	**($35.6)**	**($36.5)**	**($268.3)**
Total (w/ Inflation)	**($29.7)**	**$114.3**	**$138.7**	**$177.2**	**$128.7**	**$138.4**	**$193.1**	**$248.7**	**$1,109.4**

(1) OPR is the new Office of Portfolio Revitalization created by Congress; OMI is the Office of Multi-family Initiatives that consolidates all the current functions of the Multi-family Division of RD.

Assumes policy decisons are made to protect tenants, not all properties and to use debt relief rather than RA as primary solution.

Notes:

1 Tenants would be protected against rent increases via a choice of portable rental assistance, homeowner assistance, or a one time cash payment.

2 Projects that are viable at (or near) current rents would receive formula annual rent increases.

3 Small projects, in good standing, that can be made viable by debt relief alone would have their existing 515 loans converted to soft debt payable from a percentage of cash flow. The owner would accept a long-term use agreement and a new regulatory structure. Owners would self-select into this program; RD would verify 'good standing' but would not perform detailed due diligence or underwriting. The transaction would utilize template legal documents with no exceptions permitted. Formula annual rent increases, or a LIHTC-style rent ceiling would be used.

4 Medium-size projects, in good standing, that can be made viable by debt relief alone would have their existing 515 loans modified into "hard" and "soft" components. The "soft" component would be payable from a percentage of cash flow. Includes a new use agreement and a new regulatory structure. Template legal documents with no exceptions permitted. Formula annual rent increases, or a LIHTC-style rent ceiling would be used.

5 Projects needing debt restructuring, but not eligible for transaction Types #3 or #4, would receive intensive review involving an eligibility determination, capital needs assessment, market rent study, operating expense review, and owner / manager review. Financial relief would be provided first via debt restructuring, second via a one-time capital advance, and as a last resort via increased rental assistance. Includes a new long-term use agreement and new regulatory structure. Transaction-specific restructuring commitment, implemented via template legal documents. In practice, restructuring will be infeasible or inappropriate for some of these properties; we are not adding new subsidies for these and presuming a cost not greater than the cost shown here (our estimate of the cost to restructure them). Formula annual rent increases or a LIHTC-style rent ceiling would be used.

A Assumes: (a) Projects whose market rents can support prepayment will prepay; (b) projects with adequate current rents will receive annual inflation adjustments to rents and perhaps reduced RD oversight; (c) transaction Type #3 is restricted to projects under 25 units; (d) transaction Type #4 is restricted to projects under 50 units.

F For transaction Type #3, OMI would provide technical assistance, quality control, and post-closing verification to verify that State offices used correct legal documents and correctly established 'good standing'. OPR contractors would carry out transactions that exceeded State office capacity.

G State offices could qualify to carry out Type #4 transactions. OPR contractors would carry out remaining Type #4 transactions and all Type #5 transactions.

H Reflects needed reductions to current 515 loan payments, offset by estimated share of project cash flow for the new soft loans. Reflects financial impact after all Type 3 / 4 / 5 transactions have been completed. Assumes that debt relief has no budget authority impact (however, debt relief would impact the federal deficit, and it also would impact credit subsidy for any future 515 loans).

I Some Type #2 transactions will require small rent increases (up to $10 PUPM) to establish viability. Most Type #5 transactions will require a capital advance, incremental RA, or both. Calculated as if all Type #5 transactions are completed using RA (the least cost effective method) only.

J An incremental $5.7 million in budget authority will support an incremental $100 million in 538 authority for HFA and GSE risk-sharing (non-NOFA), for use in Type #5 transactions.

K Tenant protection cost is calculated as 60 months of rental subsidy for current RA recipients and 30 months of rental subsidy for currently unassisted tenants, reduced by current RA outlays, and reduced by 50% of the financial gain from prepayment of 515 loans. Includes the total cost for tenant protections, for all expected prepayments.

L The total annual cost of operating HUD's Office of Multifamily Housing Assistance Restructuring is roughly $43 million. OPR will need to carry out more transactions than OMHAR, over a longer period of time, but the individual transactions will be less complex.