DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OFFICE OF MULTIFAMILY HOUSING ASSISTANCE RESTRUCTURING

MULTIFAMILY HOUSING ASSISTANCE RESTRUCTURING

PROGRAM HIGHLIGHTS

	ACTUAL 2000	ENACTED 2001	ESTIMATE 2002	INCREASE + DECREASE - 2002 vs 2001
	(Dollars in Millions)			
Sec 8 Units (Cumulative Workload)				
Projects (pipeline)	1,310	1,850	2,310	+460
Projects (restructured)	373	970	1,342	+372
Units (pipeline)	117,660	168,350	203,770	+35,420
Units (restructured)	33,715	85,826	117,592	+31,766
Rehabilitation Expenses				
Funded in Rest. Costs	$0	$13	$20	+$7
Third Party Fees/Incentives	$20	$55	$47	-$8

SUMMARY OF BUDGET ESTIMATES

Funding in support of the activities of the Office of Multifamily Housing Assistance Restructuring (OMHAR) is included under several HUD program accounts. Housing's budget includes properties being restructured by OMHAR and related funds in fiscal year 2002. OMHAR expires September 30, 2001. To facilitate efficient restructuring activity after this date, the Administration intends to submit legislation in the near future to extend and modify the expiring restructuring authorities. The following assumes the extension of restructuring authority:

A. Section 8 Contract Renewal BA (Discretionary). The Housing Certificate Fund for Project-based contract renewals includes the funds for Above Market Section 8 units which are likely to experience a reduction in Section 8 rents to market and which may require restructuring of the FHA debt during the fiscal year.

B. FHA Funded Restructuring Costs (Mandatory). Funding for the restructuring of mortgages is included in the GI/SRI Liquidating account. An estimated $649 million is associated with the approximately 50,000 FHA insured units expected to be subject to Mark-to-Market restructure in 2002.

C. FHA Rehabilitation Costs (Mandatory). The GI/SRI Liquidating account will incur rehabilitation expenses as part of the restructuring costs. Projects processed during fiscal year 1999 and subsequent years will have rehabilitation expenses met from the resources specified under Sec 517(b)(7) of the 1998 Appropriations Act. It is estimated that $20 million will be expended for this purpose.

D. Third Party Fees and Incentives (Mandatory). Third party fees and incentives may include payments to State HFA's, or their designees, acting as Participating Administrative Entities (PAEs), or private PAEs, costs associated with due diligence, consulting, legal or other actions authorized by Title V of the 1998 Appropriations Act. These costs are paid from the GI/SRI Liquidating account. An estimated $47 million is included for these purposes in fiscal year 2002 under that heading.

EXPLANATION OF INCREASES AND DECREASES

Fiscal year 2000 workload data has been revised to reflect the actual cumulative number of properties that entered the Market-to-Market pipeline since 1999. Fiscal years 2001 and 2002 pipeline estimates are based on data collected through 2000.

The decrease of $8 million in "Third Party Fees/Incentives" estimates between fiscal years 2001 and 2002 reflects projected program workloads currently showing a larger volume of projects expiring in 2001 than in 2002. Assuming the extension of the authority to restructure projects into fiscal year 2002, an additional 460 projects are anticipated for the period from fiscal year 2001 to fiscal year 2002; whereas 540 more projects are expected to be participating between fiscal years 2000 and 2001. The number of additional participating projects is based on an estimate of the number of expiring Section 8 contracts that would require restructuring.

PROGRAM DESCRIPTION

The Multifamily Assisted Housing Reform and Affordability Act of 1997 was enacted in the 1998 Appropriations Act.

The majority of FHA-insured projects that currently have above-market rents would not be able to meet their debt service and operating expenses if rents were reduced to comparable market levels. In conjunction with such rent reductions, FHA is faced with the costs associated with restructuring mortgages, or with default claims and foreclosures.

The principal tool for restructuring is the availability of a new second mortgage program, under which the proceeds may be used to pay down a first mortgage to the extent necessary so that the remaining mortgage will be sustainable at comparable market rents. Other tools under the permanent legislation include partial payments of claim for amounts of existing debt not capable of repayment under the terms of the second mortgage program, refinancing of debt, FHA mortgage insurance, and other credit enhancements. The second mortgage must be sized so that it can be reasonably expected to be repaid. FHA outlay estimates divide the insured multifamily portfolio into 4 classes: (1) projects that can be maintained at market rents without debt restructuring; (2) projects in need of a second mortgage used to pay down a part of the first mortgage; (3) projects supportable at market rents only if the full first mortgage is removed and (4) projects not sustainable at market rents even without any debt service. The fourth category includes projects located in geographic areas with very low market rents, such as some rural areas.

Under the 1998 Appropriations Act, the needs of projects for rehabilitation to be restored to a non-luxury standard adequate for their rental markets may be met through debt restructuring, appropriations, the new grant program from the reuse of Section 236 interest reduction payment recaptures, replacement reserves, residual receipts, owner equity, and other project resources. Owners or purchasers of restructured projects must contribute from non-project resources at least 25 percent of the amount of rehabilitation assistance received.

The use of up to $10 million annually from appropriated funds was authorized under Section 514 of the Act for technical assistance, tenant services, and capacity building for tenant groups, non-profit and public agencies in connection with implementation of the mark-to-market legislation.