

PHILADELPHIA MULTIFAMILY HOUSING HUB NEWS



Vol. 12 No. 9 Encarnacion Loukatos, Hub Director Thomas.Langston@hud.gov, Editor June 2013



www.hud.gov/local/shared/working/3/mfhsq.cfm?state=pa

Inside this Issue:

FY 14 Funding.....Pg. 1

Retirement & Resignation.....Pg. 1

CEAR Award.....Pg. 1

Green Finance Plus.....Pg. 2

Delaware Market Analysis.....Pg. 2

Mortgage Note Modifications.....Pg. 3

Interest Rate Reductions.....Pg. 3

Most Efficient Lighting.....Pg. 4

Section 202 Prepayments/Refi.....Pg. 4

Social Media Sites.....Pg. 4

Sustaining Our Investments.....Pg. 4

Strong Cities Strong Communities...Pg. 4

Failed REAC Inspections.....Pg. 5

Bedbugs and Laundering.....Pg. 5

Tips for Good REAC Score.....Pg. 5

Delegation- Non-Critical Repairs.....Pg. 5

Quick Energy Fact.....Pg. 6

Micro Vegetable Garden.....Pg. 6

Loan Closings.....Pg. 6

Transfer of Section 8.....Pg. 6

Flexible Subsidy Delinquencies.....Pg. 6

Basic Statutory Mortgage Limits.....Pg. 6



FY 14 Funding

In FY 2014, HUD is requesting a total of \$526 million to fund the Section 202 and 811 programs that will directly support housing and services for very low-income elderly individuals and persons with disabilities and their families.



HUD is requesting a total of \$400 million for Section 202, which will provide \$20 million for operating assistance contracts to support approximately 3,400 new households; \$70 million for service coordinators; and \$310 million for Project Rental Assistance Contract (PRAC) renewals. For the Section 811 program, HUD is requesting \$126 million, including \$106 million for Project Rental Assistance contract renewals and \$20 million in Project Rental Assistance funds to support approximately 700 new units through grants to state housing agencies.

With respect to Project Based Rental Assistance (PBRA), HUD's FY2014 request is \$10.363 billion, which will enable HUD to support affordable rental housing for some of America's neediest families. However, due to the combined impact of the FY2013 Continuing Resolution and sequestration, which will result in a \$1.2 billion shortfall in FY2013, HUD will not be able to provide 12-month funding this year, but will continue to monitor this situation and work

with owners to help minimize disruptions to them and tenants.

Best Wishes

Encarnacion Loukatos, Director Philadelphia Multifamily Hub, has announced her retirement, effective June 30, 2013. She is to be commended for 40 years of exemplary service to the Department. For the past 14 years, she has been responsible for the delivery of FHA multifamily mortgage insurance programs, Section 202/811 programs (which provide financing for the elderly and people with disabilities) and Section 8 project-based programs for the citizens in the states of Pennsylvania, Delaware, New Jersey and West Virginia.

Under her outstanding direction, the Hub staff serviced over 2,100 multifamily properties representing more than \$2 billion in mortgage insurance, as well as over \$300 million in Section 8 rental assistance payments. She was also responsible for the Multifamily Asset Management, Contract Administration and Development programs, which includes loan servicing, preservation, real estate disposition, and loan underwriting activities.

In another significant loss for the Hub, Michael Torreyson, Chief Asset Management, Charleston Program Center, is resigning on June 14, 2013 and is taking a position with Arbor Commercial Mortgage.

CEAR Award

For the 7th consecutive year, HUD has received the Association of Government Accountants prestigious Certificate of Excellence in Accountability Reporting (CEAR) Award for its FY 2012 Agency Financial Report (AFR).

The Certificate is awarded to agencies that have demonstrated excellence in presenting performance and accountability information in an integrated and user-friendly format.

Processing Mortgage Note Modifications

When an owner requests a modification of his project's Mortgage or Note, HUD internal guidance requires that the mortgagee (lender) must take certain actions, depending if the loan is a performing or non-performing one.



Here are the specific actions:

Performing Loans

- Provide a summary of the transaction, detailing the projected change in interest rate .
- Document the investor consent or state if none is needed.
- Provide a modified debt service coverage analysis.
- Supply Sources & Uses Statement covering trade premium.
- Submit interim financial statements.
- Send draft documents for the modification to be reviewed by local HUD legal counsel.
- Enclose a prepaid envelope for returning executed documents to the mortgagor for filing.

Non-Performing Loans

All items required under Performing loans plus:

- Provide a Preservation Capital Needs Assessment (PCNA) and discussion of Reserve for Replacement account adequacy .
- Explain specific problems, events, or trends that caused or were contributing factors to the default.
- Outline where funds will be obtained to bring the loan current and resolve outstanding payables.

In addition, before the request for modification can be sent to Headquarters for approval by the local HUD field office, it must verify that the owner is in compliance with all business agreements, review all of the project's Management and Occupancy Reviews and REAC inspection reports, analyze the financial statements to insure a debt service coverage ratio greater than or equal to 1.10, obtain legal approval of the modification documents, and certify that there are no unauthorized distributions

Interest Rate Reductions

On April 19, 2013, HUD issued new internal guidance for processing requests for interest rate reductions.



Due to historically low interest rates, and as an alternative to a refinance under Section 223(f) or Section 223(a)(7), a mortgagee may request a reduction of the interest rate on their existing mortgage loan, thereby significantly improving the project's cash flow. Historically, HUD has not considered reductions in interest rates for multifamily insured loans unless it was requested to avoid a mortgage insurance claim. However, due to historically low interest rates, HUD has seen a significant increase in the number of mortgagors whose mortgage loans are not in default, request a reduction in the mortgage loan's existing interest rate. Currently, all requests for an interest rate reduction are approved by Headquarters.

The mortgagee will submit to the HUD Program Center, a summary of the transaction that includes:

- If the Trade Profit will be used for other than mortgagee costs.
- If the project is in non-compliance with HUD business agreements, how the transaction will bring the project into compliance.
- If in default: a discussion on specific problems, events, and trends that caused the default; an explanation of where funds will be obtained to bring the loan current; a certification that the servicer will follow GNMA guidance for liquidation of the security to include any prepayment penalty due; a debt service coverage analysis at the estimated interest rate for the revised loan; the most recent interim and year-end financial statement; draft closing documents; and a PCNA (only required if the loan has been in default during the past 24 months).

Headquarters will conduct a final analysis to verify that the owner is in compliance with all business arrangements; there are no unauthorized distributions; the Reserves for Replacement account is adequately funded and contributions will meet future needs; and all of the mortgage documents are legally acceptable.

Most Efficient Lighting

The most efficient light output per unit of energy is high intensity discharge at 75 lumens per watt. Here is how the other sources of outdoor lighting measure up:



- Linear fluorescent– 74 lumens per watt
- Compact fluorescent– 55 lumens per watt
- Light-emitting diode (LED)- 45 lumens per watt
- Halogen– 17 lumens per watt
- Incandescent– 12 lumens per watt

Prepayment & Refinancing of Section 202 Loans

HUD has issued Notice H 2013-17, dated May 30, 2013, *Updated Requirements for Prepayment and Refinance of Section 202 Direct Loans*.



The 35-page Notice covers the following topics: Approval of Prepayment of Debt which Requires HUD Consent, Prepayments which do not Require HUD Approval, Refinancing Resulting in Reduction of Debt Service, Refinancing to Address the Physical Needs of the Project, Using FHA Multifamily Programs to Refinance Section 202 Properties, Structure of the Transaction, Tenant Involvement, Process to Request Prepayment Approval, and HUD Processing.

To read the details of the Notice see:

<http://portal.hud.gov/hudportal/documents/huddoc?id=13-17hsgn.pdf>

Social Media Sites

The PennDel AHMA has launched three social media sites. It is now on Facebook, Twitter, and LinkedIn. These new channels of communication will serve as a vital source of education and information for those in the affordable housing community.

The links are as follows:

<https://www.facebook.com/pages/PennDel-AHMA/243198515823487>

<https://twitter.com/penndelahma>

<http://www.linkedin.com/company/3082977?trk=tyah>

Strong Cites, Strong Communities

HUD has released the *1st Annual Report of the White House Council on Strong Cities, Strong Communities (SC2)*. The release of this report marks one year since President Obama established the SC2 Council in order to pilot a new model for the federal government to partner with distressed cities to help them get back on their feet.

SC2 is working to improve how the federal government supports distressed cities by increasing their capacity to create and execute locally driven economic development visions and realize more effective and efficient use of taxpayer dollars. HUD is partnering with seven mayors across the country through dedicated interagency federal teams who work closely with local governments to help them navigate the federal system, build strategic partnerships, and access technical advice and expertise to develop comprehensive plans for revitalization. In the Philadelphia Hub, Scott Smith, Chief of Production, Pittsburgh Program Center, has been working with the City of Youngstown, Ohio over the past year.

The report describes the SC2's impact in these seven pilot cities and identifies emerging innovations and policy lessons that have the potential to be applied to many other communities working to strengthen their economies. The lessons discussed in this report highlight successes and innovations in job creation and economic development, improved alignment of federal programs, stronger partnerships with philanthropy, and best practices in cultivating a highly skilled and motivated federal workforce.

Building off the successes highlighted in this first report, in the coming months SC2 will expand to additional cities, support the President's proposal to designate "Promise Zones," and announce the selection of an Administrator for the SC2 National Resource Network- a one-stop portal for communities seeking additional expertise to address their challenges.

www.huduser.org/portal/publications/other/sc2_1st_annual_rpt.html



Failed REAC Inspections



Did you ever wonder how many projects fail REAC inspections?

During the period October 1, 2012 to March 15, 2013, 997 projects were inspected. Of this total, 66 received score below 60 (6.6%).

Bed Bugs and Laundering

Two British scientists from the University of Sheffield, R. A. Naylor and C. J. Boase, have conducted experiments on the best way to kill bed bugs by using a washer and dryer.



Knowing how to dis-infest clothing is important to pest control, because bedbugs may hide among clothing stored close to the bed, or may be entangled with bed linen while it is being changed. And, once associated with clothing or linen, there is a risk that bed bugs may then escape insecticide treatments, and may be transported to new locations.

The following are the findings of the study:

- Bed bugs are susceptible to high temperatures between 104-122°F. In order to reach these temperatures, clothing to be dis-infested can be placed in a large tumble dryer at the HOT setting for at least 30 minutes. A 10-minute HOT tumble dry only killed about 75% of nymphal bed bugs, and 85% of adults. Interestingly, the COOL cycle killed almost no bugs. When washing clothes, wash water at 140°F on 30-minute wash cycles. This will kill 100% of all life stages. Washing at 100°F killed all adults and nymphs, but only 25% of eggs.
- Soaking clothes in cold water for 24 hours (without detergent) killed all adults and nymphs, but no eggs.
- Dry cleaning killed all life stages of bed bugs, and would be an alternative treatment for delicate and temperature-sensitive fabrics.
- As a side note, freezing can also kill bed bugs. Reducing temperatures to 0°F for 10-12 hours will kill all bed bug life stages (about the temperature of a chest freezer).

Experience with many pests verifies the wisdom of using multiple control tactics to control pests. Certainly bed bugs are no exception. Reducing clutter, systematic inspection and treatment of the bedroom and other infested rooms, trapping and ongoing monitoring, and effective treatment of all exposed household articles, including

clothing, are all essential components of good bed bug control. This research should help owners and tenants with fabric dis-infestation.

Tips for a Good REAC Score

No one wants to receive a low or failing REAC physical inspection score and be subject to follow-up inspections and compliance actions. The following simple tips are provided to help avoid costly point deductions of your score:



- **Electrical**– Make sure that your electrical panel is locked and has no open slots or missing fuses. Also, make sure that your electrical and cable TV outlets are secure with no exposed wires.
- **Fire Safety**– Make sure that your fire extinguishers' inspections are current (this includes tenant-owned extinguishers) and your smoke detectors are functioning properly. Also, make sure that sprinkler heads are free of paint splatter and the plates are not cracked. Managers must also insure that tenant unit egress is not blocked by window air conditioners, dressers, etc.
- **Bed Bugs**– Inform the REAC inspector if you suspect or have a bed bug problem. You should have an Integrated Pest Management Plan in place to avoid and resolve an infestation.

If needed, information for submitting a REAC inspection appeal can be found at the following links:

www.hud.gov/offices/reac/products/pass_guideandrule.cfm

www.hud.gov/offices/reac/products/pass/PDFs/guidelines-adj.pdf

www.hud.gov/offices/reac/products/pass/pdf_appeals_form.pdf

Lender Delegation– Non-Critical Repairs

Housing Notice H 2013-14, dated 4/18/13, authorizes the delegation of the non-critical repair escrow administration to MAP lenders and servicers who voluntarily agree to administer the escrow process within the Section 223(f) and Section 223(a)(7) program underwriting guidelines.

This delegation will eliminate the need for HUD approval for each disbursement release intended to expedite the non-critical repair escrow release process while maintaining management controls necessary to insure that the repairs are completed in accordance with the firm commitment.

Quick Energy Fact

Although the price of natural gas has roughly doubled in the past year, as demand has increased, it still remains an energy bargain. Natural gas in our Hub's area is 61% less expensive than heating oil, 68% less expensive than propane, and 72% less expensive than electricity.



Micro Vegetable Garden



Any building can have a vegetable garden for tenants no matter how small the space. How? You must just "think outside the garden bed." The Cooperative Growers Association, in Tabernacle, NJ, has a tip to share.

Simply buy several bags of all-purpose potting soil and place them on decks, porches, concrete pads, driveways, etc., where they can get good sun and be reached with a garden hose. Start by punching the bag on one side with up to 8 drainage holes. Turn the bag over and make two X-shaped slits at either end of the bag. Free a started tomato, pepper, or eggplant from its pot and tuck the plant into the X slit, covering the roots with the soil mixture. Check the moistness of the soil by hand every few days. Proper irrigation can be obtained by running a hose into a small hole in the bag.

If the bags seem unattractive for the best location on your property, they can be disguised by adding flowering plants along the perimeter of the bag with additional Xs.

The entire project is inexpensive and make a great summer activity for tenants. The bags of soil sell for less than \$11 and plants are about \$.50 each.

Loan Closings



The following FHA-insured loans closed during the month of May 2013: PA- Garden Court, Washington Square, Warrior Run, Cumberland Court, Pershing Square and Citizens Plaza; and WV- Mulberry Place.

Transfer of Section 8 Budget Authority

If a project-based Section 8 contract is terminated, not renewed, or expires, Section 8(bb)(1) of the Housing Act of 1937 requires HUD to transfer any remaining budget authority to another Section 8 contract in another project.



Section 8(bb)(1) is important because it provides HUD with a tool for preserving the Section 8 budget authority in these contracts that are being terminated, not renewed, or expiring and using the budget authority where it is needed to provide assistance to current or future eligible families.

Flexible Subsidy Delinquencies



There will be increased efforts to collect on delinquencies of Section 201 Flexible Subsidy Capital Improvement Loans and traditional Operating Assistance Flexible Subsidy Loans.

Capital Improvement loans will now appear on a monthly report sent to all of the Hub and Program Center Directors. This report will also include missed payments under new amortization schedules for Operating Assistance Flexible Subsidy Loans that had deferred balloon notes coming due at the termination or maturity of the first mortgage.

Basic Statutory Mortgage Limits

HUD has adjusted the statutory mortgage limits for its Multifamily Mortgage Limits for 2013. The new limits are effective as of January 1, 2013.

They can be found in Vol. 78, No. 85 of the May 6, 2013 *Federal Register*.



The *Federal Register* can be read in its entirety at:

www.federalregister.gov/articles/2013/05/06/2013-10676/annual-indexing-of-basic-statutory-mortgage-limits-for-multifamily-housing-programs