OFFICE OF HOUSING

Office of Multifamily Housing Programs

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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Scattered Sites and Section 8/HAP Contract Underwriting

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Scattered Site Definition

- One marketable manageable real estate entity
- Each parcel (or combination of contiguous parcels) must have at least 5 units.
- Contiguous
  - Means adjacent or next to one another.

    Two parcels separated by a driveway or road may still be contiguous for purposes of establishing one “single” site.

One marketable, manageable real estate entity considerations

- Degree of Separation
- Physical Condition, Construction Type, and Age
- Occupancy type and turnover history
- Unit configuration and project layouts
- Expense volatility.
- Homeowners Associations
- Flexibility for RAD and Affordable Housing projects

HAP Contract Renewals with FHA Financing

Process:

- Follow the Renewal Guide
- The Borrower and Lender are responsible for ensuring any contemplated Section 8 Renewal Policy renewal terms meet the appropriate time frames.

HAP Contract Renewals with FHA Financing -Timing-

- 120 days before the Firm application:
  - **Highly preferable** to deliver Section 8 HAP Renewal Requests and Rent Adjustment Requests to HUD Asset Management .
- 60 days before the Firm application:
  - **Must** deliver Section 8 HAP Renewal Requests and Rent Adjustment Requests to HUD Asset Management.
- 180 days of Firm issuance:
  - RCS and Appraisal rents **must** be determined within 180 days of Firm issuance

Firm Application with HAP Contract

-Overall-

- Carefully manage the timing
- Income estimates used to support requested Mortgage should use the rents
  - approved by HUD Asset Management, **and**
  - supported by the RCS **and** appraisal
- Any inconsistencies must be addressed in detail in the Lender's narrative.

Firm Application with HAP Contract

-Overall-

- Required documentation in Firm

  - HAP Contract Renewal Request
  - Rent Comparability Study
  - MAP-compliant appraisal
  - HUD Forms: HUD-92264, HUD-92264-T, HUD-92273, and HUD-92274

Underwriting with HAP Contracts

Midwest Region

- Two Methods:
  - Underwriting to “Lesser of” market or HAP contract rents
  - Tranche Underwriting

Underwriting "Lesser of"

- Underwritten NOI is based on the **Lower of**:
  - Market rents as estimated by the third-party appraiser; **OR**
  - HAP Contract rents; **OR**
  - LIHTC Achievable rents (if applicable).
    - NOTE: If using Broadly Affordable MIP, LIHTC rents must be 10% or less of market. Those are the "achievable LIHTC" rents and are to be used in the NOI.

- Reduce by reduced by appropriate vacancy,
- Reduced by expenses,
- Multiple by appropriate DSCR percentage over the full term of the mortgage.

Underwriting Tranches “HAP Overhang”

- If Section 8 HAP contract rents are at above market rents, the Lender can use the above market portion of the rent to support additional debt for Criterion 5 with two tranches.
  - A Piece:
    - Determined by underwriting the market rents over the entire term of the mortgage.
  - B Piece
    - Determined by underwriting the difference between the market rents and the higher Section 8 rents ("over the remaining term of the HAP contract.

Tranche A

- Tranche A mortgage is underwritten with Net Operating Income derived **solely** by market rate rents.
- Net Operating Income derived from Effective Gross Income:
  - Reduced by appropriate vacancy,
  - Reduced by expenses,
- NOI at appropriate DSCR percentage for the term of the mortgage equals Tranche A mortgage.

Tranche B "Overhang"

- Tranche B mortgage is underwritten with the Effective Gross Income derived **solely** from the difference between the market rate and HAP rents, ie. the "Overhang"
- Net Operating Income derived from that specific EGI:
  - Reduced by appropriate vacancy,
  - Reduced by Management fee attributable to the Overhang
- NOI at 1.0 DSCR over the remaining term of the HAP contract equals Tranche B mortgage

Sample Calculation

Unit Type	# of Units	Existing HAP rents	Appraiser Market Rents	Overhang
1BD / 1BA	56	$1,560	$1,250	$310
2BD / 1BA	40	$1,886	$1,415	$471
3BD / 2BA	4	$1,956	$1,525	$431
		$2,047,488	**$1,592,400**	**$455,088**

Calculated Mortgage

Tranche A		Tranche B	
EGI (Market Rents)	$1,592,400	EGI (Overhang)	$455,088
+ Other Income	$11,586		
- Vacancy (5%)	($79,620)	- Vacancy (5%)	($22,754)
- Expenses	($498,288)	- Management Fee (6%)	($25,940)
= NOI	**$1,026,078**	**= NOI**	**$406,394**
NOI / Loan Constraint (1.176)	**$872,515**	**NOI / Loan Constraint (1.0)**	**$406,394**
Term (months)	420	Term (months)	144
Mortgage Rate	5.75%	Mortgage Rate	5.75%
MIP	0.35%	MIP	0.35%
Tranche A Loan Amount	**$12,478,753**	**Tranche B Loan Amount**	**$3,413,482**
Criterion 5 Calculated Mortgage $15,892,235			

Mortgage Payments

	A Tranche	B Tranche
Mortgage Amount	$12,478,753	$3,413,482
Term (months)	420	144
Monthly P&I	$69,069.99	$32,870.53
Monthly MIP (est.)	$3,639.64	$995.60
Monthly Payment	**$72,709.62**	**$33,866.13**
Total Monthly Payments		
Months 1 through 144		**$106,575.76**
Months 145 through 420		**$72,709.62**

Other Things to Keep in Mind

(Vacancy)

- 3% - HAP contract(s) covering **90% or more** of units
- 5% - Properties meeting LIHTC set aside requirements;

  AND

  Rents at least 10% below market rents.
- 7% - Market rate;

  OR

  LIHTC properties **WITHOUT** 10% discount to market

Other Things to Keep in Mind

(Reduced MIP for Section 8)

- Both Affordable or Broadly Affordable MIP require the Section 8 Contract to have a **remaining term of at least 15 years.**
- Affordable MIP (0.35%)
  - Between 10% and 90% of units covered by Section 8 contract
- Broadly Affordable (0.25%):
  - At least 90% of units covered by a Section 8 contract

Other Things to Keep in Mind

(Overall Reduced MIP)

Affordable MIP (0.35%)

- Between 10% and 90% of units covered by a Section 8 PBRA; **OR**
- Between 10% and 90% of units covered by an affordability use restriction under LIHTC: **OR**
- Inclusionary Zoning, Density Bonus Set-asides, and Other Local Affordability Restrictions.

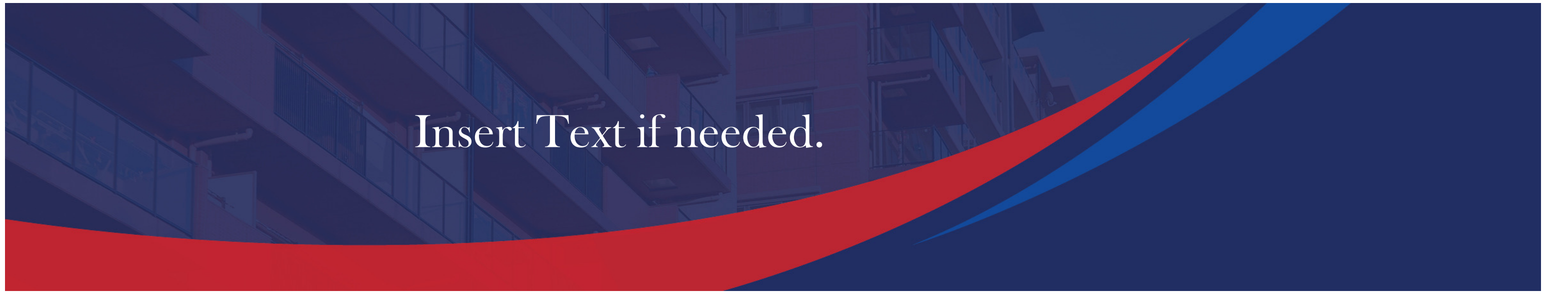
Broadly Affordable (0.25%):

- At least 90% of units covered by a Section 8 PBRA contract, **OR**
- At least 90% of units covered by an affordability use restriction under the LIHTC program, **AND** have achievable and underwritten LIHTC rents at least 10% below comparable market rents

Don’t forget – Section 202 exception

- **First** refinance of a Section 202 direct loan
  - Net Operating Income from the Section 8 HAP rents (even if they exceed the market) and the actual project expenses.
  - This assumes that project is not subject to restructuring under Mark-to-Market and that no equity will be extracted in the transaction based on above market rents.

- **Second** refinance of with previous Section 202 direct loans,
  - Underwriting must use the two-tranche method
  - These projects are no longer exempt from mark-to-market under MAHRA at the next HAP contract renewal.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