Evaluation of Plan of Action to Sell a Project

U. S. Department of Housing and Urban Development
Office of Housing
Federal Housing Commissioner

Loan Management staff will use the following guidelines to evaluate Plans of Action (POAs) for the sale of projects. The owner and purchaser should have specified the benefits they wish to receive. Loan Management staff will evaluate these benefits for acceptability. Any additional information submitted must also be evaluated to be certain that all components of the POA work together. Because each POA is unique and a variety of issues may need to be addressed, each POA must be assessed on a case-by-case basis.

Name of Project _____ Project No. _____

I. Type of Sale/Purchase

A. Sale (check one)

1. ☐ Mandatory Sale

2. ☐ Voluntary Sale: Transfer Preservation Rent less than or equal to Federal Cost Limit

3. ☐ Voluntary Sale: Transfer Preservation Rent greater than Federal Cost Limit

B. Purchaser (check one)

1. ☐ Priority Purchaser

2. ☐ Non-Priority, Qualified Purchaser

II. General Project Finances

	Yes	No
A. 1. Is Offering Price less than or equal to Transfer Preservation Value (TPV)?	☐	☐
2. Does Purchase Price equal the amount of the bona fide offer?	☐	☐

3. Purchase Price $ _____

4. Transfer Preservation Value $ _____

5. Lower of 3 or 4 $ _____

	Yes	No
B. Are all current debts and debt service accurately reflected?	☐	☐

1. Outstanding project debt(s) $ _____

2. Annual Debt Service on subsidized interest rates for Outstanding project debt(s) $ _____

C. Does Plan of Action adequately describe:

	Yes	No
1. All project funds (e.g. residual receipts, reserve accounts, income, utility allowance, etc.)?	☐	☐
2. Accurate cash flow analyses for three years after POA approval?	☐	☐
3. Any seller financing provided and terms for repayment?	☐	☐
4. All upfront funding to be received from all sources other than from the HUD or HUD-insured mortgage or seller financing?	☐	☐

a. Source   b. Amount

_____ $ _____

_____ $ _____

_____ $ _____

Net Syndication Proceeds _____ $ _____

c. Total _____ $ _____

	Yes	No
D. Is the use of all funds from all sources accounted for and Low-Income Housing Tax Credits addressed?	☐	☐
E. Does the Plan of Action accurately detail how all funds will be used?	☐	☐
F. Do requested funds appear to be either insufficient for or in excess of project needs?	☐	☐

If so, how will the excess be used or how is the shortfall to be resolved?

	Yes	No
G. Is there adequate documentation for the proposed utility allowance?	☐	☐

H. Comments:

If the above questions are not satisfactorily answered, the POA should be returned for more information.

Name of Project _____ Project No. _____

III. Capital Improvement, Rehabilitation, and Repairs

	Yes	No
A. Is there a list of all capital improvements and rehabilitation to be performed at the Project?	☐	☐
B. Does this list incorporate, at a minimum, all improvements noted by the Capital Needs Assessment?	☐	☐
C. Has the owner justified the need for improvements not required by the Capital Needs Assessment?	☐	☐
D. Are the costs for these improvements supported?	☐	☐

E. For each capital improvement or other expense, complete the table below.

1. Capital Improvement or other expense	2. Cost	3. Optional Purchaser's Contribution	4. Loan (2) minus (3)
	$	$	$
	$	$	$
	$	$	$
	$	$	$
Soft Costs	$	$	$
Initial Deposit to Reserve for Replacement Account	$	$	$
Totals	$ 5.	$ 6.	$ 7.

F. Annual debt service on rehabilitation loan amortized for 40 years at anticipated interest rate: $ _____

G. Is there a schedule for completion of rehabilitation? ☐ ☐

H. Does the schedule comply with HUD's requirements? ☐ ☐

If the answers to any of the above are "No," additional information must be sought or changes to the POA made.

I. How will the contract be awarded?

K. Comments:

IV. Acquisition Loan and Grant

A. 1. Approved Purchase Price (from Item II A 5) $ _____

   2. Underlying Debt (from Item II B 1) $ _____

B. Purchase Price minus Underlying Debt (A 1 minus A 2) $ _____

C. 1. For priority purchasers: Complete F 2 plus F 3 below and return to this line. (B minus F 3c) $ _____
   or

   2. For other qualified purchasers (B minus Item II C 4c) $ _____

D. 1. Maximum Insured Acquisition Loan: (C 1 or C 2) x 0.95 $ _____

   2. Acquisition loan requested (if less than or equal to D 1) $ _____

   3. D 1 minus D 2 $ _____

E. Annual Debt Service on Acquisition Loan in D 2 amortized for 40 years at anticipated interest rate $ _____

F. Is Item I B 1 checked? ☐ No. Go to G. ☐ Yes. Continue.

   1. Is there adequate documentation that the purchaser could not get a grant elsewhere? ☐ No. Go to G. ☐ Yes Continue.

   2. a. Maximum grant for equity (C x 0.05) $ _____

      b. a. minus Item II C 4c (If result is negative, enter 0 and enter remainder in c.) $ _____

      c. Any negative amount from b. $ _____

      d. (1) Equity Grant requested $ _____

         (2) Grant for equity: Lower of 2d(1) or 2b. $ _____

  (Note: All grants must be approved by Headquarters.)

G. Comments:

V. Purchaser's Annual Distribution

A. 1. Required Equity for Acquisition (Item IV C x 0.05) $ _____

   2. A 1 plus IV D 3 $ _____

   3. A 2 plus III F 6 $ _____

B. Maximum Annual Return [(A 3) x 0.08] $ _____

C. Has provision been made to phase-in receipt of this return with phase-in of rents?   Yes ☐   No ☐

D. Comments:

VI. Transaction and Other Costs

A. Is this a priority purchaser? ☐ No. Go to VII. ☐ Yes. Continue.

B. Transaction costs (including approved Consulting Fees and operating deficit escrow) $ _____

C. Legitimate organization costs $ _____

D. Costs for training and educating tenants $ _____

E. Total costs (B plus C plus D) $ _____

F. Annual Debt Service on Transaction Costs in E amortized for 40 years at anticipated interest rate$ $ _____

G. Do Consulting Fees meet the criteria in HUD Handbook 4500.1?   Yes ☐   No ☐

VII. Preliminary Total Debt Service for:

A. Outstanding debt(s) (from Item II B 2) $ _____

B. Repair Loans (from Item III F) $ _____

C. Acquisition Loan (from Item IV E) $ _____

D. Transaction and Other Costs (from Item VI F) $ _____

E. Total 241(f) loan: (B plus C plus D) $ _____

F. Total debt service: (A plus E) $ _____

VIII. Gross Annual Rents

	Yes	No

A. Review of cash flow projections and projected budget.

1. Are expenses for debt payment accurate, given calculations of improvement loans, acquisition loan, and underlying project loan? ☐ ☐

2. Are projected operating expenses consistent with those determined by Valuation? ☐ ☐

3. Are reserve account deposits consistent with those required by Valuation? ☐ ☐

4. Are vacancy allowances consistent with historical data? ☐ ☐

5. Does budgeted return to owner exceed amount derived in Item V B? ☐ ☐

6. Have on-going funding and abatements been subtracted? ☐ ☐

7. Have management fees been kept the same? ☐ ☐

8. Is debt service coverage set at 0.95? ☐ ☐

B. What is the total annual rent necessary to operate this project, based on

projected expenses? (copy from the budget submitted with the POA) $ _____

IX. Project Oversight Costs

A. Is this a priority purchaser?   ☐ No. Go to X.   ☐ Yes. Continue.

B. Item II 4 x 0.01 $ _____

C. Greater of B or $10,000 $ _____

D. Amount documented and requested $ _____

D. Lower of B, C, or D $ _____

X. Comparison of Gross Rent Potential and Federal Cost Limit

A. Gross Rent Potential: Total required project income (VIII B plus IX) $ _____

B. Complete the table below.

Type of Unit	1. Number of Units	2. Monthly Utility Allowance	3. Total (1) x (2)
One-bedroom		$	$
Two-bedroom		$	$
Three-bedroom		$	$
Four-bedroom		$	$
Other (specify)		$	$
Total			4.$

5.   What is the sum of Annual Utility Allowances for all tenants? (Total of (4) x 12 months) $ _____

6.   Sum of A plus B5. $ _____

7. Federal Cost Limit

Type of Unit	a. Number of Units	b. FMR (or PMR if applicable)	c. Total (a. x b.)
One-bedroom		$	$
Two-bedroom		$	$
Three-bedroom		$	$
Four-bedroom		$	$
Other (specify)		$	$
Total			d.$

    e.   Federal Cost Limit: d. x 1.20 x 12 = $ _____

8. Preservation Project Rent: Lower of (6) or (7e.). $ _____

C. Complete the table below for all units in the project. The number of families in each income category living in each size unit should be entered. If units are vacant, occupancy of each unit should be projected by the owner to meet the requirements of the applicaable tenant profile.

Type of Unit	Income Level Very-Low	Low	Moderate	Total
One-bedroom				
Two-bedroom				
Three-bedroom				
Four-bedroom				
Other (specify)				
Total				

D. Are **any** of the following true?   Yes   No

    a. Is X B 6 less than or equal to X B 7?   ☐   ☐

    b. Is Item I A 1 checked?   ☐   ☐

    c. Is I B 1 checked?   If "Yes," continue.   ☐   ☐

    If "No," POA cannot be approved as written. Owner/Purchaser must be advised that costs must be reduced.

XI. Section 8 Rents

A. How many very low and low-income tenants are there (or are projected to be) in each unit size based on XC? Complete the calculations below for each of these units which will require Section 8 rental assistance.

1. Type of Unit	2. FMR	x 3.No. Section 8 Units =	4. Total
One-bedroom	$		$
Two-bedroom	$		$
Three-bedroom	$		$
Four-bedroom	$		$
Other (specify)	$		$
Total			5.$

6. A 5 X 12 months $ _____

B. Calculate the minimum total tenant payment (TTP) projected to be paid by moderate-income tenants shown in X C.

1. Type of Unit	2. No. of Mod-Income Tenants	3. Low-Income Limit for:	4. Low-Income Limits	5. Calculate (Col.4) x 0.025	6. FMR (PSR, if applicable)	7. Lower of (Col.5) or (Col.6)	8. Calculate (Col.2) X (Col.7)
Studio		1 person	$	$	$	$	$
One-bedroom		2 persons	$	$	$	$	$
Two-bedroom		4 persons	$	$	$	$	$
Three-bedroom		6 persons	$	$	$	$	$
Four-bedroom		8 persons	$	$	$	$	$
Five-bedrooms +		10 persons	$	$	$	$	$
9. Totals	10.						11.$

12.   (11) times 12months $ _____

C. 1. a. Enter the Total of rents needed to support the project (X B 8): $ _____

   b. Subtract the projected TTP to be collected from moderate-income tenants (from B 12) $(-) _____

   c. Total amount which must be collected from the Section 8 Gross Rents: $ _____

2. a. Total of FMR's for all Section 8 units (A 6): $ _____

   b. Calculate C 1c divided by 2a for appropriate Section 8 ratio to be entered on every line in 3 c:

3. Calculate the Section 8 Gross Rents to be used by means of the table below.

a. Type of Unit	b. FMR	x c. Ratio(2b) =	d. Gross Rent	x e. No. of Sec. 8 Units =	f. Total
One-bedroom	$		$		$
Two-bedroom	$		$		$
Three-bedroom	$		$		$
Four-bedroom	$		$		$
Other (specify)	$		$		$
Total					g.$

4. Item D 3g times 12 months = $ _____

5. Make any minor adjustments necessary to bring (C 4) to (C 1c). (If the difference between (C 4) and (C 1c) is greater than the difference due to rounding, check your calculations.)

Note: If the Ratio(2b) used in Col. c. above exceeds 1.2, the Section 8 rents must be approved by Headquarters.

D. Rents paid by moderate-income tenants have to be phased-in. Rents paid by very-low and low-income tenants receiving Section 8 may also have to be phased-in. If so, use the rent phase-in worksheet for moderate-income tenants. This will not affect Section 8 contract rents received by the owner.

	Yes	No
E. Has provision been made to use Minimum Rents for moderate-income tenants?	☐	☐
F. (For Section 236 Projects) Has provision been made to return appropriate amounts of excess income to HUD?	☐	☐
G. Are project specific rents (PSR) lower than FMR? If "Yes," what are they.	☐	☐

    1 BR. $ _____

    2 BR. $ _____

    3 BR. $ _____

    Other (specify) $ _____

H. Comments:

XII. **Grants to Reduce Costs**
A. Annual Costs Must be Reduced.

    1. Total Income Needed: (X B 6) $ _____

    2. Federal Cost Limit (X B 7e) $ _____

    3. Amount debt service must be reduced by grants reducing the 241 (f) loans: (1) minus (2) $ _____

        a. If result is 0 or negative, no grant is needed. Go to XIII
            If result is positive, continue.

        b. Interest rate for 241(f) loan   _____ %

        c. What loan amount can the debt service shown in a. support at the interest rate
            shown in b. amortized for 40 years? $ _____

    4. Is this a priority purchaser? ☐ No. Go to C. ☐ Yes. Continue.

B. Grant for Transaction Costs

   1. Transaction and Other Costs (VI E) $ _____

   2. Debt Service on Transaction and Other Costs (VI F) $ _____

   3. A 3(c) minus B $ _____

   4. If result in 3. is negative:

      a.   Grant for Transaction and Other Costs is A 3(c) $ _____

      b.   The debt service for transaction costs is reduced by an amount of A 3(a) to (B 2 minus A 3(a)) $ _____
      No further grant is needed. Go to XIII.

   5. If result in 3 is positive:

      a.   Grant for Transaction and Other Costs is B 1 $ _____

      b.   Debt service for transaction costs is reduced to 0. (enter 0) $ _____

      c.   Amount the 241(f) loan must be reduced through another grant if the purchaser is eligible (B 3) $ _____

      d.   Debt service to be reduced (Debt service or 5c. amortized for 40 years at applicable interest rate) $ _____

   6. Remaining debt:

      a.   Original 241(f) loan:

         Acquisition (from IV D 2) $ _____

         Rehabilitation (from III E 7) $ _____

         Transaction and Other Costs (from VI E) $ _____

         Total $ _____

      b.   Total a. minus 4a. or 5a. (as applicable) $ _____
      c.   Remaining debt service (debt service on amount shown in b. at anticipated
         interest rate amortized for 40 years) $

C. Grant to Compensate for Inadequate Rents (See examples in Chapter 8, paragraph 8-22 of Handbook 4350.6)

   1. Is at least one of the following true?   Yes   No

      a.   I A 1 is checked.   ☐   ☐

      b.   Both I A 2 **and** I B 1 are checked.   ☐   ☐
      If "Yes," go to 2.   If "No," no further grant is allowed.
                    POA is not approvable unless the purchaser reduces costs by the amounts shown in B 5d.

   2. Amount of grant and reduction in Section 241(f) loan: (B 5c)
      (This amount may not exceed the amount shown in IV D2) $ _____

Note: All grants must be approved by Headquarters.

XIII. Total of all loans

A. If XII B 6 b. is calculated, enter that amount. $ _____

    If XII B 6 b. is not calculated, complete XII B 6 a. now and enter total $ _____

B. 241 (f) loan:

    1. Loan Amount: A minus XII C 2 $ _____

    2. Debt service on 241 (f) loan shown in 1 amortized for 40 years $ _____

C. Total Loans:

    1. Outstanding Project Debt (II B 1) $ _____

    2. 241(f) loan (XIII B 1) $ _____

    3. Total of 1. plus 2. $ _____

D. Total Debt Service for:

    1. Outstanding Debt (II B 2) $ _____

    2. 241(f) loan (XIII B 2) $ _____

    3. Total of 1. plus 2. $ _____

    4. Total divided by 0.95 $ _____

XIV. Total of all Grants

1. Acquisition (from IV F 2d(2)) $ _____

2. Transaction and other costs (from XII B 4a or XII B 5a) $ _____

3. To Reduce Rents (from XII C 2) $ _____

    Total $ _____

(Note: All grants must be approved by Headquarters.)

		Yes	No
XII.	**Evaluation of additional incentives which the purchaser may request.** Does this include:		
	Additional access to residual receipts?	☐	☐
	Redirection of interest reduction payments?	☐	☐
XIII.	**Is the Management Plan acceptable?**	☐	☐
XIV.	**Purchaser has provided assurances that**		
	Project will remain affordable for remaining useful life?	☐	☐
	Adequate expenditures will be made for maintenance and operation?	☐	☐
	Tenant Profiles showing very low-, low- and moderate income have been submitted for appropriate two periods?	☐	☐
	Tenant Profile will remain at the same proportions of very low-, low-, and moderate-income tenants as were at the project on the date the POA was approved or earlier applicable date, whichever gives a greater proportion of very low-income tenants?	☐	☐
	Future rent increases will be made via an operating cost adjustment factor or other required rent increase provisions in accordance with Chapter 11?	☐	☐
	Purchaser can provide all applicable out-of-pocket expenses?	☐	☐
XV.	**TPA is acceptable?**	☐	☐
XVI.	**Section 241(f) non-insured loan is acceptable?**	☐	☐
XVII.	**Are there outstanding findings of non-compliance with laws and regulatory requirements including Civil Rights laws and requirements?**	☐	☐
XVIII.	**Are all applicable financing commitments in place?**	☐	☐
XIX.	**Does an analysis show that the POA represents the least cost to the government in accordance with paragraph 8-18 A1?**	☐	☐
XX.	**Comments:** (attach separate page)		

POA reviewed by _____   Date _____

Calculation of Total Tenant Payment for Moderate - Income Tenants

Name of Project _____   Project No. _____

(1) Apartment Number	(2) Unit Type	(3) FMR or PSR	(4) Current Total Tenant Payment	(5) Adjusted Monthly Income	(6) 30% of Adjusted Income	(7) Target TTP Lower of (3) or (6)	(8) TTP Increase (7) minus (4)	(9) Max. Annual Increase for 3 yrs. (8) divided by 3	(10) 10% Increase (4) times 0.10	(11) At POA Approval Range of TTP (4) plus (9) (4) plus (10)	(12) TTP at POA Approval (range between (11) and (12))	(13) TTP Approval at POA	(14) TTP Increase (13) minus (4)	(15) TTP for 2nd year (13) plus increase(14)	(16) TTP for 3rd year (15) plus increase(14) (See note)

Total (Col. 7, 13, 14, 15, & 16)

Total x 12

Income Shortfall:

1st Year: Col. 7 minus Col. 13 $ _____

2nd Year: Col. 7 minus Col. 15 $ _____

3rd Year: Col. 7 minus Col. 16 $ _____

Total: Col. 7 minus Col. 13 $ _____

(Note: Add additional columns if Phase-in will take more than three years. Phase-in continues until rents charged equal those in Column 7.)

To determine rents to be received by project, Personal Benefit Expense (PBE) must be subtracted from Total Tenant Payment (TTP)

ref. Handbooks 4350.6 & 4500.1   form HUD-50062 (7/94)