

OPTION 5: RENEWAL OF PORTFOLIO REENGINEERING DEMONSTRATION OR PRESERVATION PROJECTS

Portfolio Reengineering Demonstration Program:

- A. **Mortgage Restructured/Rents Reduced.** Properties that closed a transaction under the Portfolio Reengineering Demonstration Program and had their mortgages restructured and/or had their rents reduced to market should be renewed as follows:
1. OCAF: Each year for the four years following the execution of the Demonstration Contract, rents will be adjusted by the published OCAF.
 2. At the end of each 5-year period the owner must obtain a Rent Comparability Study (RCS) to ensure that the rents are not above comparable rents. The owner will be eligible to renew under Option 1 or Option 2. If necessary, the rents will be reduced to comparable rents.
- B. **No Restructuring/No Rent Reduction.** If the mortgage was not restructured and the project's rents were not reduced to market, the owner must submit rationale as to why debt restructuring is inappropriate to MHFA.
- C. **Owner submission for Demonstration Projects.**

Initial Renewal: HUD is no longer doing initial renewals under the Portfolio Reengineering Demonstration Program.

Rent Adjustments: OCAF Worksheet. The property is eligible for the OCAF rent adjustment only during years two through five.

If applicable, submit the tenant paid utility allowance.

Preservation Projects (LIPHRA and ELIHPA):

When Owners entered into long-term Use Agreements with HUD under the Preservation Program, HUD agreed to certain terms, which were outlined in the Preservation property's approved Plan of Action (POA).

In a majority of Preservation contracts, the POA allows for either a budget-based rent adjustment or an Annual Adjustment Factor (AAF) rent adjustment; however, POA's are unique to every property and may allow for an increase by other means. At both initial and subsequent renewals preservation projects shall be renewed for one-year terms according to all provisions outlined in the project's POA.

Owners should be made aware that if they elect to opt-out or pre-pay, they are not released from their obligations set forth under the Use Agreement to provide affordable housing.

Owner Submission for Preservation Projects:

Preservation contracts must renew under Option 5. Projects are eligible to renew with multiyear contracts, though these contracts are not to exceed the lesser of 20 years or the remaining term of the Use Agreement.

Owners with preservation 524 contracts must submit the following at least 120 days before contract expiration:

1. A copy of the Notice to Tenants regarding the rent increase (issued 30 days prior to your contract renewal submission to MHFA).
2. Statement or cover letter describing how the Notice to Tenants was distributed
3. Tenant comments and owner responses, if applicable
4. The Owner's Certification as to Compliance with the Tenant Comment Procedures form (The Owner's Certification as to Compliance with the Tenant Comment Procedures cannot be executed before the notice has been posted for 30 days).
5. Option 5 Contract Renewal Request Form
6. If applicable, the OCAF Worksheet
7. The tenant paid utility analysis, if applicable

Other facts:

Preservation properties with multiple contracts cannot combine these contracts
Title II non-capital Preservation properties have Prevailing Market Rents (PMR)
Title II capital Preservation properties do not have PMR's
Title VI non-capital Preservation properties have Project Specific Rents (PSR)
PMR's & PSR's *will not* be automatically adjusted with your annual contract renewal. They are only adjusted upon formal written request at the time of your renewal submission.

Please note: MHFA does not intend this to be an all-inclusive list of the federal requirements. Please review the Section 8 Contract Renewal Policy Handbook to gain a full understanding of all requirements.