

GUIDANCE ON MONITORING OMHAR WATCH LIST PROPERTIES

September 2001

The following guidance is consistent with the Office of Housing's general guidance on the assessment and analysis of "troubled and potentially troubled" properties in the Multifamily Housing portfolio. While OMHAR properties are labeled as "watch list," there are similarities to troubled and potentially troubled indicators that should be applied to these properties in the monitoring process.

I. ASSESSMENT

Using the Troubled Property Indicators listed below, Senior Project Managers will be able to assess whether the Watch List property is failing (physically and/or financially deteriorating).

- A. If the project is stable, that is experiencing no change since the rents were reduced, continue to monitor as usual.
- B. If the project is failing, move to action below.

II. ACTION

- A. During the term of the Watch List Renewal Contract, take the following action if the property shows clear signs of physical, financial or managerial deterioration based on the indicated listed below.
 - 1. Notify OMHAR to re-contact the owner to suggest that the owner re-enter the program. Contact can take the form of a site visit, conference call or meeting with the owner. Wherever possible, the Senior Project Manager, HJB Director or his designee should be present during these discussions.
 - 2. If physical deterioration is evident, Housing may require an "on demand" physical inspection conducted by REAC prior to making any final decisions on a course of action to take.
 - 3. Require the owner to bring payables current within 30 days or re-enter OMHAR.
 - 4. If the owner fails or refuses to make payables current or re-enter OMHAR, the owner forfeits his rights to re-enter OMHAR at the end of the current renewal period.
 - 5. Owner failure or refusal to act will cause Housing to begin the tenant vouchering process and abate the Section 8 unless the owner re-enters OMHAR.
- B. At the end of the Watch List renewal period, take the following actions if the property shows clear signs of physical, financial or managerial deterioration based on the Indicators listed below.

1. Housing may decide not to offer the owner a renewal contract, particularly if the owner has forfeited his rights to re-enter OMHAR, and begin the tenant vouchering process.
2. Housing may return the property to OMHAR without the consent or election of the owner.
3. Housing may refer the property to the Departmental Enforcement Center.
4. In all cases, Housing must seek the advice and counsel of OMHAR prior to making a final determination.

III. TROUBLED PROPERTY INDICATORS

- A. **HIGH RISK INDICATORS**: There are certain indicators that are used to review and analyze “high risk” properties that could become troubled. These indicators can help Senior Project Managers assess the degree of risk involved for OMHAR Watch List properties as well. There are six general indicator groups:

1. Residents and Neighborhood
2. Ownership
3. Financial
4. Physical
5. Property Management
6. Subsidy

B. **RESIDENTS AND NEIGHBORHOOD INDICATORS**

1. Resident complaints about conditions at the property to HUD, local officials, news media, management agent, or owner.
2. Police interviews and reports indicate serious crime and drug problems at the property and in the neighborhood.
3. Reports from state and local government, private research firms, and the media that document problems in the neighborhood including:
 - a. Declining property value
 - b. High crime
 - c. High vacancy rates and property abandonment
 - d. Substandard commercial facilities and public transportation services.
4. Calls from the Mayor, other local officials, or neighborhood leaders about serious problems in the neighborhood and/or the property.

C. **OWNERSHIP INDICATORS**

1. Abandoned or threatens to abandon property.
2. Declared bankruptcy or threatens to declare bankruptcy.

3. Principals are suspended or debarred.
4. Not exercising oversight control of management entity.
5. Lacks oversight and reporting systems to monitor project performance.
6. Principals' relationship with identities-of-interest firms doing business with the property makes it difficult for owner to exercise independent oversight of expenditures and performance.
7. Principals have interest in other properties subject to enforcement action, 2530 flags, and limited denials of participation.
8. The owner of record is not in control of the property mortgages and/or land sales contracts. The Management Company is acting as the owner.
9. Owner has not completed all requirements for a Transfer of Physical Assets (TPA).
10. Evidence that the for-profit, no-profit, or cooperative owner is not acting in accordance with their organizational documents, i.e., corporate, partnership, or cooperative by-laws that govern the operation of the owner entity.

D. **FINANCIAL INDICATORS**

1. Mortgage payments are not current.
2. Liens and judgments filed against property.
3. High accounts payable.
4. High accounts receivable.
5. High vacancy costs – in excess of 10% of gross potential.
6. Improper withdrawal of project funds by owners.
7. No New Cash Throw-off: profit or loss before depreciation minus payments to mortgage principal and reserve for replacement deposits equals a negative number.
8. No Surplus Cash: available cash minus obligations of property equals a negative number.
9. Negative cash in bank.
10. Inadequate internal controls for budgeting, financial performance reviews, purchasing, cash dispersal and accounts payable and receivables.
11. Financial statements contain negative findings and/or questioned costs.
12. Failure to consistently submit monthly accounting reports to HUD.

13. Failure to submit annual audited financial statements to HUD.
14. Missing financial statements.
15. Independent auditor opinion contains “qualified,” “disclaimer,” or “adverse” qualifications.
16. FASS non-compliance flags.

E. PHYSICAL INDICATORS

1. One or more major systems require replacement or major repair.
2. Conditions that pose a serious health or safety threat to the residents. For example, EHS violations uncovered by PASS including but not limited to: unsafe electrical outlets and fixtures, sanitary sewer backups, trip hazards, gas leaks or inadequate heating.
3. Common areas, buildings and units not secure – inadequate fencing, lighting, building access controls, and apartment entry door lock systems.
4. Resident repair requests not properly recorded or responded to in a timely manner.
5. Unit and property inspections not conducted on at least an annual cycle, depending on the most recent PASS score.
6. No preventative maintenance program.
7. No capital improvements program.
8. Inadequately funded reserve for replacement fund.
9. Repair work is unprofessional – either not completed, and/or completed with shoddy workmanship and materials.
10. Repairs or improvement funded with Drug Elimination Grants and Flexible Subsidy/Loans Grants not complete in accordance with the contracts.
11. Poor curb appeal: property grounds, exterior surfaces, parking lots and walkways in poor condition.
12. Complex lacks facilities required by resident population: play areas, laundry facilities, learning and day care centers.
13. HUD PASS scores have decreased over time.

F. PROPERTY MANAGEMENT

1. Evidence that management is not properly screening incoming residents and/or taking eviction action against current lease-holders who violate their lease including:

- a. Resident complaints and police reports of serious drug and crime activity at the property.
 - b. No home visits, credit checks, or interviews before new residents are permitted to lease units.
 - c. High incidence of resident caused damage in units and common areas and on grounds.
 - d. High accounts receivable.
 - e. High vacancy.
2. Inadequate or nonexistent staff and/or systems for:
 - a. Responding to resident requests and complaints.
 - b. Waiting lists and marketing.
 - c. Rent collection.
 - i. Move in, out, and make ready procedures for vacant units.
 - ii. Cleaning common areas and grounds maintenance.
 - d. Vendor selection and supervision.
 - e. Staff recruitment, training and supervision.
 3. Documented resident complaints that management staff does not act in a professional manner.

G. **SUBSIDY**

1. Section 8 has been abated, redirected, suspended or terminated.
2. Owner is:
 - a. Vouchering for units that do not meet the *Good Repair Standards*.
 - b. Vouchering for units in excess of the number specified in the Watch List Renewal Contract.
 - c. Discriminating against potential and current residents based on race, color, creed, religion, sex, age, national origin or handicap.
 - d. Changing, suspending or terminating a family's housing assistance in violation of HUD regulations.
 - e. Terminating tenancies of families in violation of applicable State and local law and HUD regulations and procedures.
 - f. Denying permission to HUD or its duly authorized representatives for access to the premises for the purpose of audit and examination of all aspects of the Watch List Renewal Contract.
3. Owner is not:
 - a. Marketing units in compliance with the project's Affirmative Fair Housing Market Plan.
 - b. Correctly determining applicants' eligibility for assistance.
 - c. Selecting, admitting and placing residents in units in accordance with HUD requirements.
 - d. Executing HUD approved leases with new residents.
 - e. Maintaining the units and related facilities in a manner that provides decent, safe and sanitary housing as defined by HUD.
 - f. Regularly cleaning and maintaining all common areas or equipment or making repairs with reasonable promptness.

- g. Responding promptly to HUD's PASS findings by correcting cited problems within the time allotted.
- h. Providing the utilities, services and equipment specified in the Watch List Renewal Contract.
- i. Charging residents the correct rent.
- j. Evaluating the accuracy of utility bills at least annually.
- k. Completing resident income recertifications annually and adjusting family gross contributions in accordance with HUD regulations or administrative procedures.
- l. Promptly following up with families that do not provide required recertifications and initiating HUD-prescribed enforcement actions.
- m. Retaining all correspondence, documentation and materials required by the Watch List Renewal Contract.
- n. Submitting to HUD an annual financial statement prepared by an independent auditor.