

Performance Assessment

The performance rating system was established during the early years of the FASS-MF. The intention was to develop a quick and easy way for multifamily project managers to identify HUD-insured projects that were at risk for default or HUD-assisted projects at risk of not being able to maintain the real estate and provide essential services for the tenants. The team of HUD staff who developed the FASS-MF system worked with a team from Price Waterhouse Coopers (PWC) to identify appropriate financial ratios that would be used in the rating system.

Statisticians from PWC used historical default data to develop thresholds for the various ratios and they used a statistical tool called conical correlations to develop an overall scoring model. HUD's multifamily portfolio was divided into six program groups based on the motivations of the owners and similarities in the way that these groups behave financially. For example, an owner of a HUD-insured project developed under Section 221(d)(4) of the Housing Act is in business to make a profit whereas an owner of a Section 202 direct loan is a nonprofit owner whose motivation is to provide decent housing while financially breaking even. The six program groups are as follows

- Nursing homes
- 221(d)(4)
- Other market rate (loans developed under a market interest rate)
- Below market rate (loans developed with a subsidized interest rate)
- 202 HUD direct loans
- 202/811 Capital grants

FASS calculate up to 7 ratios for each project and uses 5 of these ratios to calculate an overall performance score. The 5 ratios used to rate each project are

- Quick ratio
- Vacancy rate
- Debt service coverage
- Operating cost coverage
- Reserves per unit

Based on the ratio values, and the thresholds that have been established for each ratio, FASS calculates an overall risk rating for each project. The overall risk rating is used to place each project into a color-coded risk range as follows

- Red (performance score of 10 – 59) High Risk
- Yellow (performance score of 60 – 69) Cautionary Risk
- Green (performance score of 70 – 100) Acceptable Risk

Below is an example of a FASS-MF Performance Analysis.

Financial Assessment Subsystem - Multifamily (FASS-MF) - Windows Internet Explorer

https://hudapps.hud.gov/ssmaster/fassmf/afsp/assessment.cfm?project_afs_header_id=10070000&submission_project_id=8140820000&id=1

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financial assessment subsystem - multifamily (fass-mf)

Risk/Performance Indicators

Project Name: Tubman Towers
 FHA Number: 04330034
 SOA: 221(4)3MMKT

Sub. Type: AUD-A133 (Non-coop), M2M
 Date From: Jul. 1, 2010
 Date To: Jun. 30, 2011
 FYE: Jun. 30, 2011

Program Type: Other Market Rate

Performance Indicator	Description	Performance Value-Category
Surplus Cash per Unit	Surplus Cash / No. of Units (HEREMS)	140.768-Yellow
Net Cash Throw-off per Unit	(Net Income before depreciation - Mortgage Principal Pymts. - Required Reserve Deposits + Reserve Releases shown on P&L) / No. of Units (HEREMS)	224.192-Yellow
Reserves per Unit	(Reserve for Replacement + Residual Receipts Balance) / No. of Units (HEREMS)	1499.465-Green
Occupancy Rate	Net Rent Revenue / Total Rent Revenue * 100	89.666-Red
Operating Cost Coverage	Total Revenue / (Total Operating Expenses + Reserve Deposits - Expensed Reserve Releases)	1.066-Red
Quick Ratio	(Cash and Cash Equivalents + Accounts Receivable) / (Total Current Liabilities - Construction and Entity Liabilities - 11/12 of Current Mortgage Principal)	0.732-Yellow
Debt Service Coverage	(Net Operating Income-Adjusted Reserve Deposit Requirement)/Debt Service	2.275-Green
Overall Risk Rating: 65 - Yellow		

Management Conditions

Management Indicator	Description	Value
No. of Management Conditions: 0		

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