



STATE OF MICHIGAN

RICK SNYDER  
GOVERNOR

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

KEVIN ELSENHEIMER  
EXECUTIVE DIRECTOR

December 20, 2016

Re: 2017 Premium Management Fee (PMF) Policy

Dear Management Agents:

### Summary

The attached **2017** PMF policy must be used when requesting premium management fees for the upcoming calendar year. These guidelines cover the PMF Factors from January 2017 through December 2017. Eligible agents can request the **2017** PMF in early **2018**.

### Changes

- No significant changes were made from last year's PMF Guide.

### 2016 PMF Application (MSHDA MGMT 415A)

- In January 2017, you will receive a posting notification for the 2016 Application so that you can request the fee for all of your hard work during the past year. The corresponding guidelines for 2016 are currently posted on our website at [http://www.michigan.gov/mshda/0,4641,7-141-8002\\_47708-177124--,00.html](http://www.michigan.gov/mshda/0,4641,7-141-8002_47708-177124--,00.html).

Questions regarding the premium management fee process should be directed to Maureen Carden at 517-335-6971 or at [cardenm1@michigan.gov](mailto:cardenm1@michigan.gov).

Sincerely,

Mike Witt  
Director,  
Asset Management Division

## 415 – PREMIUM MANAGEMENT FEE POLICY

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### Purpose of Premium Management Fee

The Asset Management Division established the Premium Management Fee (PMF) in 1987 to reward management agents for meeting **all** of the MSHDA financial reporting and administrative requirements and for excellent management of MSHDA-financed developments. There are fourteen reporting requirements or factors used to determine eligibility.

Applications for PMF will be reviewed annually after December 31<sup>st</sup> of the applicable year. Prior to disbursement, the PMF must be approved by the:

- Development owner; and,
- Director of the MSHDA, Asset Management Division

Payment of the PMF occurs in the year following the calendar year reviewed for performance and achievement of the PMF factors.

## PMF Eligibility Requirements

An agent is eligible to receive a PMF beginning at the *mortgage cutoff date*. However, a PMF cannot be paid until the development has final closed and the premium management fee has been earned.

PMF evaluations are based on 14 factors broken down into (7) Mandatory and (7) Pro-Rated factors. All of the mandatory evaluation factors represent criteria that must be achieved to receive approval of a PMF. Pro-Rated evaluation factors represent criteria that allow for partial achievement of the PMF. Requests for 50% of the premium management fee can be made when only **one** of the pro-rated evaluation factors is denied for a development.

Failure to meet the criteria set forth for a mandatory evaluation factor or for more than one of the pro-rated evaluation factors will result in complete denial of the PMF; denials are subject to appeal. **Developments that anticipate a denial of the PMF due to violations of the PMF factors do not need to submit a PMF application.**

If a waiver has been granted by the Director of the Asset Management Division for any factor a copy of the written waiver must be submitted with all applications affected by the waiver.

## Management Agent Changes

If a management agent change occurs any time during the calendar year, each managing agent could potentially qualify for a portion of the PMF based on its individual performance during the months it managed the development. The total PMF paid to each management agent will be pro-rated based on the number of months the agent managed the development.

## Appeals

One appeal can be made to the Authority if denial of the PMF occurs. The request for an appeal must be submitted in writing and received within **60 days** from the date of the denial letter. This appeal can be presented either in writing or by appointment before a panel. The Authority's appeal review decision is final.

## Payment of the Premium Management Fee

Management agents may negotiate a premium management fee with the development's owner(s) based on compliance with the Premium Management Fee Guidelines in addition to the basic management fee allowable. An owner can negotiate a premium management fee less than the maximum amount published in the Budget Guidelines for the succeeding year. The PMF applicable to application at the beginning of the year is published in the middle of the year being evaluated. For example: The PMF applicable to the calendar year 2016 activity is published in the 2017 budget guidelines (on the MSHDA Mgmt. 450 – Attachment 2 – Annual Fees form) released in the summer of 2016 and the PMF paid for 2016 activity is approved in the beginning of 2017, thus the 2017 PMF is used for the 2016 PMF performance.

Provided the management agent has met the requirements to achieve a PMF and the funds are available, payment of the requested premium management fee can be made to the agent from the development's operating account *after written approval* of the PMF request is received. Payment of the premium management fee is contingent on the developments:

- Liquidity position and
- Completion of final closing at the time of approval.

If funds are not available in the development's operating account when the request is formally approved, payment of the premium management fee can be accrued until such time as funds are available to pay the fee. Per the management agreement, the PMF is a low priority payable and should be administered only after other payables are current.

### **Application for PMF Fee**

To request approval of a PMF, management agents must submit the "Premium Management Fee Application" form (MSHDA Mgmt. 415A) with the "Owner and MSHDA Certification of Premium Management Fee" page signed by the development owner.

### **Mandatory Evaluation Factors (1 - 7)**

All mandatory factors must be achieved to receive PMF approval.

#### **Mortgage Payments (1)**

All mortgage payments, including principal, interest, taxes, insurance and replacement reserves, must be received by the designated due date. Mortgage payments are due the first of every month and late payment notices are sent following the 15<sup>th</sup> calendar day grace period after the first of each month.

#### **Material Default (2)**

Any formal declaration of material default signed by an authorized officer of the Authority will result in denial of the premium management fee.

#### **Delinquent Water and Sewer Bills (3)**

Delinquent water and sewer bills that remain unpaid and result in collection proceedings or lien placement by applicable governmental entities will result in denial of the premium management fee.

#### Insurance Policy Coverage (4)

All insurance coverage must adhere to Authority policy and be in effect for the entire applicable calendar year. **Evidence that the policy continues in force, in the form of an annual renewal policy or Certificate**, must be received by the Authority on or before the existing policy's stated expiration date. Also, funds to pay the premiums for all insurances, except Employee Dishonesty/Crime Coverage must be held in escrow by the Authority.

#### Annual Certified Audit Submissions/Audit Fees (5)

Annual Certified Audits must be accurate and meet the requirements established by the Audit Guidelines. Accurate submission includes any revisions requested in writing by Authority staff after the audit has been received. Audits must be received in the Authority's Lansing office no later than 120 days after the year-end of the audited year.

*For Section 8 and Section 236 developments, audit fees paid cannot exceed the rate allowed by the Authority for the applicable audit year. Violations will result in denial of the PMF. Reimbursement of overpayments after December 31<sup>st</sup> of the year during which fees are overpaid will not change an unacceptable rating.*

#### Real Estate Tax and Property Insurance Escrow (6)

When tax and/or insurance bills cause a shortage in the escrow accounts, excess funds will be transferred from the opposite escrow, ORC or DCE Interest escrow accounts. If no excess funds are available, Multifamily Mortgage Servicing (MFMS) will send a letter to the management agent requiring the escrow shortage to be funded by **January 25<sup>th</sup> (or next business day if date falls on a weekend)** from either the development's operating account or the owner. If the development is unable to fund the shortage, the management agent must notify their assigned asset manager on or before the due date and make arrangements to pay the shortage. Failure to respond to the escrow shortage letter within the specified time period will result in denial of the premium management fee.

#### Payments Due Per Audit (7)

All required payments identified on the applicable Schedule I in the Annual Certified Audit, must be submitted no later than 120 days after the development's year-end. Payments must be mailed to the Authority's Lansing Finance Division by the specified due date or have management agent authorization to transfer funds held by MSHDA by the specified due date. If the payments have not been submitted/authorized by the due date, a waiver in writing from the Director of the Asset Management Division or other authorized officer of the Authority must be granted by the specified due date to avoid denial of the PMF.

## **Pro-Rated Evaluation Factors (8 - 14)**

Agents may miss one of these factors and achieve 50% of the PMF. If an agent misses these factors two or more times, the PMF application will be denied.

### **Monthly Income & Expenditure (MIE) Reports (8)**

MIE reports must be received in the Authority's Lansing office no later than midnight on the 20<sup>th</sup> day of each month, following the reporting month unless otherwise informed by the Authority. Twelve consecutive MIE reports are evaluated, representing those due January through December of the calendar year. The MIE reports must be processed in accordance with the established MIE guidelines without exception. Refer to the MIE guidelines for more details about the submission requirements.

### **Annual Operating Budget (9)**

The Annual Operating Budget submission, including electronic and hard copy requirements, must be submitted by the required due date. If a budget is received late, pro-ration of 50% of the fee may be awarded. If the budget has not been received and/or is not acceptable by December 31 of the year in which it was due, all PMF will be denied.

### **Management Agreement/Management Fees (10)**

Management fees are paid in accordance with the active Management Agreement and Addendum during the year being reviewed. The effective date of the management fees is determined by one of the following:

Initial Management Fees - The effective date of the management agreement is based on the "Term of Agreement" section that is completed by the Authority staff and approved by the Director of the Asset Management Division. The management agreement specifies the amount of management fees that can be paid to the management agent.

Management fees cannot be expensed/accrued until the effective date in the "Term of Agreement" section of the Authority-approved initial management agreement.

Subsequent Management Fees - Subsequent approval of management fees is done through the Addendum to Management Agreement. The Addendums are due with the budgets, but no later than **December 31<sup>st</sup> each year**. The management fee approved in the Addendum to Management Agreement and established in the approved budget will be the maximum fee that can be paid to the management agent. This amount cannot exceed the maximum management fee approved by the Authority. The new management fee is effective with the first month of the new budget year.

Management fees cannot be paid to an Identity of Interest management agent when there are Non-Identity of Interest accounts payables over 90 days, unless a waiver has been granted by an authorized officer of the Authority.

## Physical Inspection & Inspection Response (11)

The Owner/Management Agent's written response(s) to the Physical Inspection Report (PIR) must be complete, accurate and timely and all physical inspection deficiencies must be satisfactorily resolved. In addition, physical inspection deficiencies from the previous years' physical inspection must also be corrected. Physical Inspection Responses must be received and the corrective actions must be completed in accordance with the requirements in the chart below:

Extension Requests - Extension requests must be submitted on the MSHDA Extension Request form or in a similar format. The form can be found on the MSHDA website (click on Rentals, Property Managers, Compliance for Rental Housing, forms, and physical inspection forms) or at the following link: [http://www.michigan.gov/mshda/0,1607,7-141-8002\\_26576\\_26589-90761--00.html](http://www.michigan.gov/mshda/0,1607,7-141-8002_26576_26589-90761--00.html). If an extension is approved, the Owner/Management Agent must submit the final PIR no later than the extension due date.

Detailed instructions for completing the Owner Certification of Completion of Repairs and Exigent Health and Safety Items (MSHDA PI form OC) and the Owner's Report of Completion of Repairs and Exigent Health & Safety Items – Owner's Plan for Completion of Repairs (MSHDA PI Form Attachment A) forms are located on the MSHDA website (click on Property Managers, Compliance for Rental Housing, Forms, Physical Inspection Forms) [http://www.michigan.gov/documents/mshda/mshda\\_crh\\_f\\_pif04\\_instructions\\_185640\\_7.pdf](http://www.michigan.gov/documents/mshda/mshda_crh_f_pif04_instructions_185640_7.pdf)

### *Physical Inspection Chart - Correction and Response Deadlines*

<b>Physical Inspection Deficiency</b>	<b>Deadline for Deficiency Correction</b>	<b>Deadline for Owner/Management Agent Response</b>
EH&S (Life-Threatening)	Immediate/no later than 24 hours (after the inspection date)	No later than 3 business days (after the <u>inspection</u> date)
H&S (Non-Life Threatening)	No later than 60 days (after the <u>cover letter</u> date)	No later than 60 Days after report issued (cover letter date)
L3	No later than 60 days (after the <u>cover letter</u> date)	No later than 60 Days after report issued (cover letter date)
L2	No later than 60 days (after the <u>cover letter</u> date)	No later than 60 Days after report issued (cover letter date)
L1	No later than 60 days (after the <u>cover letter</u> date)	No later than 60 Days after report issued (cover letter date)
M	No later than 6 months (after the <u>cover letter</u> date)	First response-No later than 60 Days after report issued (cover letter date). Include the date you plan to make the corrections; Second response-No later than 6 months after report issued (cover letter date) include the actual dates the work was completed.

### Tenant File Audit & File Audit Response (12)

The Owner/Management Agent must submit a complete, accurate and timely written response to the development's File Audit Report. In addition, file audit non-compliance findings from previous file audits must be resolved. The file Audit Response (AR) must meet the following requirements:

Submission Deadline - The AR must be received no later than 30 days after the report is issued (file audit report cover letter date).

Submission Requirements – The AR must be submitted to the file audit contractor and to the Authority (both the Compliance Monitor **and** Asset Manager). The AR must address all findings cited in the report and the following information is required for each finding:

- Description of corrective actions taken; **and**
- Correction date

Required Documentation – Submit a cover letter on owner/management agent letterhead. Summarize each audit finding and the corrective actions taken with documentation, such as the TICs, 50059 forms, verification, etc. Submit to file audit contractor only. MSHDA will request documentation when needed.

### Section 8 Management and Occupancy Reviews (13)

The management agent/owner must submit correct documentation to the management and occupancy review specialist within the specified time. The response must address all items cited in the MOR report and the corrective action(s) must be made within the due date(s) specified in the Report.

### Section 8 Contract Renewal or Rent Adjustment Submissions (14)

The management agent/owner must submit the initial or subsequent contract renewal under MAHRA, along with any annual rental adjustments for contracts renewed under MAHRA at least 120 days prior to the contract or funding expiration date (if rent adjustment). The management agent/owner is notified 13 months prior to any contract renewal and 150 days prior to any rent adjustment expiration date. The submission package must meet the requirements listed in the table below.

Below is a chart of the Contract Renewal and Rent Adjustment submission requirements:

<b>Options</b>	<b>Contract Renewal Year</b>	<b>Rent Adjustment Year</b>
1	~ One-Year Tenant Notification Letter ~ Contract Renewal Request Form (HUD Form 9624) ~ Renewal Worksheet for Option 1 ~ New Rent Comparability Study (RCS) ~ Utility Analysis	~ OCAF Rent Adjustment Worksheet (HUD Form 9625) ~ Amortization Schedule ~ Rent Schedule (HUD Form 92458) ~ Utility Analysis
2	~ One-Year Tenant Notification Letter	~ OCAF Rent Adjustment Worksheet (HUD Form 9625)

Options	Contract Renewal Year	Rent Adjustment Year
	~ Contract Renewal Request Form (HUD Form 9624) ~ Renewal Worksheet for Option 2 ~ Rent Comparability Study (RCS) ~ OCAF Rent Adjustment Paperwork (HUD Form 9625) - OR - Budget-Based Rent Adjustment Paperwork (HUD Form 92547-A) ~ Utility Analysis  <i>**If an RCS was previously submitted and approved by MSHDA, the RCS has a 5-year life span.</i>	~ Amortization Schedule ~ Rent Schedule (HUD Form 92458) ~ Utility Analysis  -OR-  ~ Budget Worksheet along with supporting notes/documentation (HUD Form 92547-A) ~ Amortization Schedule ~ Rent Schedule (HUD Form 92458) ~ Utility Analysis
3	~ One-Year Tenant Notification Letter ~ Contract Renewal Request Form (HUD Form 9624) ~ Renewal Worksheet for Option 3A or 3B ~ Utility Analysis	~ OCAF Rent Adjustment Worksheet (HUD Form 9625) ~ Amortization Schedule ~ Rent Schedule (HUD Form 92458) ~ Utility Analysis
4	~ One-Year Tenant Notification Letter ~ Contract Renewal Request Form (HUD Form 9624) ~ Renewal Worksheet for Option 4 ~ OCAF Rent Adjustment Paperwork (HUD Form 9625)  ~ Budget-Based Rent Adjustment Paperwork (HUD Form 92547-A)	~ OCAF Rent Adjustment Worksheet (HUD Form 9625) ~ Amortization Schedule ~ Rent Schedule (HUD Form 92458) ~ Utility Analysis  -OR-  ~ Budget Worksheet along with supporting notes/documentation (HUD Form 92547-A) ~ Amortization Schedule ~ Rent Schedule (HUD Form 92458) ~ Utility Analysis
5	~ One-Year Tenant Notification Letter ~ Contract Renewal Request Form (HUD Form 9624) ~ Renewal Worksheet for Option 5 ~ Rent Comparability Study (RCS) if applicable ~ OCAF Paperwork (If RCS is not required) (HUD Form 9625)	~ OCAF Rent Adjustment Worksheet (HUD Form 9625) ~ Amortization Schedule ~ Rent Schedule (HUD Form 92458) ~ Utility Analysis
6	~ One-Year Tenant Notification Letter ~ Contract Renewal Request Form (HUD Form 9624) ~ Renewal Worksheet for Option 6 ~ Rent Roll ~ Copy of HUD Form 50059 for each tenant	N/A

For more information regarding contract renewals, please see the Section 8 Renewal Policy Guide at

[http://portal.hud.gov/hudportal/documents/huddoc?id=Sec\\_8\\_Renewal\\_Policy\\_Guide.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=Sec_8_Renewal_Policy_Guide.pdf).

HUD forms listed above can be found @ <http://www.hud.gov/offices/adm/hudclips/index.cfm>.

## **Premium Management Fee Worksheet**

This form (MSHDA Mgmt. 415C) has been included to provide a detailed review of each factor for use by the management agent to determine the success in achieving the requirements of each PMF factor.

## **Forms**

415A – Premium Management Fee Application and Owner & MSHDA Certification of Premium Management Fee

415B – Premium Management Fee Application Instructions

415C – [Premium Management Fee Worksheet \(Optional\)](#)