WMAC – West Region Leadership Meeting
Agenda/Questions
January 19, 2022

Attendees:
WMAC – Terry Wellman & Raelee Jones
HUD – Larry Flood & Shannon Bergman

1. **Integration** – Update on integrating the SF and Denver offices –

   HUD Comment: The goal is to have more integration, but it is still in a work in progress. Strides have been made. For example, there was previously no central source of data sharing via a common platform, but now there is. Also, a standard operating procedure for construction loan servicing/escrows and concept meeting are being created. Substantial progress has been made and only minor differences remain to be worked out.

   a. In a recent concept meeting the following statement was made by a HUD staff member to the effect of "there's a SF way and a Denver way, and soon there will be a single West way." Can details be provided on work standardization?

      HUD Comment: See the response above. Admittedly, more work needs to be done to standardize Encouragement Letters – e.g., SF adopting Denver's standard Green MIP response.

      Also, Submission of the application via Catalyst has led to greater integration with the application intake process.

   b. How are deals assigned? For example, if a deal is in Colorado, could it be assigned to someone in the SF office?

      HUD Comment: Yes. For assignment of loans to underwriters, the SF and DEN branch chiefs consult for to determine the best fit taking into account an underwriter's workload and expertise. With greater integration and sharing of files and information, underwriters don't need to be in the same geographic region as the application they are assigned.

   c. Are there standard comments/questions for concept meetings such that if a concept meeting is through the Denver office, will they potentially have different comments than what SF might have had and vice versa?

      HUD Comments: The questions should be the similar, but the questions will vary based on information presented and the specifics of each transaction. will also be dependent on the actual presentation. The two offices should be in synch on major programmatic points and approach and though the questions might not be identical, the end results should be.

2. **Updated Third Party Reports While Waiting in Queue** – What is the region's policy on requiring and/or accepting updated third-party reports for deals that have been waiting in the queue. Specifically:

    a. Required: For example, if an appraisal or PCNA has gone stale, will updated reports be required?

       HUD Comment: This was discussed with branch chiefs just this week. The desire is to make sure that the market is still stable, and variables have not dramatically changed that would impact the underwriting. The bottom line is that HUD will evaluate each deal on a case-by-case basis and communicate with the lender if updated reports will be required. Stay tuned for more from HHQ on this topic. They will present a national approach at Eastern Lender's conf in March; PROD staff will be updated by HHQ mid-February through a monthly development call nation-wide.

    b. Accepted: Property values have been increasing and borrowers are of course interested in maxing out the loan. While a deal is in the queue, will the Western region accept updated appraisals that might change the underwriting or value before the loan is assigned to an underwriter?

       HUD Comment: Yes, however, a new appraisal would be viewed as a new application. The existing application would have to be withdrawn, a new FHA number assigned, and the loan may lose its place in the queue. In this case, the application fee can be transferred to the new transaction. See above response in red text as well as we think HHQ might also provide some direction for this scenario as well as general updates to stale third party reports

3. **Regional Staffing Updates**

    a. There seemed to be number of retirements at the end of 2021. What is the latest on new hires and open positions?

       HUD Comment: See the latest (1/14) Doing Business in the West letter for details. Retirements and staffing changes (details to HQ, family leave) have led to the region's queue getting longer because there are fewer underwriters. However, this should be only a short-term problem. The training of new hires and program analysts (PA) is expected to free up underwriters' capacity to focus on underwriting, rather than, for example, processing construction draws. PAs have a broad job description and can be assigned a variety of tasks, based on experience and what each PA is suited for. Some PAs are being trained to underwrite and once they reach the desired level of competence, will be reassigned to a permanent underwriting role.

    b. How many underwriters are there in SF and how many in Denver?

       HUD Comment: There are 14 in total attacking the single West region queue - nine (9) in SF and five (5) in Denver. Some PA's (4) are also assisting with underwriting. PAs could, over time, become underwriters when those positions are opened up for filling.

c. Return to Office – Is there any indication of when HUD staff will return to the office?

HUD Comment: Return to office (RTO) might be targeted for mid-March at the earliest. Whatever the date is, union stipulations mandate employees be given a 30-day notice before the RTO date.
There is a possibility that RTO could impact staffing levels. Staff could elect retirement rather than return to the office or not want to deal with long commutes after working from home for close to two years. Additionally, requirements of being in the office for a certain number of days could impact some staff that have moved and put at risk their locality boost. All of the details still need to be worked out.

Prior to the pandemic, teleworking was allowed up to three days per week. Details for post-pandemic teleworking are not yet known.

Due to the cost of living in San Francisco, it is easier to hire in Denver than San Francisco. New hires in Denver may report to someone in San Francisco. Also, RTO may create logistical issues in Denver as there is now more staff than office space available.

d. How long will Shannon be the Acting Production Division Director?

HUD Comment: Larry is detailed to HQ for the FFB Risk Share program for 120 days, which will be through the end of the first week in April. Shannon will be Acting PPD until that time.

4. Contract Underwriter

a. How will transactions in the region be assigned to the contract underwriter? Will transactions that have been in the queue the longest be assigned first?

HUD Comments: The contractor will be assigned ten apps per week on nationwide basis. Preference may be given to West region due to short staffing and longest queue. This week (week of January 17) four deals from the West were assigned to the contractor, an additional 4 deals will be assigned the week of Jan 24th. The goal is to assign the oldest deals in the queue first. Priority deals will remain with HUD for underwriting.

b. What are the expectations with the contract underwriter on board?

HUD Comment: See above response.

5. HAP MUTM Process – Asset Management has recently requested a lender pull a HAP contract renewal request since the deal has not gone into processing. This request is contrary to the borrower's, lender's, and Production's goal of having renewals approved and/or new contract rents determined in advance of underwriting. How can there be better coordination between Asset Management and the underwriting process?

HUD Comment: The request may have been a misunderstanding from a newly hired Asset Management (AM) staff member, of which there are many. Better coordination between AM and Production is a priority for leadership. Process improvements are being considered, and training for AM staff on the MUTM process and Production's needs are being planned. Also, SF is looking into hiring a coordinator to liaise between Production and AM.

6. **Queue Issues**

   a. Anything outside of what has been previously discussed – i.e., clean and complete applications – that Lenders can do?

      HUD Comment: A lot of questions about submitting applications but for one last exhibit to be submitted have been asked. Full and complete packages should always be submitted. Queue wait times are not an excuse to submit incomplete packages to secure a place in line. If an application is submitted without all required exhibit, it will not be put into the queue or into processing. In addition, site disturbances not approved by HUD while the application is in the queue and before the HEROS review is completed, may be rejected.

   b. Is there a plan for working through the market rate deals?

      HUD Comment: See the responses to question 4 above.

7. **Concept Meetings** – A few comments were provided from lenders in regard to comments made during concept meetings that seemed out of line or questionable.

   HUD Comment: Based on feedback provided herein, leadership will look for ways to standardize concept meeting approaches between the two offices. Any issues and concerns that arise from HUD staff comments should be discussed with Production Division Director or Branch Chief.

   Keep in mind that concept meetings will still be regionally based, but ultimately the deal could be underwritten by a combination of staff in both offices.

   a. A HUD staff member recommend the borrower not use HUD for new construction financing because HUD did not have any reliable evidence (other than Costar) on the market. Besides CoStar, what market information sources does HUD rely on?

      HUD Comment: Regarding not using HUD for new construction, this may have been a miscommunication or poorly worded comment. Or simply the opinion of the HUD staff person to demonstrate the popularity of recently constructed projects coming back to HUD for permanent take-out

      In addition to CoStar HUD will rely on EMAD, which has various sources for information.

   b. A HUD staff member recommended NOT inviting the general contractor, architect, management company or the developer to the concept meeting, rather just letting HUD and the lender hash it out.

      HUD Comment: It is up to the lender to decide who to invite to the meeting. If after a larger group call there are issues to discuss, a one-on-one discussion between HUD staff and lender staff may be called for.

c. A HUD staff member suggested that the final unit count should be fully locked at the time of the concept meeting. This is unrealistic. There is always the likelihood of marginal fluctuations in the unit count and unit mix during the development stage. Also, HUD may request a reduction in the unit count at Pre-App. The HUD staff member also seemed to think projects are finalized and nearly shovel ready at the time of the concept meeting, which is rarely the case.

HUD Comment: The final unit mix or unit counts do not need to be, nor are expected to be, finalized at the Concept Meeting stage. This may have been a miscommunication or a poorly worded remark.

8. Effective Useful Life Guidance

a. Regarding the remaining effective useful life, the attached guidance from Denver was provided. A lender writes regarding the paragraph with the dishwasher example: "[W]e feel that this exceeds the intention of the MAP Guide. Running every dishwasher, inspecting all of the components, etc. This is excessive and essentially kills the needs assessor ability to deviate from a standard RUL to an assessed RUL. We feel that if we are asking the needs assessor to lessen the RUL based on poor condition, they should have the opportunity to extend RULs for excellent condition components?"

Also, regarding the same paragraph, to make borrowers replace working dishwashers or any other component, for that matter, as a non-critical item when those components are still operational is counter to any common sense and is wasteful. At worst, those items should be reserved for starting in year three with the ability to replace as they fail, or HUD needs to allow for a year 1 and 2 reserves for those items that are at the end of the useful life but still functional. It seems to be inferred from the example that apartment owners do not repair/replace these things when they fail.

HUD Comment: HUD wants third parties to be rational and apply common sense to any adjustments made. The older the building, the more proof someone needs to provide if they are departing from EUL tables – i.e., proposing longer EULs. This proof should be in the form of a higher level of inspections rather just the minimum level.

b. The last paragraph of the EUL guidance states: "The lender should also be extremely conservative when evaluating replacement items deferred to years 11-20 of the loan and specifically when the reserve account is forecasted to become negative during that period. While this has been allowed by HUD for the past 7 years, economic conditions have changed, and the lender should evaluate current economic conditions of each submarket and use extreme caution when proposing future negative balance reserve accounts when future refinancing based on increased value or lower interest rates may not be feasible."

This entire paragraph seems to be trying to unilaterally chip away at what the MAP Guide has allowed for the past seven years, and which has had no ill effect on the health of the insured portfolio or on the condition of insured properties.

The suggestion of "extreme caution" in regard to "future refinancing" is alarmist in addition to being potentially misleading for less experienced underwriters. Since when is refinancing a concern in a HUD transaction given that the loans are fully amortizing?

Exit or refinance tests are not required nor are they needed, as they are with GSE loans that typically have only ten-year terms.

Also, the apartment market withstood the effects of the pandemic remarkably well compared to other real estate sectors. Many markets have recovered to pre-pandemic levels. For the most part, demand for multifamily is strong.

If EUL guidance is going to a standard communication from the West region to lenders, we request the last paragraph be eliminated to not sow confusion or conflict with the MAP Guide.

HUD Comment: While rates are low and the reserves go negative within 20 years, the borrower has a higher likelihood of being able to refinance out of the negative balances. However, in a rising rate environment and when sponsors are not well capitalized, HUD will look more closely at the deal. This could be more of an issue with affordable projects with sponsors that are not well capitalized.

The language at the heart of this question comes from an internal memo to new hires and was never meant to be distributed outside of HUD. While the intent of the memo is sound, poor and inflammatory wording has led to miscommunication.