FHA MULTIFAMILY REAL ESTATE OWNED ANALYSIS

MARCH 11TH, 2019

PRESENTED BY: PEGGY LAWRENCE-BLASI, DEBBIE VANHOOSEN & JB HOLLANDER

REAL ESTATE OWNED (REO) ANALYSIS

"The purpose of requiring the REO and Mortgage Debt Schedules is to determine an Active Principal's exposure to risk associated with real estate (e.g. multifamily, assisted living, commercial, office, undeveloped land, and new construction versus stabilized properties, etc.)."
– HUD MAP Guide, Chapter 8.5.7, p. 254

REO PRESENTATION OUTLINE:

- Review of the REO Schedule and Real Estate Debt Schedule forms
- Analyzing and interpreting the REO information
- Developing a recommendation
- REO information and conclusion in the narrative

REO SCHEDULE FORM

(SEE HANDOUT)

DATA PROVIDED BY THE BORROWER

- Review of the REO Schedule and Real Estate Debt Schedule forms
- Analyzing and interpreting the REO information
- Developing a recommendation
- REO information and conclusion in the narrative

Real Estate Debt Schedule – All data is provided by the Borrower

CALCULATED BY FORMULA

- Annual Net Income
- LTV Ratio
- Debt Service Coverage Ratio

REO SCHEDULE FORM – MAP UNDERWRITER REVIE

- Verify that all information is complete on the schedule, including signature
- Confirm date of the REO Schedule and financial statements. Dates may not match but data should align.
  - 90 day expiration
  - Certification of no material change is required if beyond expiration
- Personal residences are not included on the REO Schedule. Vacation homes are included only if it is rented.

REO LENDER ANALYSIS

REO ANALYSIS INCLUDES:

- Ownership Role and Percentage Ownership
- Current Physical Occupancy
- Analysis of Current Debt
- NOI Analysis
- Cap Rate Selection
- Market Value Calculation
- Loan to Value
- Equity Calculations
- Annual Debt Service/Debt Service Coverage Ratio
- Evaluation of Pending Actions and Claims

OWNERSHIP ROLE AND PERCENTAGE OWNERSHIP

- Determine principal's role and ownership percentage for each asset
  - Principal's role (GP, LP, Managing Member, etc.) can determine their level of risk or exposure
  - There is no percentage ownership threshold, all properties should be included on the Schedule

CURRENT PHYSICAL OCCUPANCY

- Occupancy recorded at the time of the schedule; not an average rate over time.
- Most current occupancy rate available

OCCUPANCY RISKS

- Low occupancy
- Unusual or inexplicable occurrences

ANALYSIS OF CURRENT DEBT

- List separately the unpaid balance of each mortgage secured by the property
- Amortization (balloon or fully amortizing?)
- Fixed or floating/variable rate
  - If floating rate: what is index and margin? Frequency of reset? Interest rate ca
- Is it a construction loan (interest only) or mini-perm?
  - What happens after construction is completed, does the loan convert to perm

NOI ANALYSIS

ANNUAL EFFECTIVE GROSS RENTAL AND COMMERCIAL INCOME

Must be actual (not Budget) for the most recent time period available.

ANNUAL OPERATING EXPENSES

Should reflect all property fixed and variable costs including management fees and replacement reserves. If owner managed, Lender may need to impute reserves or a market management fee.

ANNUAL NET INCOME

Effective Gross Income and Operating expenses must be accurate. Used for calculating LTV, DSCR and Equity calculations.

CAP RATE SELECTION

CAP RATE FORMULA: NOI / MARKET VALUE

(The cap rate is used to indicate the rate of return expected to be generated on a real estate investment property.)

BORROWER SELECTS OR DETERMINES A CAP RATE FOR EACH PROPERTY BASED ON:

- Market knowledge
- Backing into it if market value is known
- Recent appraisals
- Costar, Yardi and REIS

AN UNDERWRITER MAY CHANGE CAP RATES THAT ARE UNSUPPORTABLE OR UNREASONABLE. THE UNDERWRITER'S CONCLUSION SHOULD BE SUPPORTED BY 3RD PARTY BROKER RATES, SURVEYS OR IN-HOUSE FILES.

CAP RATE SELECTION

CURRENT CAP RATES MAY NOT BE APPROPRIATE FOR CERTAIN ASSETS:

- Undeveloped land
- Construction in progress
- Single family rental homes
- 1-4 unit rental properties

**VALUES IN THESE CASES MAY BE BASED ON RECENT APPRAISALS, BROKER INTERVIEWS, PERSONAL KNOWLEDGE
AND HISTORICAL COST.**

MARKET VALUE CALCULATION

METHODS OF DERIVING:

- Capitalizing Net Income using cap rate provided by borrower or Lender
- Estimate based on market knowledge
- Recent appraisals

WATCH FOR VALUES THAT DO NOT REFLECT FAIR MARKET VALUE SU

- Those reported at historical costs and may need up or down adjustments.
- Overly aggressive value estimates
- Lender's proper bias toward conservative presentation

LOAN TO VALUE (LTV) RATIO

- Assuming typical fixed rate amortizing loans for multifamily properties, there should generally be an inverse relationship between LTV and DSCR. Unusual relationships may question the accuracy of other items and require further investigation.

- Interest only or floating rate payment structures may reflect both high DSCR and LTV. Single family rental homes

- High LTV may indicate a large amount of debt in relation to the value of the property and potentially an over-leveraged property or portfolio.

ANNUAL DEBT SERVICE

- Should reflect principal and interest only (and MIP if a HUD loan)
- Should not include reserves, taxes and insurance and other escrows
- Watch for interest only payments on construction loans, permanent loans and floating rate debt
- The payment, current mortgage balance, maturity date should tie to the Mortgage Debt Schedule

DEBT SERVICE COVERAGE RATIO (DSCR)

DEBT SERVICE COVERAGE IS THE AMOUNT OF CASH FLOW AVAILABLE TO COVER CURRENT DEBT OBLIGATIONS.

NOI / TOTAL DEBT SERVICE = DSCR

- Abnormally high debt service coverage ratio could be indicative of an interest only loan or floating rate payments.
- Abnormally low debt service coverage ratio could be indicative of lease up, renovation, construction, management turnover, poor management, physical needs issue, soft market, too much debt.
- Low debt service may not tell a complete story.

PENDING, ACTIONS AND CLAIMS

- If any "yes" answers, does the HUD-92013-Supp also have "yes" answers?
- Includes pending judgments, legal suits or actions or bankruptcy claims.
- If the schedule notes these then a detailed explanation, signed and dated by the principal, needs to be provided and include:
  - Cause and resolution or current status of pending judgments
  - Active legal actions
  - Bankruptcy claims
  - Delinquencies
  - Defaults
  - Foreclosures
  - Deeds – in – lieu

MATURING DEBT

- Identify loans that mature in the next 5 years
- Request borrower's plan for the financing. Review and analyze the probability of the plan
  - Potential refinancing issues
    - Property issues (i.e. low DSCR, NOI)
    - Market issues
    - Availability of finance options
  - Potential issues for sales
    - Sales rate in market
    - Property issues
    - Market or location issues
- Determine if cash may be needed to satisfy loan requirements

DEVELOP A RECOMMENDATION

- Consider affect of recourse debt on the Active Principal's ability to meet commitment if called on to fulfill the obligation.
- Consider potential cash needs to meet near term maturing debt requirements or plan
- Below 1.0 DSCR is a concern
- Analyze the principal's concentration of real estate risk
  - Is the real estate overly concentrated in certain geographic areas, markets or property types

DEVELOP A RECOMMENDATION

- Identify loans under performing (DSCR less than 1.0; LTV greater than 80%)
- Determine overall health of portfolio – does any one property drag down the health of overall portfolio.
- Compare REO schedule to principal's financial statement. The schedule lends credibility to the real estate asset value reported on the financial statement.

REO MORTGAGE CREDIT SECTION OF THE NARRAT

THE UNDERWRITER MUST INCLUDE THE FOLLOWING INFORMATION IN THE NARRA

- Analysis of the information found on REO Schedule
- Discuss overall portfolio results and relate to financial statements
- Identify projects of concern
- Identify risks
- Determine if owner values are reasonably valid
- Identify maturing debt and make conclusions as to refinance feasibility
- Make affirmative recommendation to HUD on credit worthiness of principal, based on entire analysis.


QUESTIONS?


THANK YOU

MORTGAGE CREDIT REVIEW TOPICS

Mortgage Credit Review Topics:

1) Borrower Organizational Structure – Firm Application Stage

- Structure should be close to being finalized for 221(d)4 and 223f projects
- The organization structure should be properly reflected in the organizational documents (draft form)
- Investors may still be changing at this time

2) 2530s – Electronic or Paper Submission

- Both electronic and paper submissions are acceptable
- Borrower 2530 should be labeled as Application for Mortgage Insurance under "Submission Reason"
- Combination of electronic and paper 2530s for borrower is difficult

Mortgage Credit Review Topics:

3) Section 50

- Lender makes recommendation for Section 50 signatories
  - Have requisite control and involvement or interest in the Project
  - Positive credit history
  - Adequate financial strength
- Two parties are to be named for Section 50 purposes
  - Individual signing in his/her individual capacity
  - Business entity bound by signature of authorized person
- Both parties could be an individual but only one is required
- Exceptions to the rule
  - A sole signatory is allowed if entity has been deemed by a GSE to be an appropriate signatory to similar provisions in a recent GSE transaction
  - The parent or sponsor of a non-profit is acceptable as the sole signatory

Mortgage Credit Review Topics:

4) Financials

- 223f – 3 years of financial statements on project required
- Need up to date financials on all principals
- The more information provided at the pre-app stage the better

5) REO Schedule

- Provide an up to date REO schedule at the pre-app stage
- Need to provide DSCR and net cash flow calculations
- For projects with several layers of financing, provide LTV calculation for must pay debt only in addition to overall LTV calculation

Mortgage Credit Review Topics:

6) LIHTC Projects – Additional Items Needed During Underwriting

- Construction draw schedule
- Amended Partnership or Operating Agreement
- Bond, bridge loan, and secondary loan documents, if applicable

MORTGAGE CREDIT POST CONSTRUCTION TOPICS

Mortgage Credit Post Construction Topics:

1) IODs/WC – Final Release Requests

- Requests should be sent to the Baltimore tech mailbox
- Subject to 12 months post FE and 6 consecutive months of breakeven
- We will consider (with input from account executive) an early release of no more than 50% if the project has achieved 6 consecutive months of breakeven but not 12 months post FE. The remainder can be released after the project has achieved 12 months post FE, assuming the project is still cash flowing.
- Provide financials showing 6 consecutive months of breakeven, escrow agreements, escrow request form, and rent rolls

Mortgage Credit Post Construction Topics:

2) Cost Certs

- Hard copies can be submitted but electronic copies are required as well
- Include the firm commitment and any amendments including the 92264 and 92264A
- If a mortgage increase is being requested, include a letter with the amount being requested
- Projects exempt from full HUD cost cert – LIHTC projects with a loan to cost that is less than 80%; Still need to issue a 2580 (max insurable mortgage form) before you can proceed to FE

Mortgage Credit Post Construction Topics:

- Items needed for projects that are exempt from cost cert:
  - Firm commitment and any amendments including 92264 and 92264A
  - State cost cert if available
  - Full source and use schedule as of completion including mortgageable and non-mortgageable costs
  - Income statement covering the construction period
  - The selected cost cut-off date (must be within 60 days after 100% trip report)

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mortgage Credit Panel
Key Mortgage Credit Issues 2018
Eastern Lenders Association Conference
Monday, March 11, 2019

Presented by Wendy Houston
Senior Technical Specialist
Department of Housing and Urban Development
Headquarters Technical Support Division

The Key Mortgage Credit Issues 2018

1. Active Principal - Foreign National
2. Non-Mortgageable Developer Fee and BSPRA/ SPRA
3. Section 223(f) Assurance of Completion LIHTC
4. Section 223(f) Increase in High Cost Factor – Green/Affordable
5. Mortgage Insurance Premium (MIP) Payment – 1st Yr vs. 2nd Yr
6. Uses of Equity From Land
7. Non-Disclosure of Additional Funds
8. Substantial Rehabilitation and Capitalized Interim Income
9. Active Principal Investigating Credit and Character

Active Principals – Foreign National

HUD continues to receive mortgage insurance applications with a borrower structure that includes either an individual or a business entity who is a foreign national and plans to act either in the role as an active principal or passive principal.

Active Principals – Foreign National

HUD Response	Best Practice
Given the frequency of foreign nationals as investors, and the little guidance in the current MAP Guide (2016) it was necessary to expand and clarify the guidance and our policy. This new guidance will be Incorporate in the revised MAP Guide.	Published clear guidance to analyze foreign national individuals and entities under: ➢ Housing Notice 2019-01 ➢ Mortgagee Letter 2019-02.
The Notice/ML expands the mortgage credit investigation and analysis of the foreign national individual and business entity in terms of risk to HUD.	
An E-2 Treaty Investor is not eligible as a single asset entity structure.	
EB-5 U.S. Citizenship and Immigration Services Program eligible as an equity investor.	

Non-Mortgageable Developer Fee and BSPRA

For Section 221 (d)(4) market rate or affordable application we have had several instances where applications are being is structured with BSPRA and a non-mortgageable Developer Fee.

Lenders have taken the position that the developer fee is permitted (or at least not prohibited), because the fee is paid from equity partners as part of their investor contribution.

HUD disagrees with this position.

Non-Mortgageable Developer Fee and BSPRA

~ Non-LIHTC & LIHTC Applications

BSPRA – Builder Sponsor's Risk Allowance is available

- 10% of development cost excluding land
- Must have an identity of interest between the borrower and general contractor

SPRA – Sponsor's Risk Allowance is available

- 10% of development cost, excluding land, plus a Builder Profit
- No identity of interest between the borrower and general contractor

Non-Mortgageable Developer Fee and BSPRA

~ LIHTC Applications

The developer's fee percentage and amount is set by the State Allocating Agency and is either paid by:

- Mortgage proceeds (mortgageable) or
- Low Income Housing Tax Credits (non-mortgageable)

Non-Mortgageable Developer Fee and BSPRA

HUD Response	Best Practice
The MAP Guide does not allow and neither has FHA practice allowed for **both** developer fee and BSPRA in MAP underwriting. Applies to non-LIHTC and LIHTC applications. Applications with LIHTCs and a developer fee the Allocating Agency will set the approved percentage and amount for the Developer Fee. Application containing both a developer fee and BSPRA, HUD will return the application for re-underwriting.	Consistency with meeting MAP guidance, requirements, compliance, documentation and disclosure. The LIHTC Wheelbarrow shows clearly whether the developer fee is mortgageable or non-mortgageable. MAP Guide Sections 3.2.N, 14.13 & Appendix 3

Section 223(f) Assurance of Completion LIHTC

Non-mortgageable assurance of completion repair escrows used to ensure scoped repairs are completed should not be treated as a **contingency fund**.

LIHTC Developers/ Syndicators/ Investors may request that funds in the assurance of completion escrow be expended as part of the overall repair program.

While under HUD rules a separate contingency is not required, Syndicator/ Investor may require it.

Section 223(f) Assurance of Completion LIHTC

HUD Response	Best Practice
Assurance of Completion (% of Repair Cost) is 10% (vs 20% for LIHTC deals) Total Repair Costs in Section 223(f) are strictly limited and may not exceed the total cost no matter the funding source.	Know the program requirements. Total repair costs are limited to $15,000/unit. The total repair cost plus the 10% assurance of completion plus a Syndicator contingency cannot exceed the Program limitation. MAP Guide Section 5.10.L

Section 223(f) Increase in High Cost Factor Green / Affordable

Will HUD approve an increase to the high cost factor for a Green or Affordable Section 223(f) application to increase the cash out?

The answer is no, especially for a market rate transaction.

Section 223(f) Increase in High Cost Factor Green / Affordable

HUD Response	Best Practice
Project is already benefiting from reduced MIP. We permit, under certain circumstances and if justified an increase in the high cost factor for projects if they are either Green or Affordable.	Generally, we will not approve these requests. MAP Guide Section 8.11.A.1.c

Mortgage Insurance Premium (MIP) Payment – 1st Year vs. 2nd Year

The accurate MIP percentage and calculation of the first-year premium payment amount are still being missed at closing. Although construction may be over 2 years, the premium is paid annually.

The MIP percentage for the first year is recorded in Criteria 5 and on the Firm Commitment. Two-years is recorded on the 92264 Section G Line 56.

Mortgage Insurance Premium (MIP) Payment – 1st Year vs. 2nd Year

- HUD 92264 Section G Line 56

(Carrying Charges & Financing)

  - Record premium percentage for 1 or 2 years depending on the construction period.

Mortgage Insurance Premium (MIP) Payment – 1st Year vs. 2nd Year

- Example:
  - 25% ~ construction period 1-year
  - 50% ~ construction period 2-years

Carrying Charges & Financing

53. Interest: ________ Mos. at ______ %
    on $ ______________ $ _________
54. Taxes $ _________
55. Insurance $ _________
56. FHA Mtg. Ins. Prem. (%) $ _________

Mortgage Insurance Premium (MIP) Payment – 1st Year vs. 2nd Year

- HUD 92264-A Criteria 5.b. Mortgage Amount Based on Debt Service
  - Record Initial/Upfront premium percentage for the first year.
  - Example: 25% basis points (construction application)

5. Amount Based on Debt Service Ratio

a. Mortgage Interest Rate ______ %

b. Mortgage Insurance Premium Rate ______ %

Mortgage Insurance Premium (MIP) Payment – 1st Year vs. 2nd Year

- Firm Commitment ver. 2018 - Record the Initial/Upfront premium percentage, base the first year premium amount on this % multiplied by the mortgage amount.
- Federal Register Docket No. FR-5876-N-03, Thursday, March 31, 2016

MIP owed at Initial Endorsement (This amount is shown for informational purposes only. The amount must be consistent with the upfront amount calculated pursuant to condition I.15 below. If there is a conflict, the amount established by condition I.15 controls.)	[Insert the numeric amount of the upfront MIP. Refer to Form 92264, Section G, Line 56. Only indicate the upfront twelve-month amount. If new construction, the next twelve months MIP payment amount will be invoiced by HUD's Finance Division and advanced from the Loan by the Lender at that time. **The amount must be consistent with the upfront amount calculated pursuant to condition I.15 below. If there is a conflict, the amount established by condition I.15 controls and must be listed here.**]	
Upfront capitalized MIP percentage rate (For informational purposes only.)	[Insert upfront percentage % from current Federal Register notice for MIP for the Loan's Section of the Act and MIP Category.]	*%*
Annual MIP percentage rate (For informational purposes only.)	[Insert percentage %; refer to Form 92264A, Criterion #5 Line 5 (b). Must be consistent with current Federal Register notice for MIP for the Loan's Section of the Act and MIP Category.]	*% Per Annum*
"MIP Category"	[Indicate the type of MIP: Market; Green; Affordable; or Broadly Affordable]	

Mortgage Insurance Premium (MIP) Payment – 1st Year vs. 2nd Year

- Example: Affordability Initial/Upfront premium percentage calculations:
  - **25 bps ~ Broadly Affordable** and **Green Market** :
  - $9,559,400 x 0.25% = $23,899

  - **35 bps ~ Affordable**
  - $9,559,400 x 0.35% = $33,458

Mortgage Insurance Premium (MIP) Payment – 1st Year vs. 2nd Year

HUD Response	Best Practice
Updated Firm Commitment for all MAP Programs to reflect current guidance by referencing the use of the current Federal Register notice publishing current MIP rates. MAP Guide Sections 3.1.J, 8.10.A.1.d, 8.11.A.1.d	HUD Production Offices implemented higher levels of review (Continual training). Lenders can provide another level of review of the Firm Commitment at the closing table.
Field Office data integrity training on: o MIP affordability rates and calculating the first-year premium o HUD's internal system (DAP) - HUD-290 Closing Memorandum	HUD has a handle on receiving notifications of errors on the Premium amount and MIP rate and making those corrections much quicker.

Uses of Equity From Land

Can excess land value be combined with BSPRA?

Yes

Can it be used to offset project equity?

Yes

Uses of Equity From Land

HUD Response	
When the LAND VALUE exceeds the cost to purchase the land, the difference is *Excess Land Equity*. *Excess Land Equity* may be used to offset the transaction equity requirement.	Initial Closing Requisition: The amount recorded on the initial endorsement requisition is the amount to fully fund the escrows and other eligible items.
*Excess Land Equity e*scrow is used to fund: o Initial operating deficit o Four percent (4%) working capital escrow	If the land equity is insufficient to fund an escrow, the borrower must fund the remaining balance with cash.
Excess Land Equity aka Excess Mortgage Proceeds on internal HUD Forms	MAP Guide Sec. 8.14.K

Uses of Equity From Land

Best Practice

MAP Lender will place any remaining balance of the land equity into a segregated escrow account until:

(1) the project construction or rehabilitation is complete, and
(2) project operations have demonstrated achieved 6 consecutive months of break-even occupancy or 12 months of break-even occupancy for transactions meeting Large Loan parameters.

MAP Lender Final release is after 6- or the 12-month period has expired.

Non-Disclosure of Additional Funds

- Field Offices are frequently experiencing occurrences of none disclosure of additional funds 30 to 60 days after initial closing. The none disclosure occurs on LIHTC deals where the cost certification is exempt. Lender requests are presented by letter and include the modified closing documents, i.e. the Note, addressing the secondary financing. This is an administrative burden for the Field Office.
- Request to apply the additional financing against unpaid Developer Fee with the remaining deposit going into the Reserve for Replacement account.

Non-Disclosure of Additional Funds

HUD Response	
In HUD's view this is secondary financing and it is a positive for the project. MAP Guide secondary financing procedures apply. The borrower has escrow options after funding the developer fee.	<u>Recommend Lenders To Confirm</u>: o Any payment to the developer fee or other use is permitted by the Development Agreement & Organizational Documents o Disclose fund repayment terms, i.e. maturity, interest rate upon which the debt will accrue, and o The debts impact the underwriting

Non-Disclosure of Additional Funds

Best Practice

Concept Stage / Firm Stage it is critical to disclose secondary financing regardless of the source and the likelihood an award is pending or remote.

Uses after funding the developer fee:

- Offset deferred developer fee
- Cost overruns
- Betterment change orders
- Deposit into the reserve for replacement account

The remaining balance usually isn’t large enough to process a loan reduction
Borrowers options for any remaining balance.
Release the remaining balance to the borrower at Final Endorsement

MAP Guide Sections 8.7 and 13.4.D

Substantial Rehabilitation and Capitalized Interim Income

Will HUD consider the use of interim income as a capitalized source of funds during construction for currently occupied substantial rehabilitation projects?

Yes. HUD will consider request if the interim income is verifiable and quantifiable (i.e. HAP contract, historically stable and currently high occupancy).

Substantial Rehabilitation and Capitalized Interim Income

HUD Response	
The interim income is Permitted to be used to offset cost during construction i.e. taxes, insurance and construction interest). MAP Guide Section 13.12.B.5.j HUD will accept interim income to offset the 2% Working Capital Escrow for projects with LIHTC and Section 8 covering greater than 90% of the units. Waiver considerations for - 2% Working Capital Escrow when the project is performing and generating enough income to cover all items typically funded by the escrow.	Requesting a waiver: o Evidence of minimal advertising and leasing costs (may be due to tenants staying in place); o An FF&E line item in the development budget; o Development budget and construction-period income analysis that outline how taxes, insurance, MIP, and ground rents/assessments will be paid; o In addition to property income, evidence of the availability of Tax Credit required reserves to pay for the above-mentioned items. o Waivers may be granted at the Regional Office level on a case-by-case basis. *FF&E - Furniture, Fixture and Equipment

Substantial Rehabilitation and Capitalized Interim Income

Best Practice	
o The project is viable, o high performing project, and o must demonstrate it has generated enough income to support operations during the entire rehabilitation period.	Factors to consider as viable include: o stability of income and occupancy, o amount estimated as a source as a percentage of income to be generated over the construction period, LTC (loan to cost) of the primary loan (50-60% vs 90%), o complexity of rehab, and o strength of development team.

Active Principal Investigating Credit and Character

What is the creditor's opinion of the principal?

Is the creditor's view of the principal consistent with the **three** key principles specified under what is expected from an principal; e.g. demonstrative ability?

Active Principal Investigating Credit and Character

HUD Response	
(a) Both the willingness and the ability to pay creditors on time and no defaults. (b) The ability to deliver timely and satisfactory performance of contractual or business obligations. (c) The mitigation of litigation risks by honoring prior loan obligations.	On These Credit Risk Areas – o History of on time payments, no evidence of loan default exists (Credit Reports) o Federal Debt (or liens by a federal agency, i.e. IRS) o Personal or Entity Bankruptcies o Civil Judgments or Liens o Other Public Records – tax liens and foreclosures o Criminal / Arrest

Active Principal Investigating Credit and Character

Best Practice	
All the Credit Risk Areas items are: ➢ Always relevant ➢ Requires due diligence ➢ Worth taking another look behind the supporting documentation to support decisions ➢ Better understood in a Explanation or Reason Statement form the principal or entity	➢ Affected agency letter stating Federal debts are satisfied or a repayment schedule is set. ➢ Is the Principal insolvent or is there a pending bankruptcy or insolvency proceeding at the time of application? ➢ Liens are a potential for a substantial financial obligation from the principal. ➢ Be objective in your analysis & tell the whole story. ➢ Recommend joint venture with another Active Principal when more time is needed to clear any credit risk items.

Mortgagee Letter 2019-02 New Guidance for Foreign National Participation in FHA-Insured Multifamily Programs

https://www.hud.gov/sites/dfiles/OCHCO/documents/19-02hsgml.pdf

Federal Register for Multifamily Mortgage Insurance Premium (3/31/2016)

https://www.govinfo.gov/content/pkg/FR-2016-03-31/pdf/2016-07405.pdf

Thank You

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U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Concentrated Risk Reviews

March 11, 2019

Linda Albro

Office of Multifamily Production

Pertinent Concentrated Risk Submissions Requirements

- Provide your contact information in the table of contents.
- If applicable, provide copies of previously approved concentrated risk memos.
- State the amount of FHA credit authority requested based on the anticipated transactions to be completed within the term of the approval memo.

Prior Credit Reviews should be completed within 30 to 45 days depending on credit approval authority requested. Complete and reviewed packages expedite this process.

Today's "Best Practices"

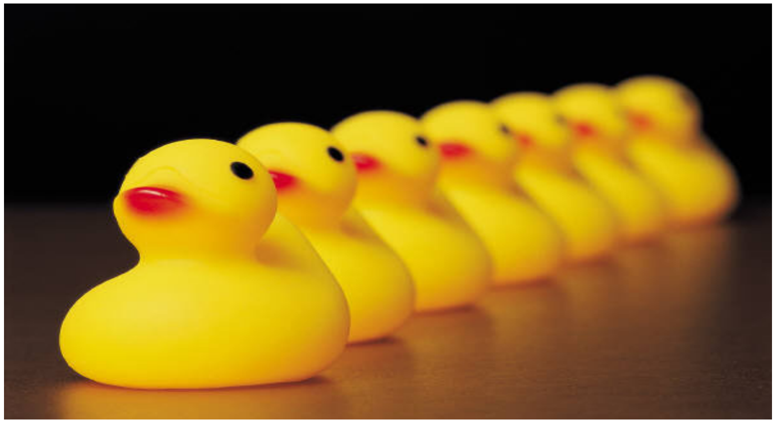
1 • Analyzing REO Schedules

2 • Organizational Structures

3 • Financial Statements and Project Costs

REO Analysis

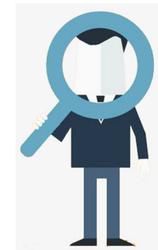
- FHA project number with construction completion percentage and lease-up status
- Debt Service Coverage Ratios/LTV/Vacancy
- Addressing below average performing projects
- Refinancing options for debt maturity within 5 years
- Overall health of the borrower’s portfolio



Organizational Charts

- Principal's ownership interest in affiliated entities
- Source of funding for closing costs and capital requirements
- Principal's past performance, history and ongoing integrity

$$Financial Statements



- Individual/Principal borrowers receiving substantial income from related entities must provide three years and Y-T-D financial statements.
- Complete the working capital and net worth chart (Standardized Multifamily FHA Mortgage Insurance Application, ML-14-05).
- Identity of interest between management company and ownership entity
- Pre-paid development costs

Discussion

Key take-aways

1. Question your borrower if responses are unclear.
2. Submit detailed and corrective plans for below average portfolio performance.
3. Operating revenue and expenses (current and future cash flows).
4. Income stream from related entities.

Resources

- Guidance located in MAP Guide Chapter 8, Section 8.6 and Appendix 8C
- https://www.hud.gov/program_offices/administration/hudclips/guidebooks/hsg-GB4430

- Mortgagee Letter 2018-09, Mortgagee Letter 2013-09 and Mortgagee Letter 2010-21.
- https://www.hud.gov/program_offices/administration/hudclips/letters/mortgagee

- Linda Albro, Technical Support - 202.402.2043
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Questions?

March 11, 2019

Linda Albro