

# Mortgage Credit: The View From HUD

## *Midwest Lenders Conference*

Chicago – June 17, 2013

**Panelists:**

**Ryan LaFollette –**

*HUD, Chicago Multifamily Hub,  
Supervisory Project Manager*

**Scott Greuel –**

*HUD, Chicago Multifamily Hub,  
Senior Underwriter*

**Cat Vielma –**

*HUD, Chicago Multifamily Hub,  
Senior Underwriter*

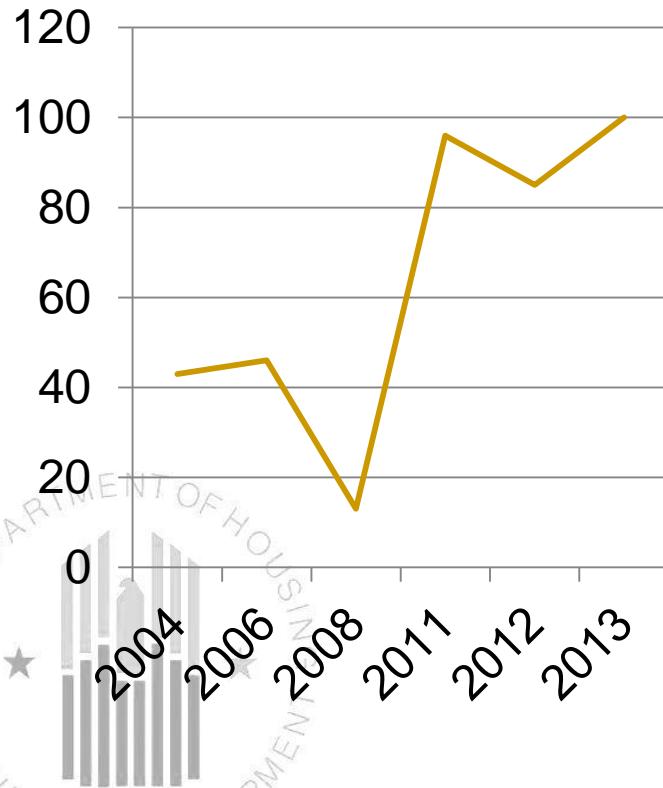
**Rick Sherman –**

*Berkadia  
VP – FHA Chief Underwriter*

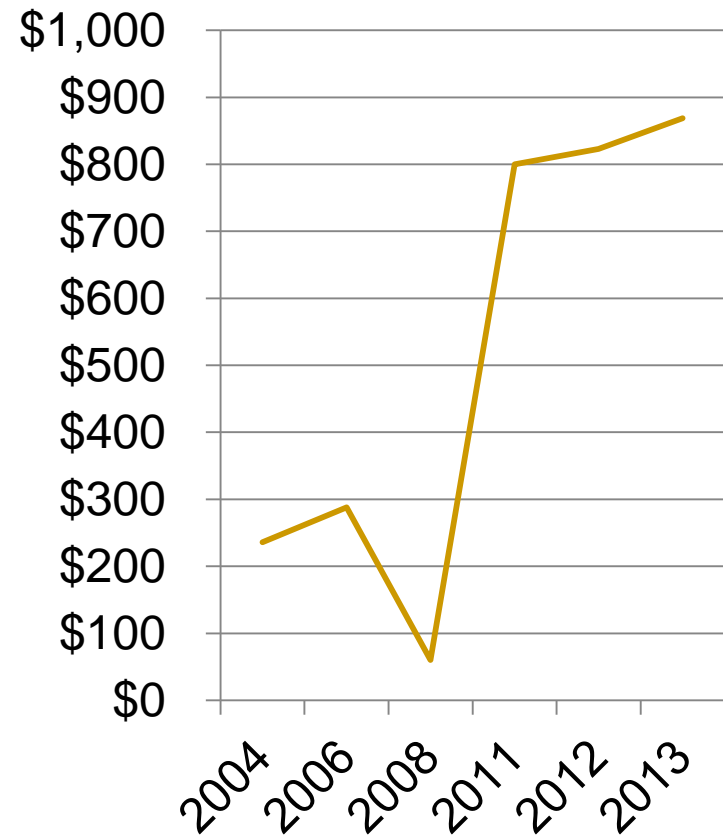


# Chicago Development: 221D4, 223F, 223A7, Risk-Sharing

## # of Firm Commitments



## \$ Amount in Millions



# Average Mortgage Amount

- 2004

- \$5,488,372

vs.

- 2012

- \$9,682,353

- 2013 – Average loan size will exceed \$10 million

The size and complexity of our deals has continued to grow year over year.

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# **View From HUD: Top Ten Mortgage Credit Deficiencies Presented by Scott Greuel**



# Who's in charge here?

Presented by Ryan LaFollette

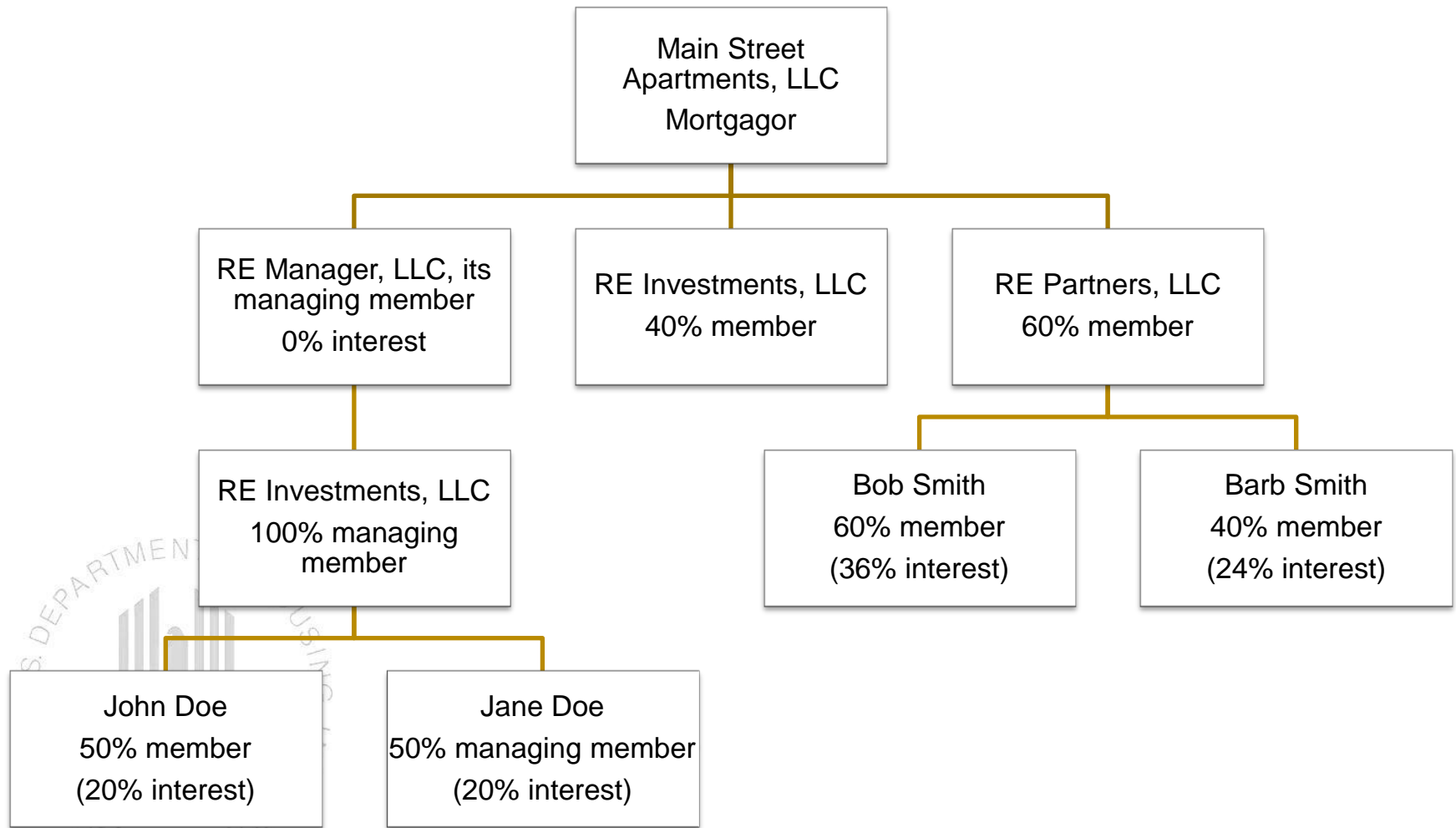
Identifying entities  
& principals for  
purposes

of...

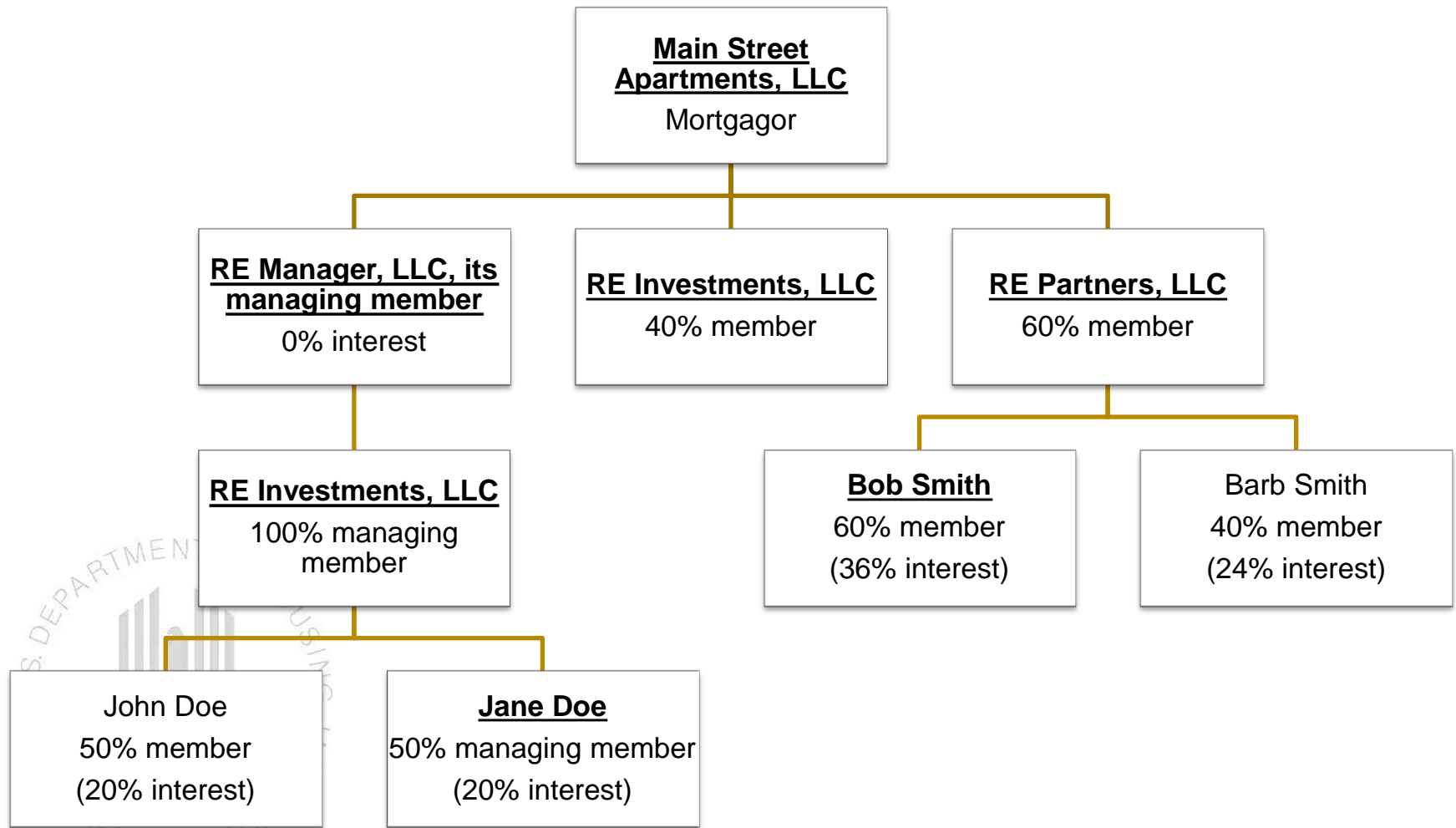
- 2530
- Credit Review
- Section 50



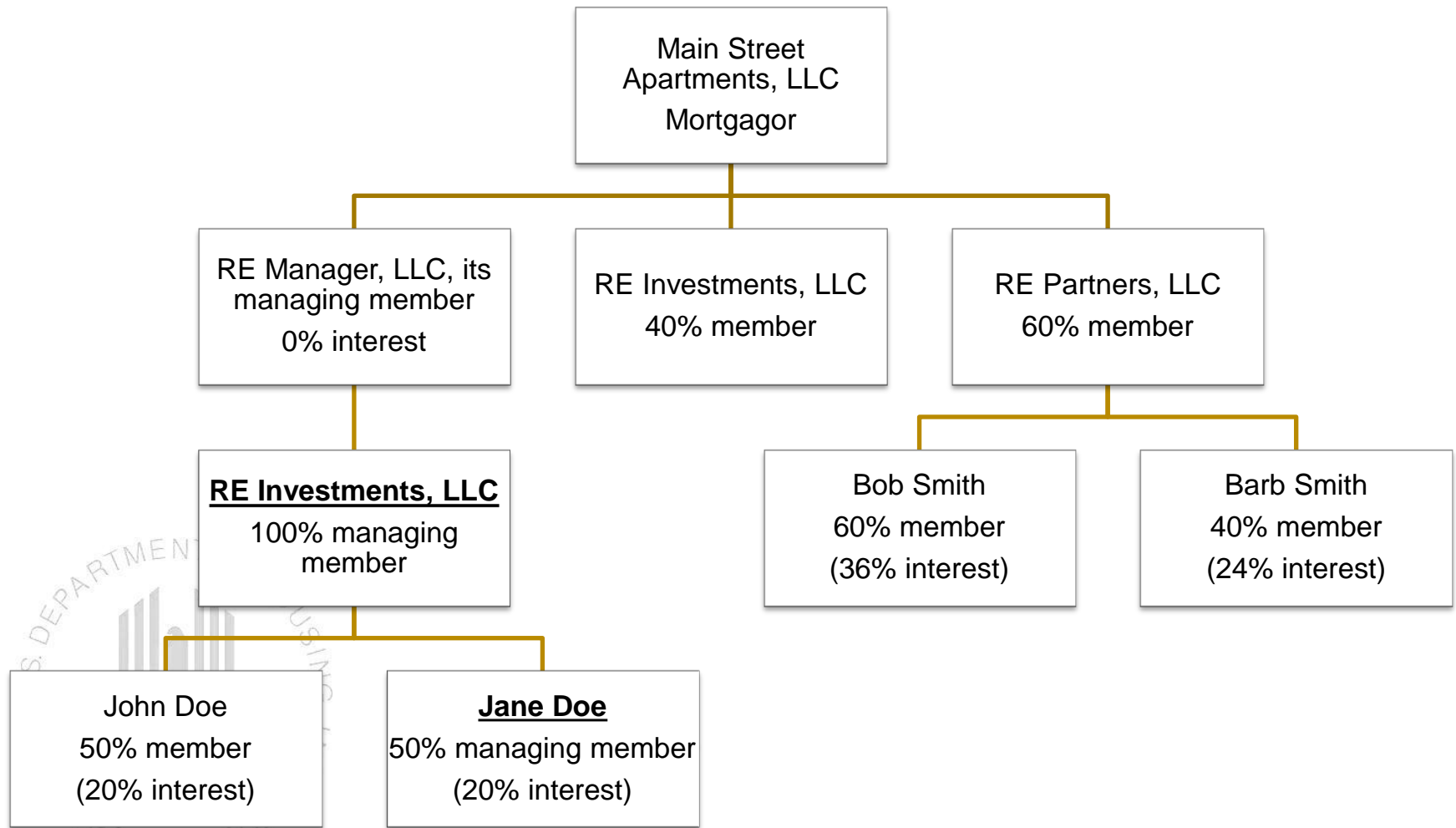
# Main Street Apartments



# Main Street Apartments – Principals / 2530



# Main Street Apartments – Full Credit Review



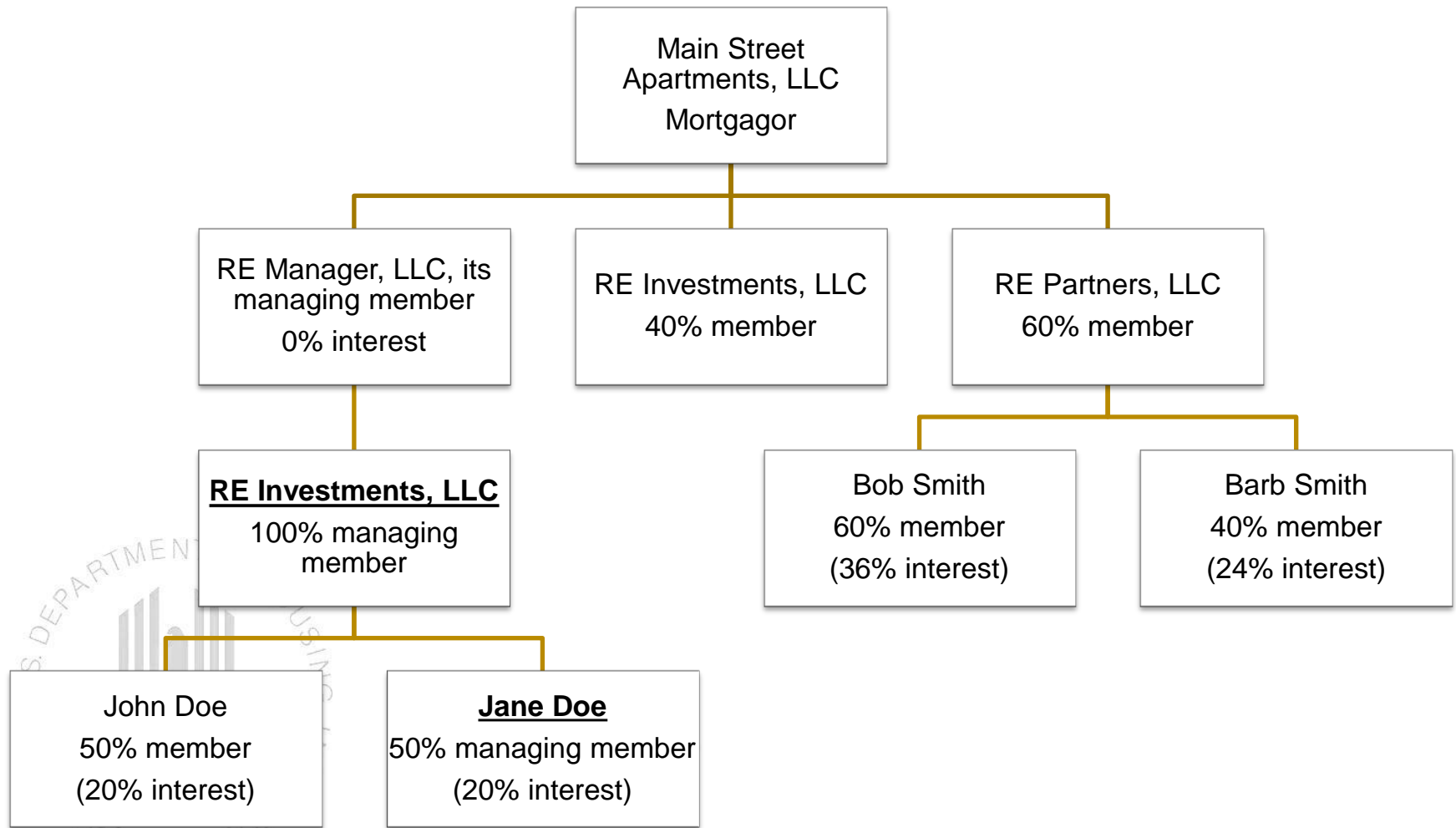


# Section 50 of the Reg. Agreement

- Section 50 of the Regulatory Agreement identifies individuals and entities with some limited liability, but not the indebtedness under the loan.
- Provision requires two (2) signatures: individual signatory & the project parent/sponsor.
- Lender recommends parties for Section 50.
- **HUD selects the parties to be named in Section 50.**



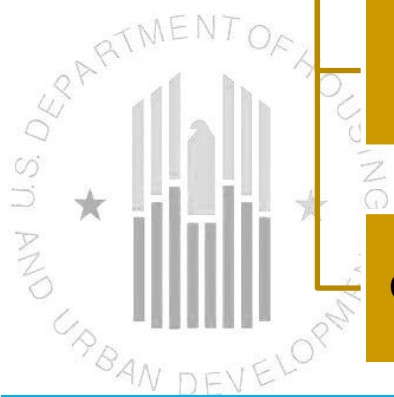
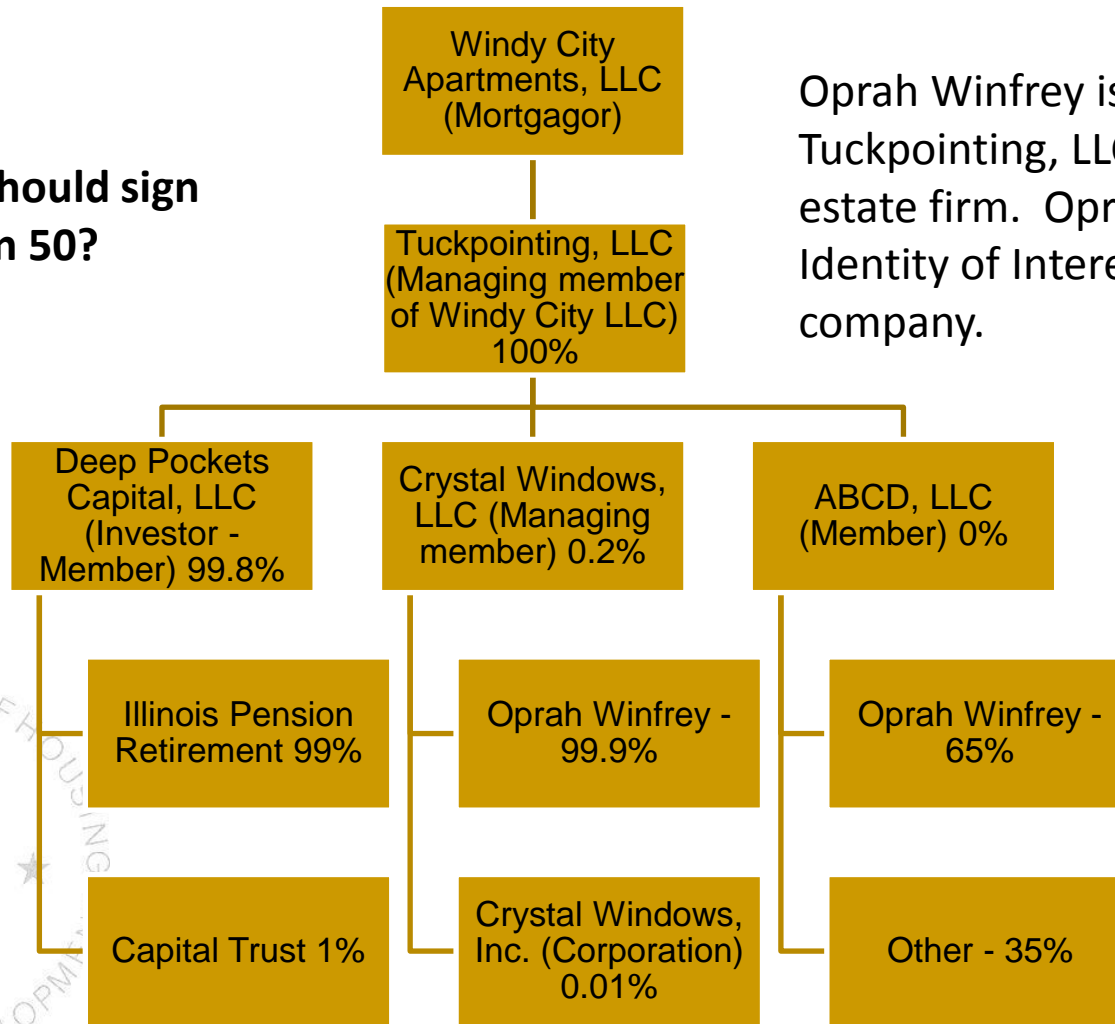
# Main Street Apartments – Section 50



# Windy City Apartments – Section 50

**Who should sign  
Section 50?**

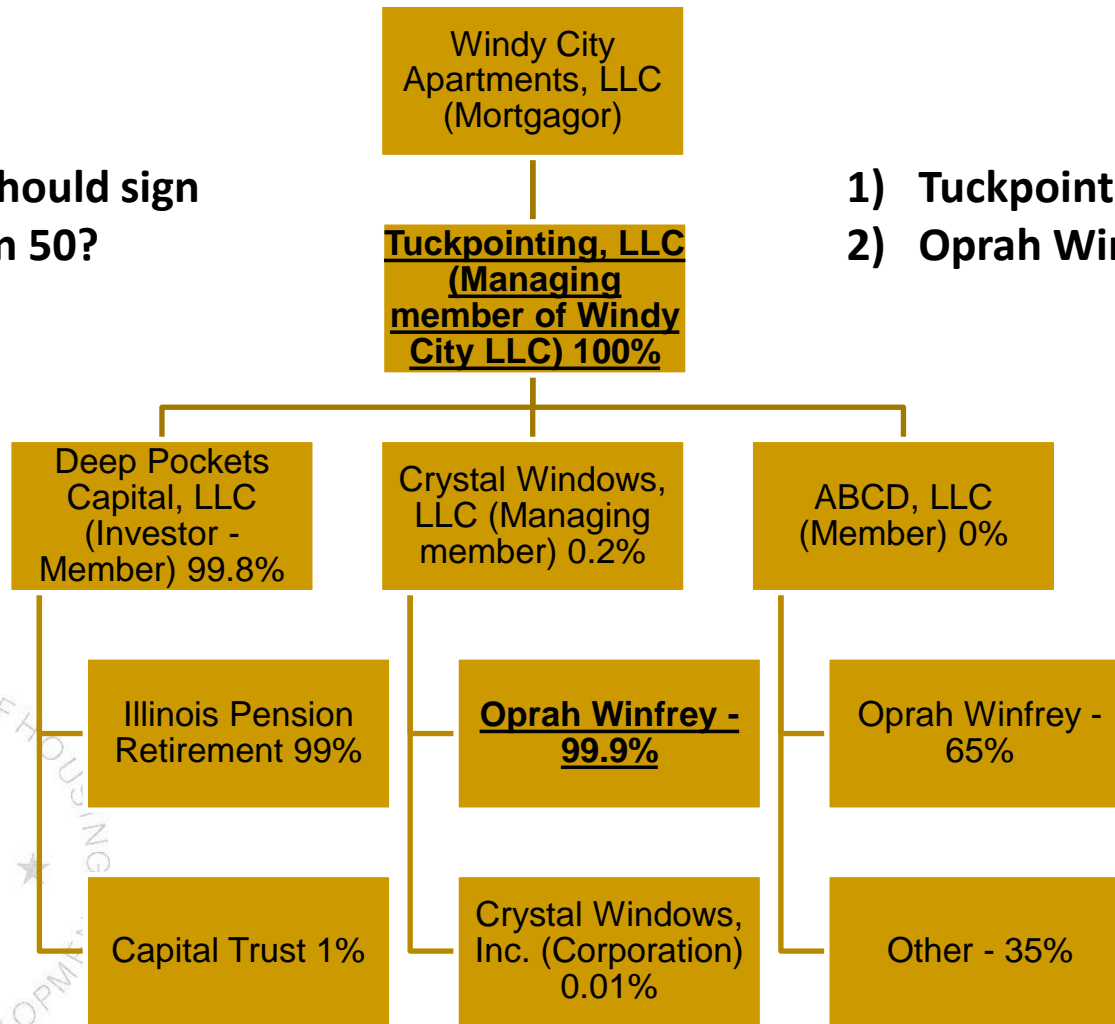
Oprah Winfrey is President of Tuckpointing, LLC, a Chicago real estate firm. Oprah also owns the Identity of Interest management company.



# Windy City Apartments – Section 50

Who should sign  
Section 50?

- 1) Tuckpointing, LLC
- 2) Oprah Winfrey



# Experience of the Borrower, Mgt. Agent, Contractor

- We've seen many new owners and management agents come into our programs over the last few years and with those new folks have come a few problems.
- Failure to file Audited Financial Statements
- Failing (below 60) REAC scores
- **HUD may require mgt. agent to work with a consultant for 12 mos.**
- General contractor or developer may need to partner with someone with experience
- Actual expenses > underwritten expense levels



# Concept Meetings – ML 2010-21

- Concept meetings should meet the overall requirements of the Risk Mitigation Notice, but they should not turn into pre-apps.
- Required for 241 & D4s
- Encouraged for most 223Fs
- Call and talk to HUD supervisor / director
- Complete as much of the 2013 as possible.
- Draft Sources & Uses.
- Identify, give info on key principals.
- Repair level estimate / phys. cond.
- Rents / Expense Level / Historical Performance / Occupancy
- Estimate cash to close or equity take-out.
- Some numbers will change at firm application, but hopefully the deal you submit looks somewhat like the concept proposal.

# Large Loan Policy

- Notice 2011-36
- More stringent Debt Service Coverage, Loan to Cost / Loan to Value ratios.
- Don't be surprised that if you submit an application for \$39,999,990 we might use our discretion to apply some of the Large Loan underwriting criteria.



# Mortgage Credit Exhibits

presented by Cat Vielma

- What is required for:
  - 223(a)(7): refinance
  - 223(f): refinance or purchase
  - 221(d)(4): substantial rehab
- Why does it matter?
- Who submits what?
- Checklists are exciting\*!



true.

\*:I will do my best to make this statement



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# 223(a)(7): Refinances

- For existing HUD loans past their lockout period
- No cash-out
- Smaller checklist than other HUD mortgage programs
- Processing to firm commitment in 30 days
- PCNA required



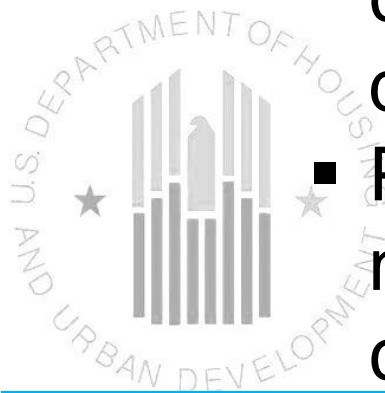
## (a)(7) Checklist: Mortgagor

- Signed HUD Form-92013 and 92013-Supplement (for mortgagor entities required to pay federal income taxes)
- Verification of existing insured mortgage debts or other secured and unsecured debt on the property
- Signed statement of escrow balances
- Credit reports for any **new** GPs, LP with > 25% interest, stockholder with > 10% interest.
  - 2530s must be attached for any partners
- **Audited** project financial statements for last 3 yrs. If last audit is 3+ months old, incl



## (a)(7): Lender

- Title search report (typically run by lender)
- Byrd Amendment for both lender & mortgagor
- OFAC check for all participants, even when no new partners are being added
- If lender provides portion of the premium to cover pre-payment penalty, must be disclosed to HUD office
- PCNA: the lender is the client, but the mortgagor facilitates the PCNA's completion via site visits, doc review, etc.

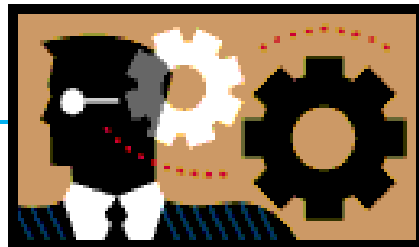


# 223(f): Purchase or Refinance

- Facilitates the purchase or refi of a conventional or FHA insured mortgage
- Cash-out is available
- Processing to firm commitment in 45 days
- Full underwriting package, plus some projects need add'l info if HUD loan committee is required



So, who provides what?



# (F) Checklist: Mortgagor

- Signed HUD Form-92013 and 92013-Supplement (for mortgagor entities required to pay federal income taxes)
- Verification of existing insured mortgage debts or other secured and unsecured debt on the property
- List & conditions of supplement grants/loans
- Signed statement of escrow balances
- 2530 submission for all GPs, LP with > 25% interest, stockholder with > 10% interest.



# (F) Checklist: Mortgagor

- Organizational docs creating mortgagor entity
- Verification of SS# and employer i.d. #
- Certification approving release of banking & credit info
- Financial statements:
  - Personal financial and credit statement (HUD-92417)
  - FS for business entities last 3 years
  - Credit Reports



# (F) Checklist: Lender

- Narrative summary & underwriting recommendations– this is very important!
- Disclosure of IOI, Byrd Amendment, OFAC check
- Identify principals of sponsor and mortgagor entity, provide their resume and list business concerns
- REO and mortgage debt schedule using info provided by mortgagor



The MAP Guide has excellent guidance on **exactly** what is required in the REO & mortgage debt schedule (Ch. 8.4 (B) 2.d., pg 221)

# 221(d)(4): Substantial Rehab

- Facilitates new construction or sub-rehab
- Developer's fee and cash-out available
- Most document heavy application
- Requires mortgage-credit review of general contractor, in addition to principals/sponsor





## (d)(4) Checklist: Mortgagor

- **Everything** from 223(f) checklist, **plus**:
- If non-profit sponsor:
  - HUD-3433 “request for prelim determination as a non-profit sponsor and/or mortgagor” and supporting docs
  - Developer’s agreement or similar doc
- For the general contractor:
  - HUD 92013-E, HUD 92013-supplement, resume, APPS/2530, VODs for bank ref on 92013, schedule of works in progress, employer i.d. #

(cont.)



# 221(d)(4) Checklist: Mortgagor

- Personal financial and credit statement (HUD Form 92417)
- Financial statements for business entities
- Credit reports current within 30 days of app
- Financing plan (sources/uses and tax credit certification for LIHTCs)
- HUD Form 3434, certificate of relationships and non-profit motives; HUD Form 3435 certificate of contractual relationship
- HUD-2283 Financial Reqs for Closing



# Conclusion

- Checklists are super exciting!
- When in doubt, review MAP Guide Appendix 4A for 221(d)(4) and Appendix 4b for 223(f)
- The MAP Guide 8.4.B also explicitly states items for each exhibit
- **Check housing and mortgagee notices** if your project has unique items (tax credits, refinance of a 202, etc.)
- **Ask your field office!** They're the best source of info and can direct you

