



Introducing the new Multifamily Midwest Region

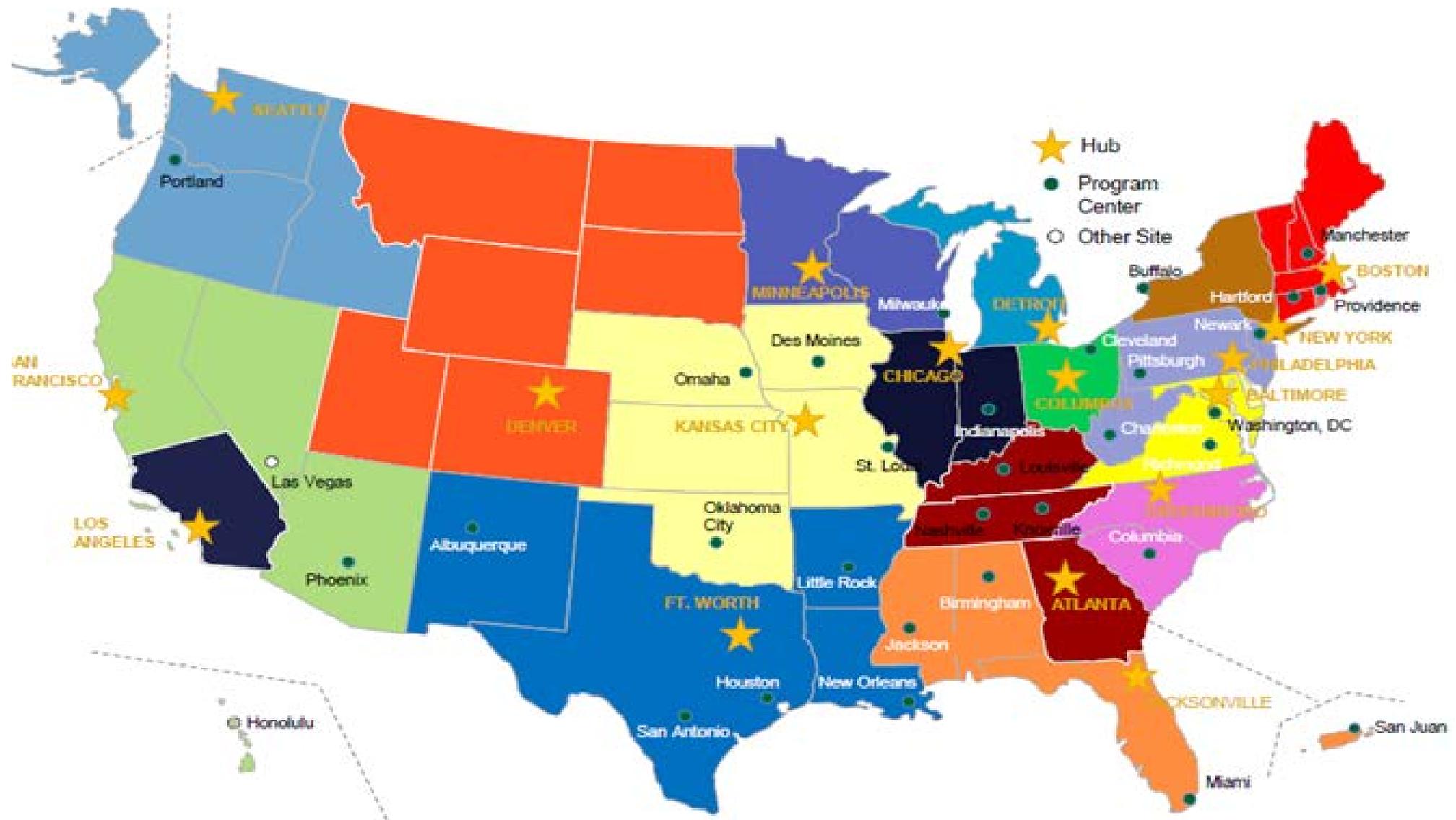
September 9, 2015



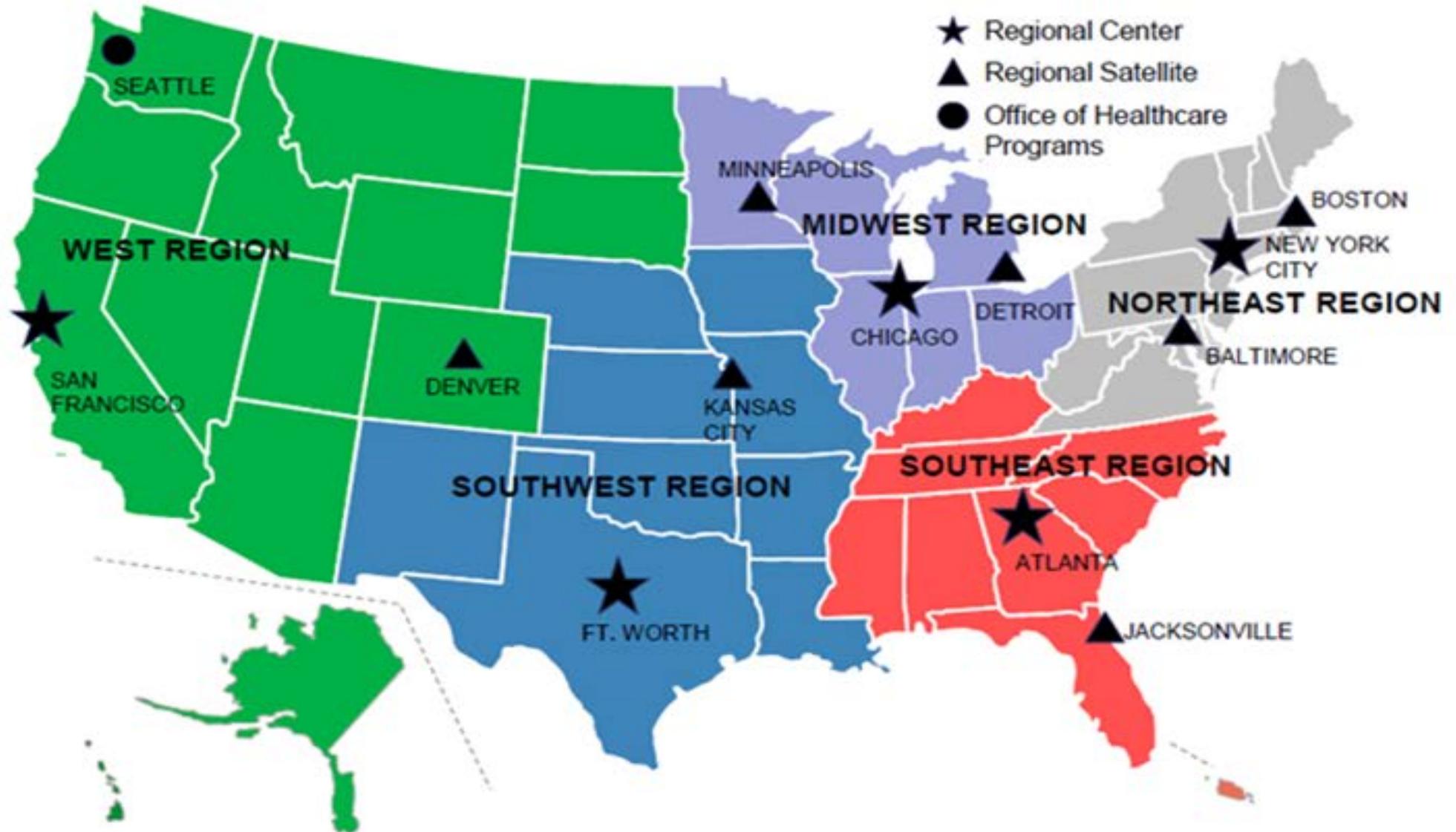
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PRE-DECISIONAL, PROPRIETARY AND CONFIDENTIAL

MFH's historic field model had 17 "hubs" and 50+ offices



Through *MFT*, we are moving to 5 streamlined Regions



Multifamily for Tomorrow (*MFT*) has four components

**Transform
the way we
work**

1

Workload sharing

2

**Underwriter model and risk-based processing in
Production**

3

**Account Executive and Troubled Specialist model
in Asset Management**

**Streamline
our structure**

4

**Streamlined organizational structures in HQ and
field**

**Transform
the way
we work**

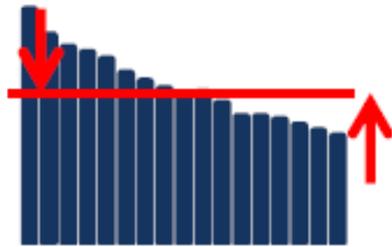
1

Workload Sharing

Allows MFH to use existing resources more efficiently and creates flexibility to respond to future volume changes

Workload Sharing

Workload per FTE by region



From . . .

. . . to

- **4x workload imbalance** across Hubs in Production and 3x in Asset Management
- **Inconsistent customer experience** and expectations based on where application submitted
- Short-term demand spikes are nearly impossible to handle
- **Staff can sometimes become demoralized**, feeling like they will never catch up
- Any application or asset can be routed to teams with capacity anywhere in the country
- An **even and more predictable workload** across every office
- More **consistent standards** across offices
- **Faster response** to customers
- Less dependence on location of resources, creating **flexibility in future staffing**
- **Less stress** for staff in busiest offices



Transform
the way we
work

2

Underwriter model and risk-based processing in Production

Adopts industry best practices to focus on the highest risk applications, avoiding handoffs and re-work

Underwriter Model

From . . .

. . . to



- **“One size fits all” processing**
 - Equal time dedicated and same approach used for low-risk and high-risk applications
 - Applications randomly assigned to staff teams, without regard for level of expertise/experience

- **Risk-based processing**
 - Time and approach for processing varies by application risk/complexity
 - Highest risk/most complex applications assigned to most experienced staff
 - Simpler/less risky deals require less review and often a single UW



- Multiple owner underwriting approach, with several **hand-offs and duplication/re-work** between various disciplines

- Underwriting model, with a **single application owner** who pulls in technical expertise/assistance and reviewers *as needed*



- Highly **variable customer service**, with multiple contact points through the application process
- **Consistent point of contact** with end-to-end knowledge of the application throughout the review process

Transform
the way we
work

3

Account Executive and Asset Resolution Specialist model in Asset Management

and Will deliver better risk management
clearer, more manageable roles

Account Executive Model

From ...

... to



- **Risk-based asset management foundation** laid through *Sustaining our Investments (SOI)*

- **PMs struggle to manage breadth and complexity** of their portfolios
 - >120 discrete asset mgmt activities
 - Insured, assisted and mixed-finance assets
 - Wide spectrum of performance (troubled, potentially troubled, not troubled)

- Inconsistent roles across Hubs

- **Highly variable distribution of work**, ranging from 25-100+ assets per PM

- PMs still spend time on all aspects of servicing

- **Risk-based approach fully embedded**, with most time and effort dedicated to riskiest assets

- **Specialized, consistent roles** improve efficiency and risk management
 - Account Executives conduct basic servicing of non-troubled assets
 - Sr. Account Execs conduct servicing of more complex non-troubled and/or potentially troubled assets
 - Resolution Specialists focus on remediating troubled assets

- Consistent, **smooth distribution of assets** across Account Executives and Resolution Specialists

- Allow focus on complex or troubled assets
- Shift select asset management activities to lenders and/or PBCAs



Streamline Organizational Structure

Streamline
our structure

4

Streamlined Organizational Structures in HQ and Field

Will enable and support the “way we work” changes

Streamline Organizational Structures

From . . .

. . . to

- **Fragmented, unwieldy organization structure**

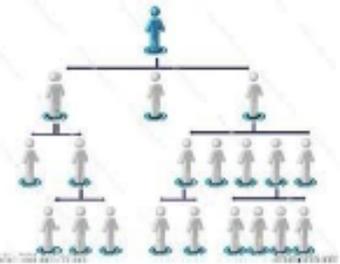
- Unmanageable spans of control at HQ, with 17 Hubs and 6 HQ functions reporting to DAS
- Thin, inconsistent spans of control in the field (e.g., 1 manager over 2 staff), creating unnecessary layers and stifling employee engagement

- Inconsistent, **sub-scale operations** across 17 Hubs and over 50 locations

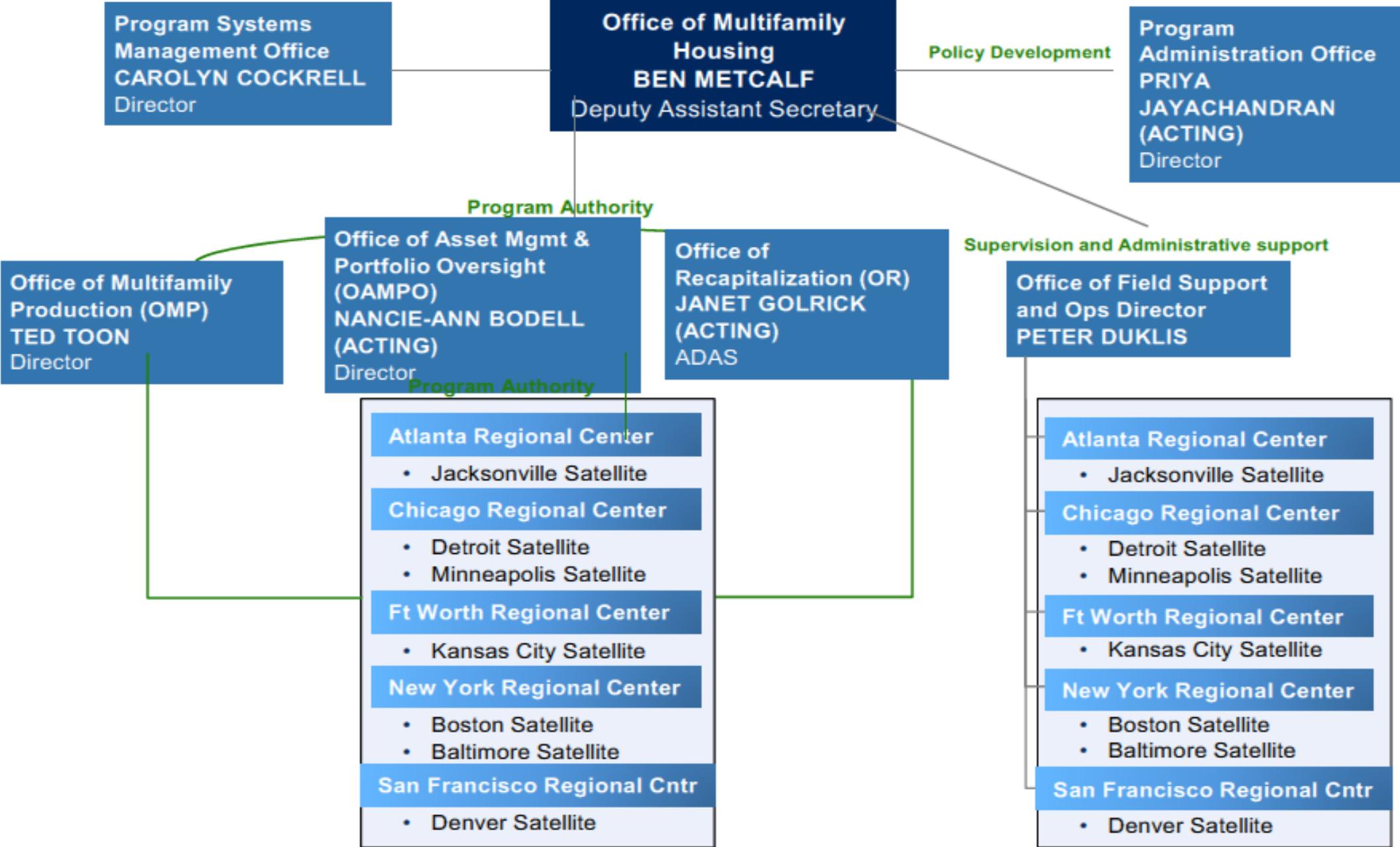
- **Streamlined, flattened organization structure**

- 5-region model improves HQ/field alignment, communications, and performance and aligns with federal regions
- More robust field spans of control improves field autonomy and empowerment

- Site **consolidation encourages consistency**, reinforcing the “way we work” changes while ensuring all locations have sufficient workload to operate at scale



Streamlined Organizational Structure



The new model will deliver better service to our customers



Owners & Lenders

- Faster, more consistent processing by focusing expert attention on most challenging applications
- Improved customer service through clear communication, consistency and flexibility



Citizens

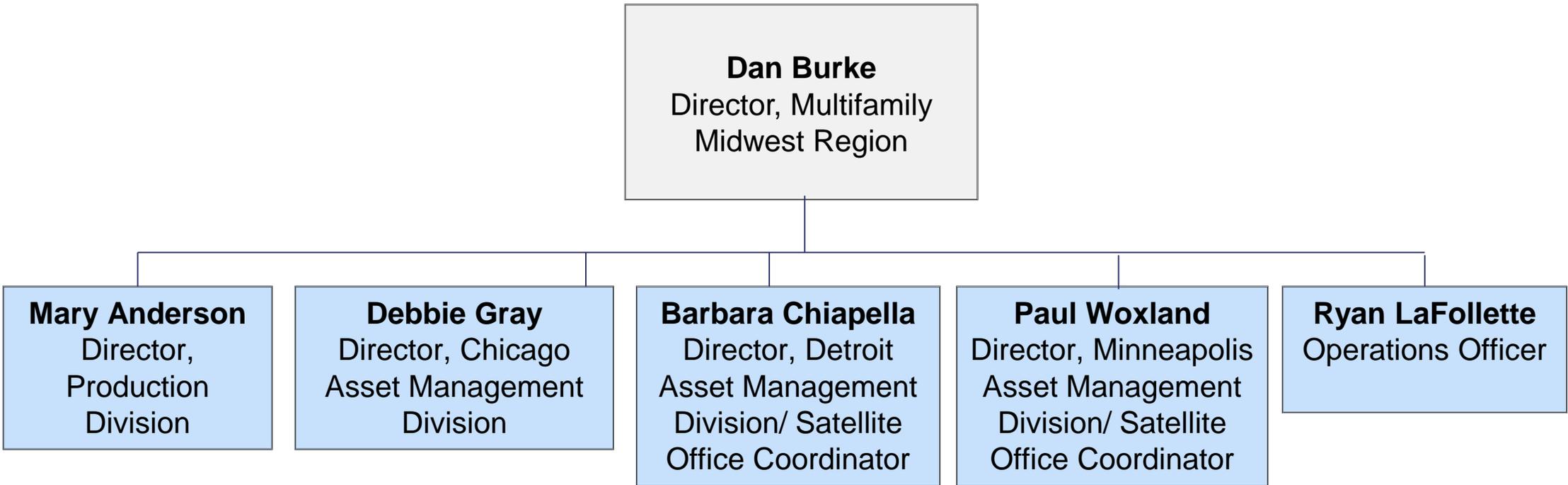
- More efficient use of resources and funding
- Improved risk management process



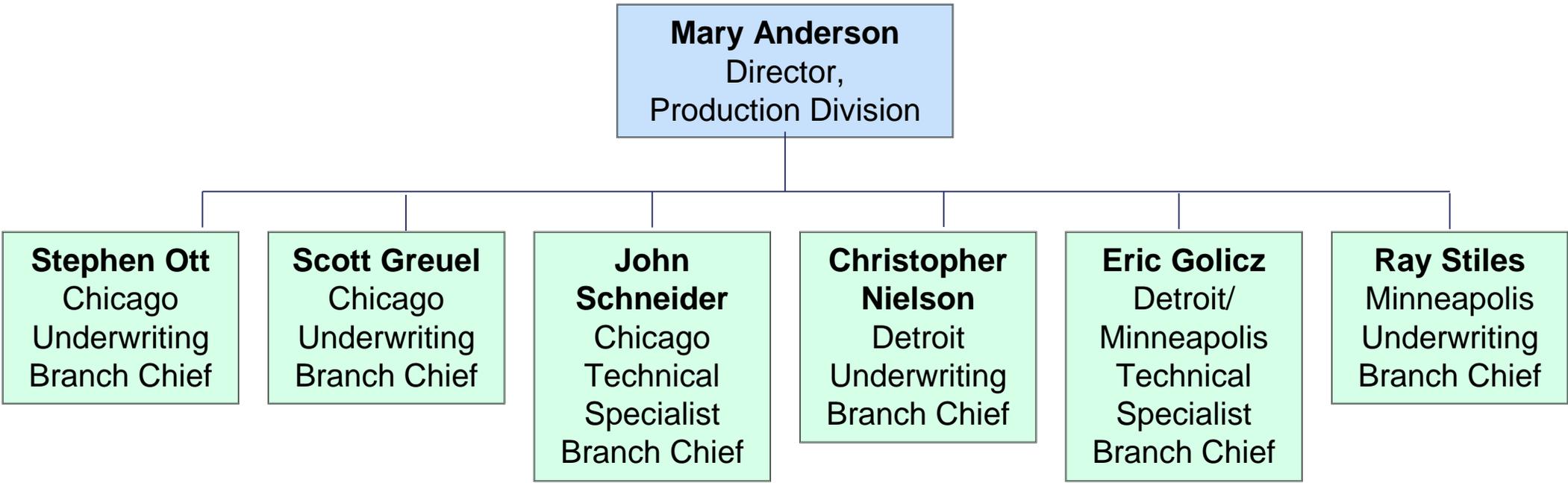
Tenants

- Meaningful impact in the lives of over 1,300,000 people

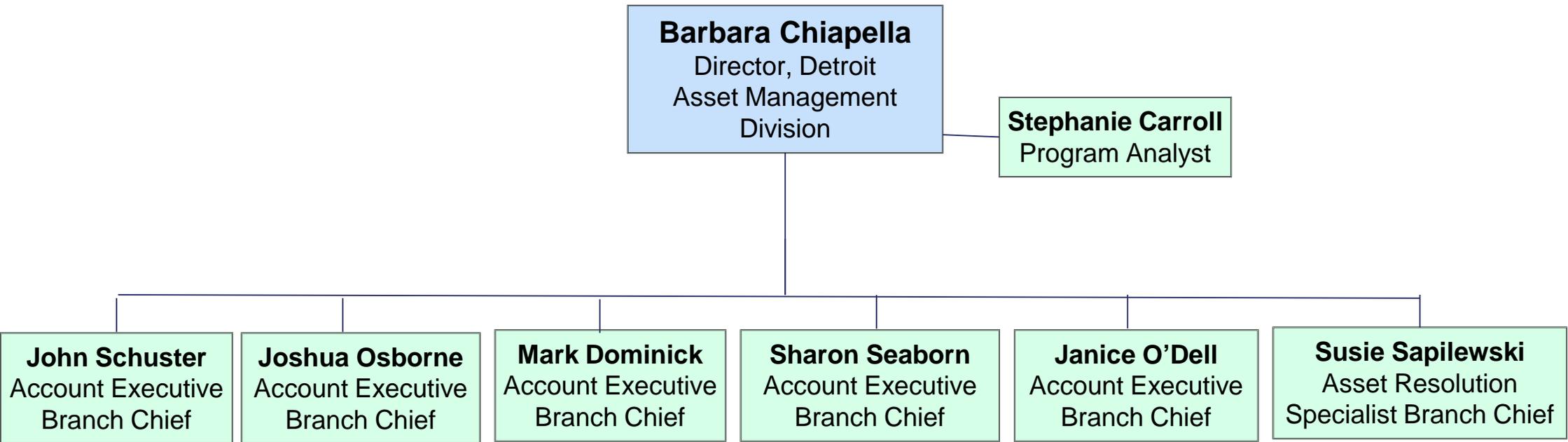
Midwest Region Leadership



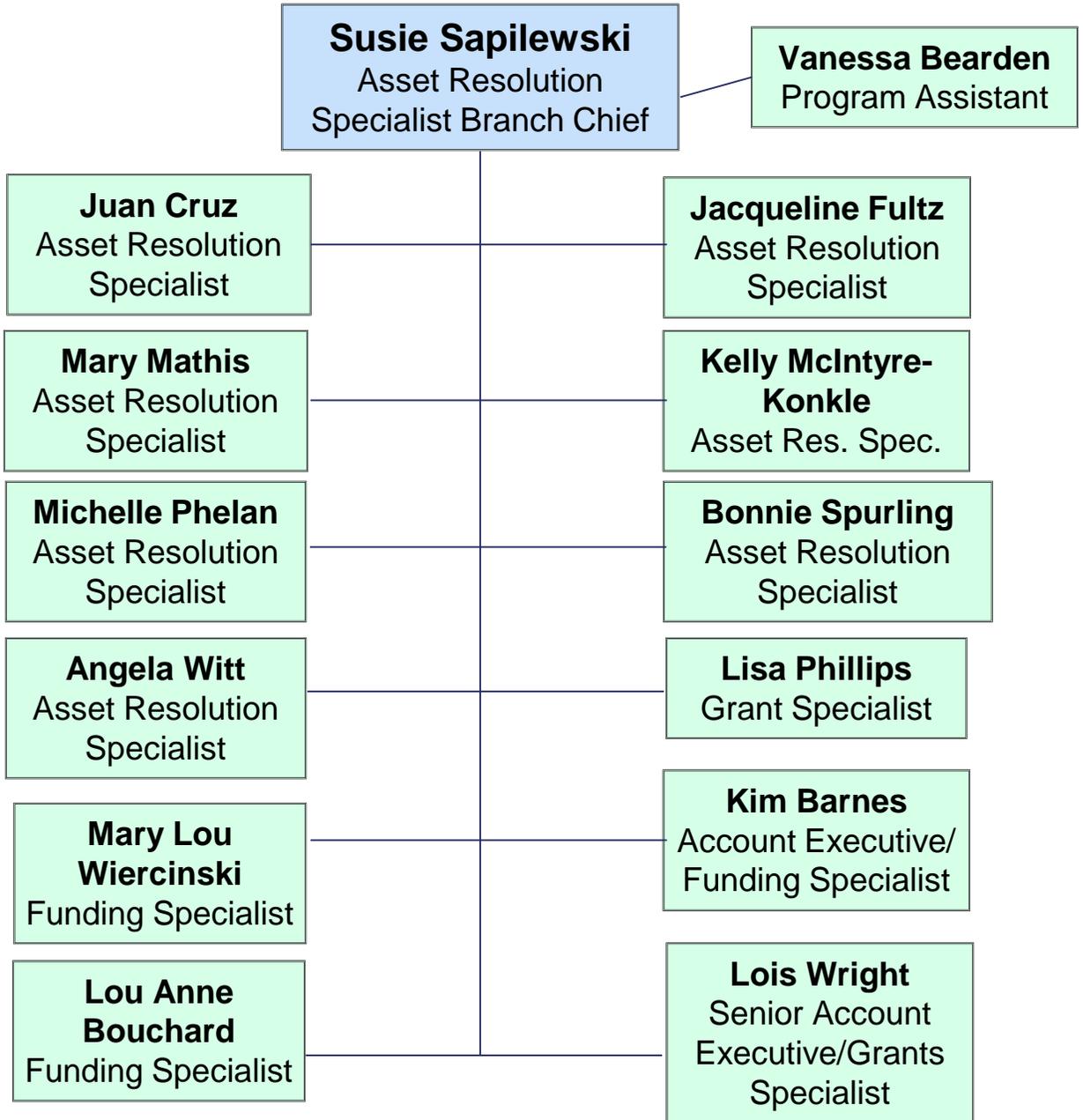
Midwest Region Production



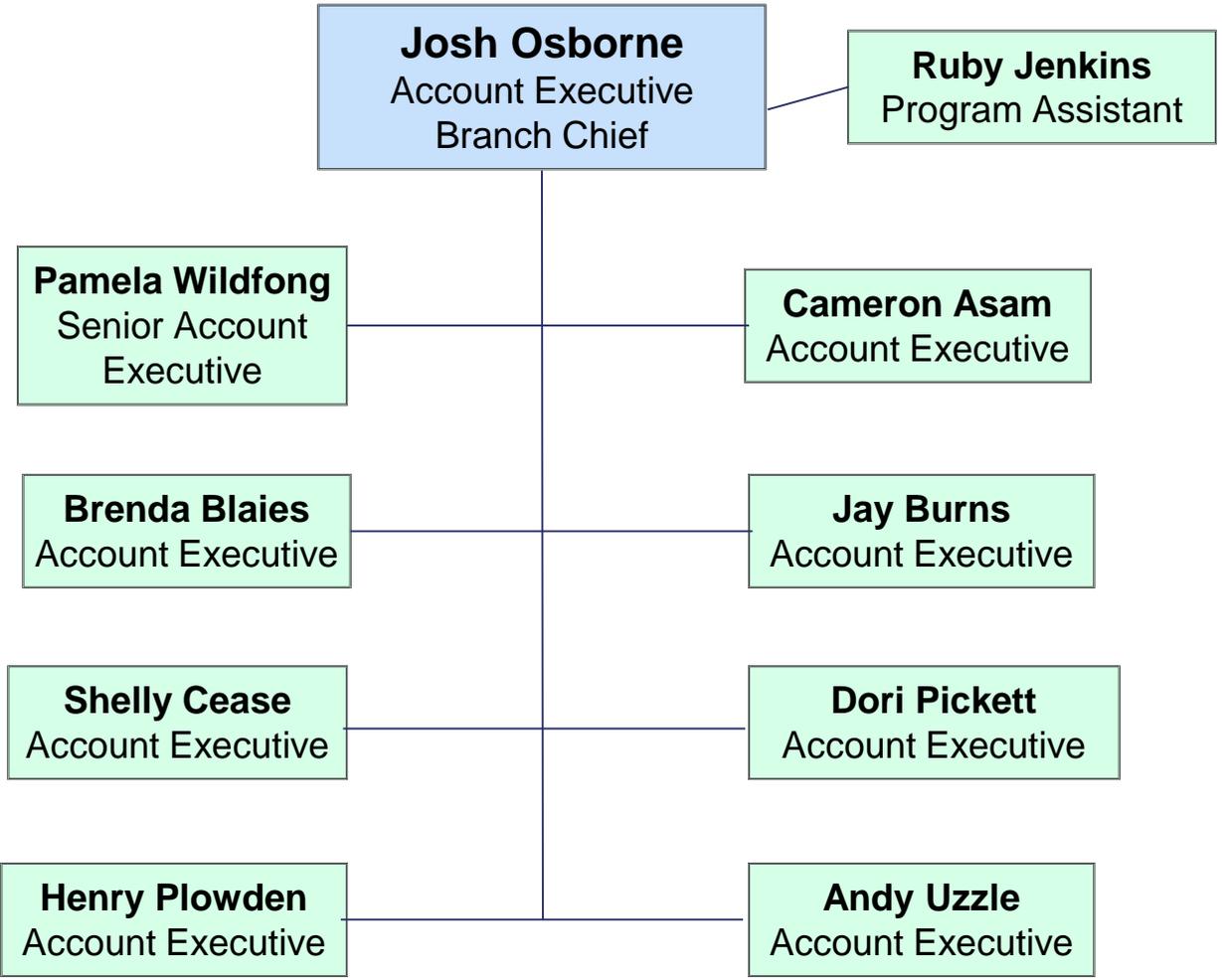
Midwest Region Asset Management - Detroit Satellite



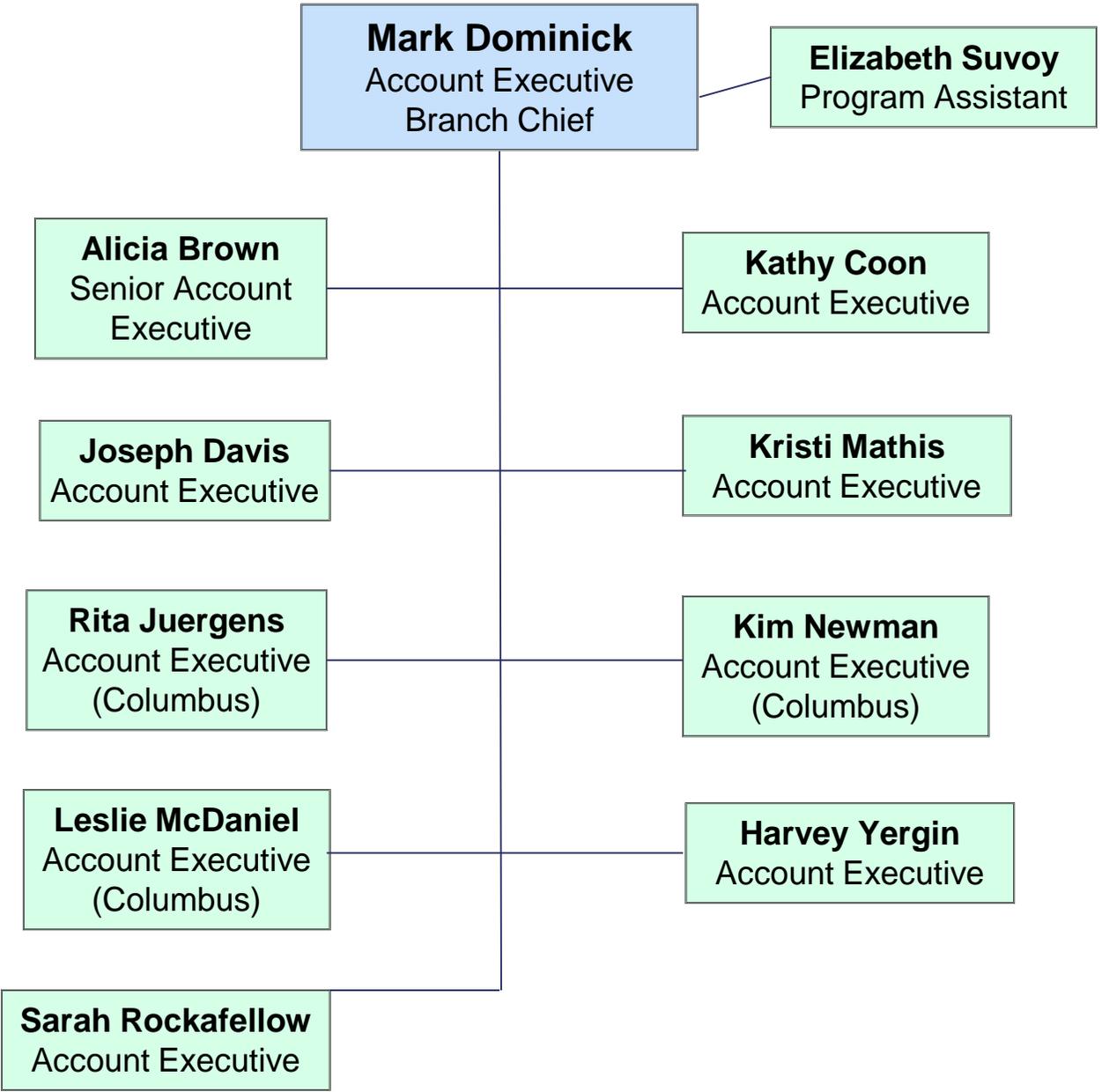
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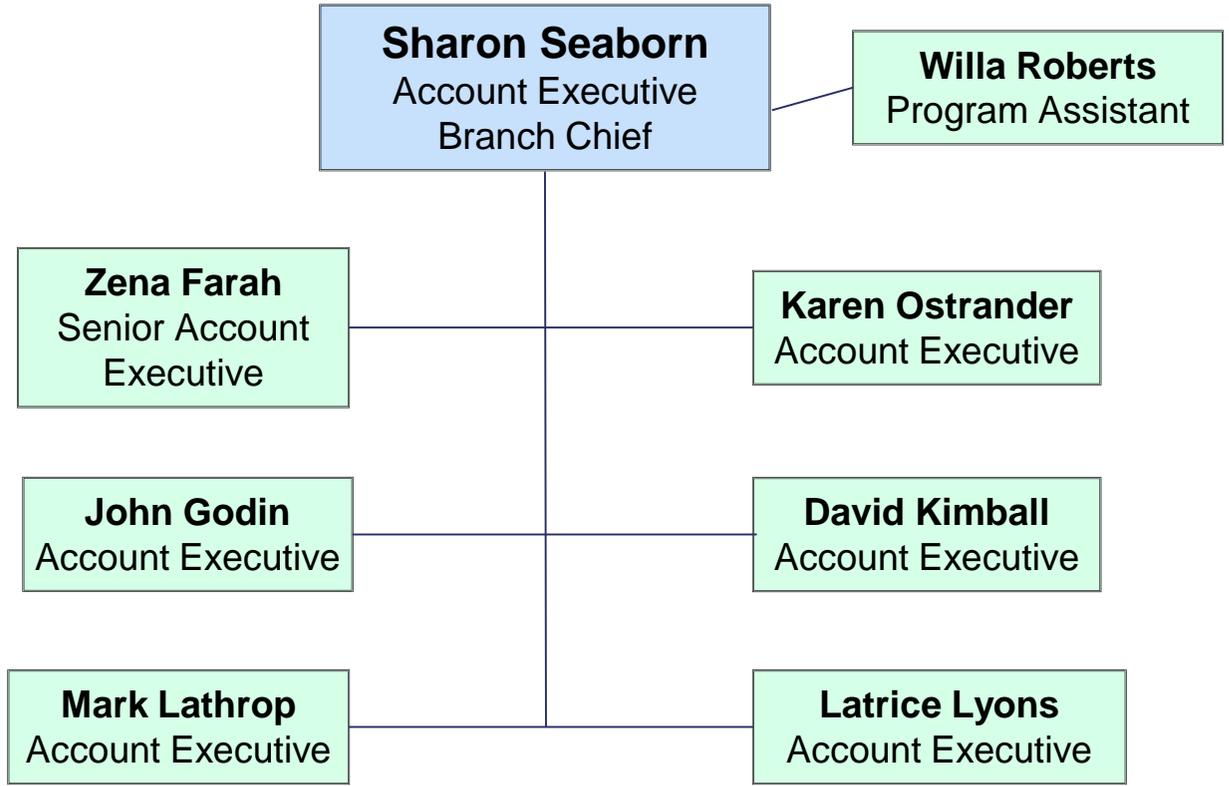
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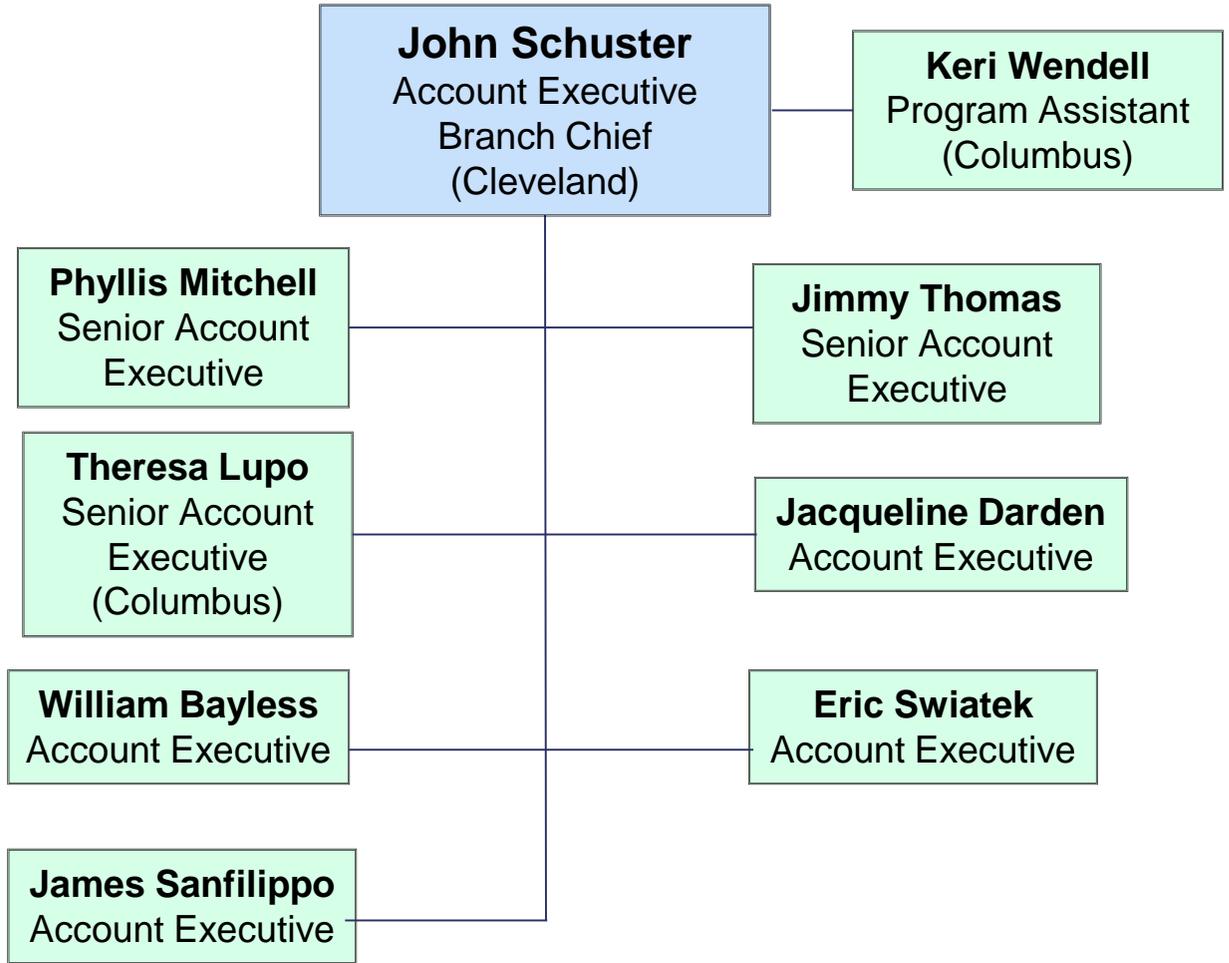
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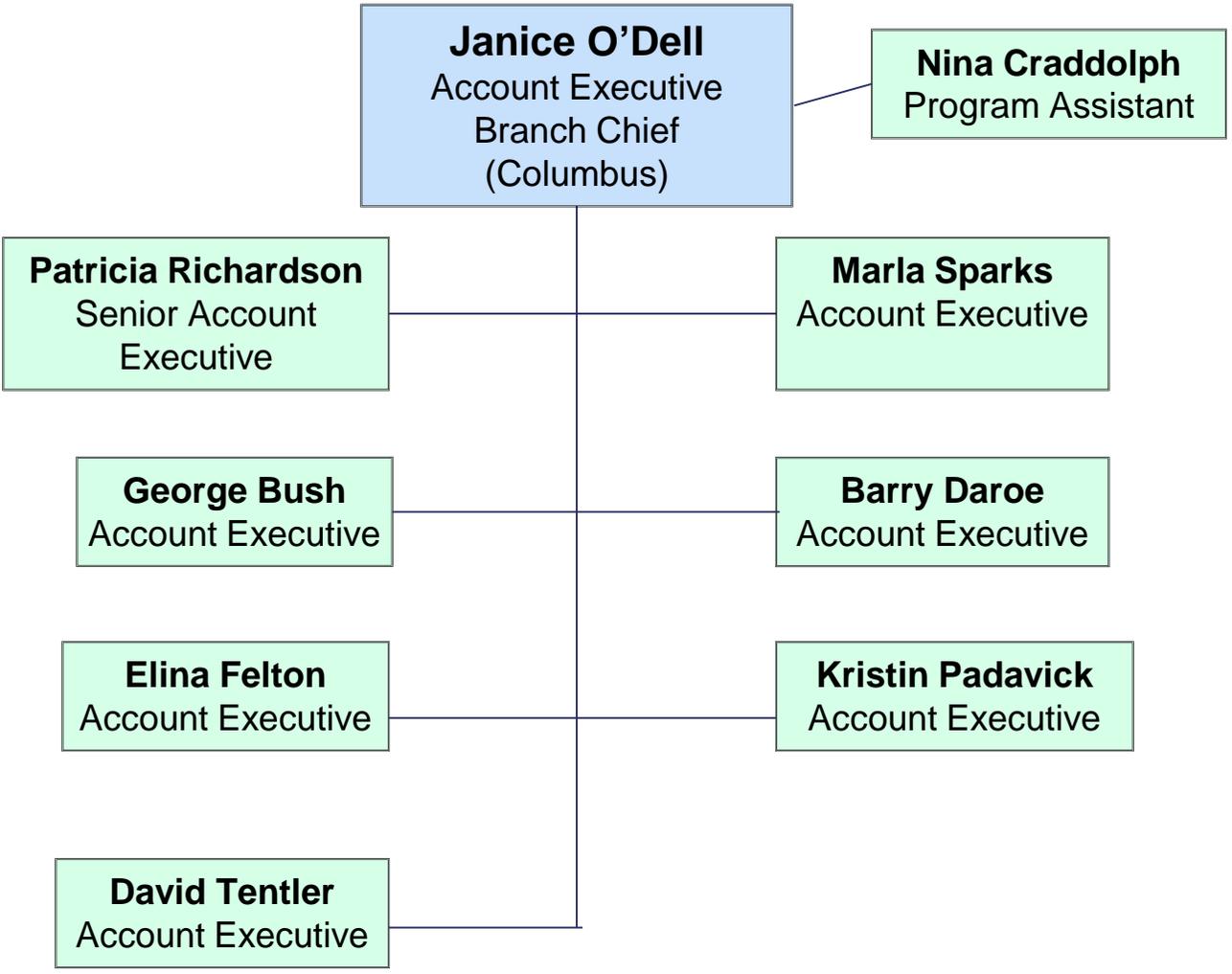
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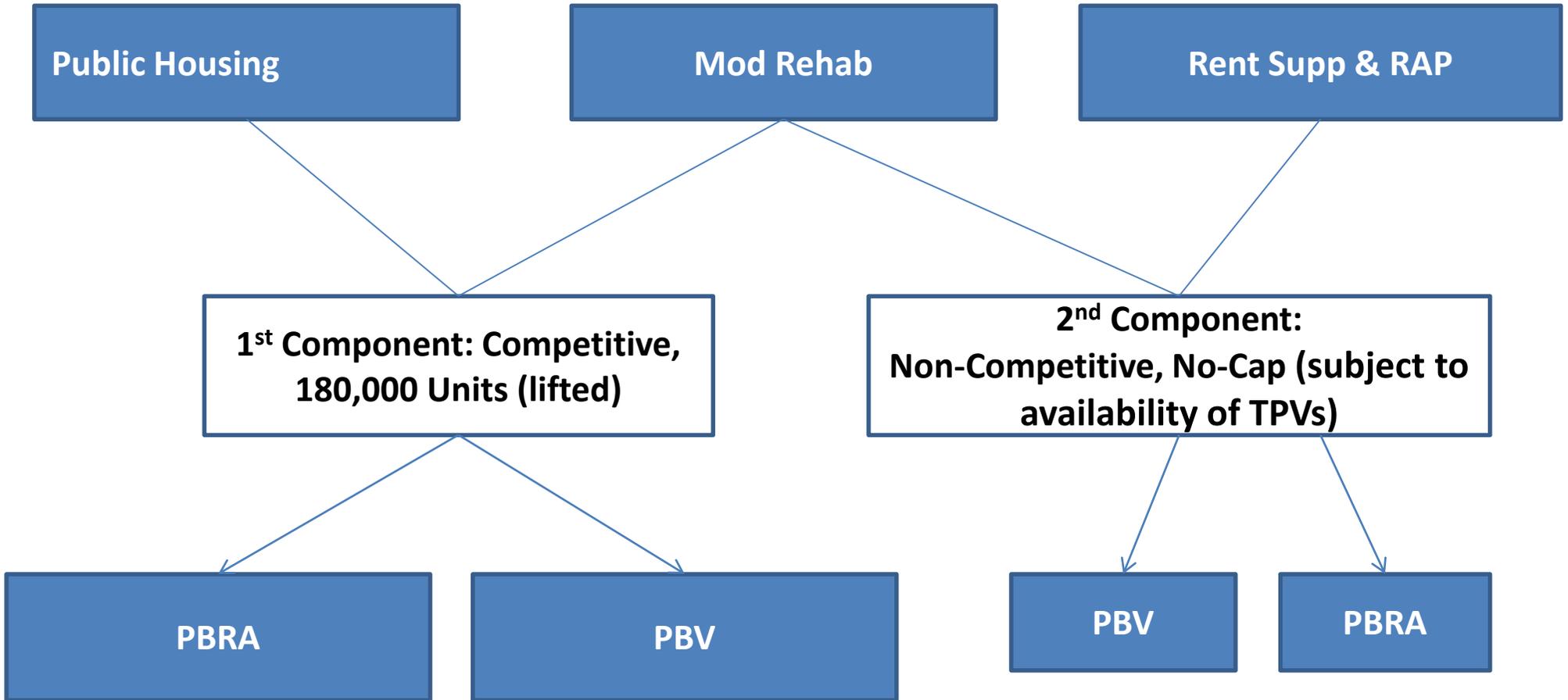
Electronic Mail

The new Multifamily Midwest Region is going electronic! In order to streamline operations, we have established a centralized intake process in Asset Management. We encourage all routine servicing requests and correspondence which has been traditionally mailed to Detroit and/or the Ohio offices to be submitted via email to det.incoming@hud.gov.

All other correspondence should be sent to the emails below:
Monthly Accounting Reports (MARs) to det.mars@hud.gov
Grant information to det.grants@hud.gov



RENTAL ASSISTANCE DEMONSTRATION (RAD)





RAD COMPONENT 2

Requirements for Prospective Conversions:

Active Rent Supp or RAP Contract

- Last MOR must be satisfactory or higher
- HUD DEC must not have an active referral for the property/owner. If the RAP or Rent Supp contract is terminated due to enforcement action, the property is not eligible for conversion
- The most recent REAC score must be 60 or above.
 - Prior to entering into a HAP, inspect units to ensure compliance with HQS. If the property does not meet HQS, the HAP will not be executed and owner must enter into an AHAP until all repairs/rehabilitation are complete.
- Owner must be in compliance with all fair housing and civil rights requirements





RAD COMPONENT 2

Timeline for Applying

- Should owners have questions on application process (Alicia Brown, Senior Account Executive, alicia.j.brown@hud.gov)
- To express interest in conversion, email RAD2@hud.gov
- HUD MFH staff will work with owners to schedule a tenant briefing. HUD staff lead the briefing but an owner/agent representative is expected to attend.
- Tenant notifications consistent with the notice must be provided and owners must take written and oral comments into consideration. The notice must provide a 30-day tenant comment period (must begin 5 days following the tenant briefing).
- Owners should contact a local PHA for a preliminary RAD conversation (formal PHA consent will be granted later).
- After these activities are completed, owners submit the formal RAD Component 2 application to RAD2@hud.gov.





FISCAL YEAR 2014-2016 EXPIRATIONS

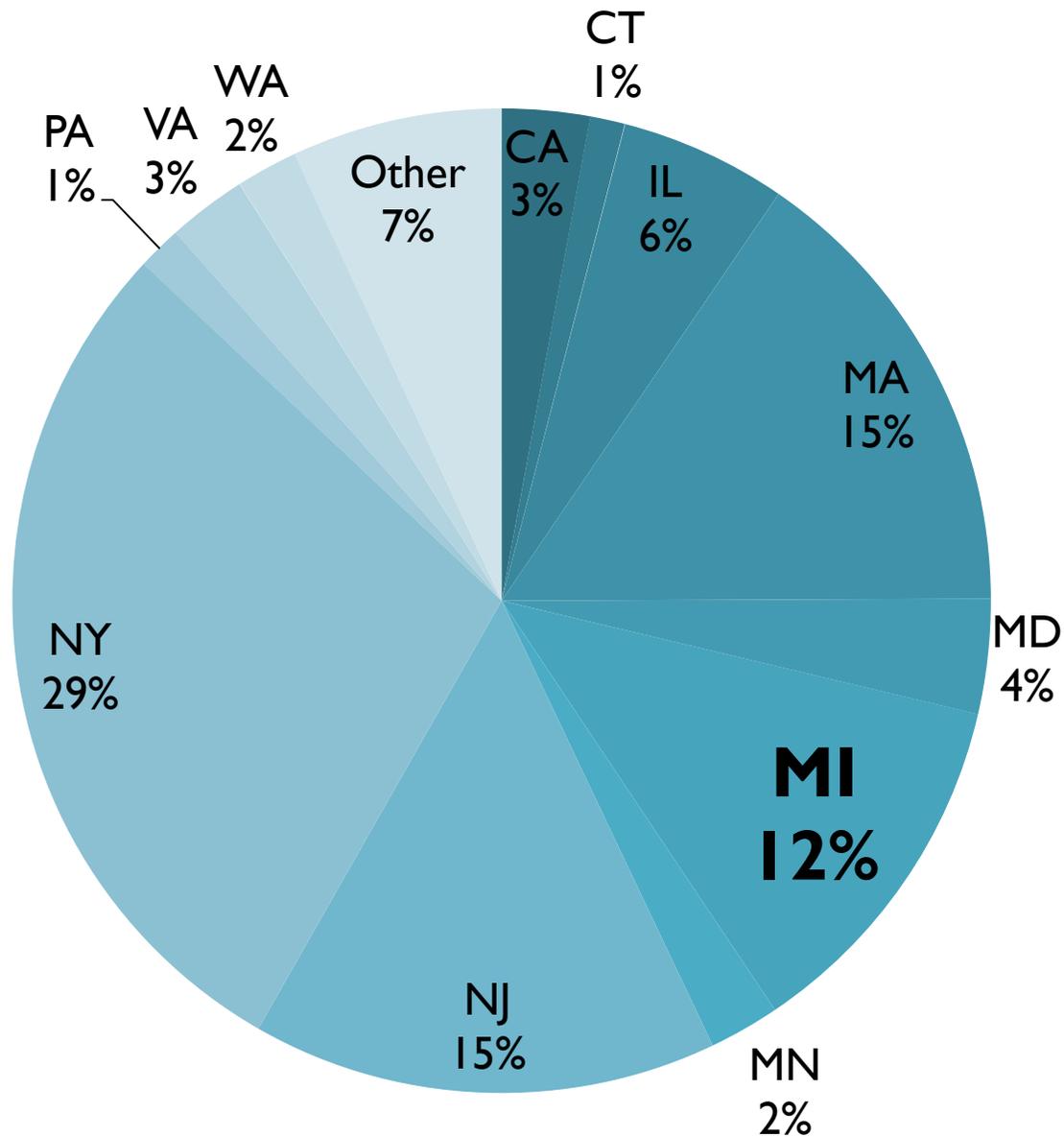


Property Name	Subsidy Type	Contract Expiration	Status
Frenchtown Place	Rent Supp	12/31/14	Converted
Country View I	Rent Supp	12/31/14	Converted
Aldersgate I	Rent Supp	12/31/14	Converted
Carriage House Apts.	Rent Supp	12/31/14	Conversion in process
Maplewood Apts. II	Rent Supp	12/31/14	Vouchers
Village Creek Manor	Rent Supp	12/31/14	Conversion in process
Trumbull Crossing	RAP	8/1/15	Converted
McDonnel Tower	RAP	11/1/15	Converted
Towne Centre Place	RAP	11/1/15	Tenant Briefing, Pending
Friendship Manor	RAP	3/1/16	
Park Place Towers	RAP	3/1/16	Tenant Briefing, Pending
Friendship Forest Park	RAP	4/1/16	
Roberts III	RAP	6/1/16	
Country View II	RAP	9/1/16	
Bridge Village	RAP	10/1/16	
Young Manor	RAP	11/1/16	Tenant Briefing, 9/11



GEOGRAPHIC DISTRIBUTION OF RENT SUPP/RAP

Rent Supp/RAP Highly Concentrated in a Few States





INTEREST RATE REDUCTION

- **Why do this?**

- Increased cash for operating expenses.
- Alternative to 223(a)(7) refinancing and a way to take advantage of lower interest rates without incurring all expenses associated with a refinance
- Previously refinanced 202s are eligible for this program and will retain their eligibility for Option 4 contract renewals. If these projects were to go through a second refinance they would lose this eligibility.





INTEREST RATE REDUCTION

- **Which properties are eligible?**
 - All FHA-insured properties that are outside of their lockout period are eligible
 - If prepayment penalties still apply these may not be added to the loan balance
 - After interest rate reduction the new loan must have DCR greater than 1.05
 - Owners should be in compliance with all business agreements but if not, application must show how compliance will be achieved as a result of this transaction.





INTEREST RATE REDUCTION

- **General points:**

- Mortgage may be re-securitized with Ginnie Mae
- No terms of the mortgage besides the interest rate can be changed. HUD may not change the mortgage maturity date (unlike a 223(a)(7))
- For 202 properties with debt service savings accounts, debt service savings from an interest rate reduction will be paid into this account.
- Debt service savings resulting from an interest rate reduction remain in the operating account. For properties with a Section 8 HAP contract any surplus cash at the end of the year will be transferred to the Residual Receipts account and the next budget-based renewal will use the reduced debt service.





INTEREST RATE REDUCTION

- **Processing guidelines:**
- Lenders/servicers are permitted to pay for all or a portion of the Borrower's prepayment penalties through funds generated from Trade Profit. Excess Trade Profit may be retained by the lenders.
 - No other Borrower costs may be paid by the lender without prior written HUD approval.
 - If Trade Profit is being used to pay project expenses, fund the R4R or the mortgagee is waiving normal expenditures full disclosure of this must be made to HUD and the Borrower.
- No advances or loans may be made from the R4F for interest rate reductions, except for funding a PCNA in order to determine what amount should be deposited monthly.
- No costs are allowed for third party reports, lender legal fees, or other lender costs. Borrowers may be charged legal fees for the nominal work necessary.





INTEREST RATE REDUCTION

- **Application requirements:**

- Applications should come to our office from the lenders to the attention of Jacqueline Fultz, jacqueline.a.fultz@hud.gov (1 hard copy and electronic)
- Applications should contain:
 - Transaction summary detailing the projected change in interest rate
 - Certification from the lender that they will obtain Ginnie Mae approval for prepayment of the security holders prior to implementing any interest rate reduction
 - Verification from Ginnie Mae's online database that the loan is not subject to a lockout
 - DCR analysis at the estimated interest rate for the revised loan
 - Sources and Uses statement disclosing all third party lender costs regardless of who will pay for them
 - If Trade Profit will be used for something other than mortgagee costs or if the mortgagee is waiving normal costs a full disclosure of the amount of Trade Profit.





INTEREST RATE REDUCTION

- **Application requirements (continued):**
 - Most recent interim and year-end financial statements
 - Draft mortgage documents initially prepared by outside counsel for review by HUD counsel which include:
 - Modification of Note
 - Modification Agreement
 - Pro Forma/Final date-down title policy endorsement to bring the policy forward to the date of the modification
 - Current authorizing resolution and incumbency certificate of Borrower and any GP or managing member confirming the org documents are current and have not changed
 - Certification from Borrower's counsel that no additional changes will be made prior to execution and/or recording of the revised documents after HUD counsel approves them
 - PCNA if final endorsement was more than 10 years from the date of this request, if the PCNA is older than 10 years old, or if we require it due to low REAC scores, our knowledge of the property, or age of the property
 - Prepaid envelope for returning executed docs for filing





INTEREST RATE REDUCTION

- **What to expect next:**

- Legal documents will be forwarded to our Legal Division. We will let you know if any revisions are needed.
- Remaining documents are reviewed in Asset Management for compliance with the guidance for processing these transactions. We will contact you if additional information is needed.
- Once the request is in an approvable form we will send an approval letter.
- Modified documents must be provided to this office for execution once the owner and lender have signed.
- Two copies of the final Modification of Note, recorded Modification Agreement, and legal documents must be sent to this office.

HUD guidance regarding this process can be found at:

<http://portal.hud.gov/hudportal/documents/huddoc?id=IRrevguidance0713.pdf>





INTEREST RATE REDUCTION

- Benefits of the Interest Rate Reduction

UPB	Date Submitted	Date Approved	Old IR	New IR
\$ 4,442,896.00	2/12/2015	3/24/2015	4.99	4.33
\$ 5,125,000.00	2/26/2015	2/26/2015	5	3.8
\$ 7,238,972.97	3/17/2015	3/26/2015	4.55	3.7
\$ 4,175,380.70	3/17/2015	3/19/2015	4.63	
\$ 2,145,551.44	3/17/2015	3/24/2015	4.28	
\$ 3,380,892.20	3/17/2015	3/25/2015	4.55	3.7
\$ 1,467,749.09	3/17/2015	12/12/2014	6.2	
\$ 3,818,244.07	3/16/2015	3/26/2015	5.02	4
\$ 2,159,662.00	3/10/2015	3/30/2015	5.5	4.1
\$ 3,187,500.00	3/31/2015	4/2/2015	4.7	3.8





INTEREST RATE REDUCTION

IRR Updates

- On April 17, 2015, HUD issued a policy update for the processing of Interest Rate Reductions (IRR)
 - Addresses concerns with processing related to 202/223f debt service savings, subsequent refinancing of 202 mortgages, use of operating funds for an IRR and modification of a security instrument.
 - http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh





PRESERVATION

- **Types of requests:**

- Section 236 Prepayments/Decoupling – Office of RECAP
 - 236preservation@hud.gov
 - www.hudmfpreservation.net
- Section 202 Prepayments – Detroit, Mark Dominick
- Assignment of HAP Contract – Detroit, Mark Dominick
- Consent Agreements to HAP Contract – Detroit, Mark Dominick
- Section 8bb (transfer of budget authority) – Detroit, Alicia Brown
- Section 214 (if use restriction in place) – Detroit, Alicia Brown
- Efficiency/studio conversions – Detroit, Mark Dominick
- Modifications to LIHPRHA Use Agreement – Detroit, M. Dominick





SECTION 202 PREPAYMENT

- Notice HUD 2013-17
- Benefits:
 - Debt Service Reduction
 - Amenities/programs for the tenants
 - Rehabilitation
 - Replenish reserves





SECTION 202 PREPAYMENT

- Submission requirements
 - **Executive summary of the transaction, including the history of the property and ownership, proposed refinance and repairs**
 - **Application (HUD 9808)**
 - **Proposed Budget post-refinance**
 - **Detailed budget notes, required back-up**
 - **Using new debt services**
 - **Sample 202 Use Agreement**
 - **Waiver requests (if applicable)**
 - **Consent to 20-year HAP with Preservation Exhibit**
 - **Source and Use of funds statement**
 - **Last 2 years financial statements**
 - **Notification to Tenants/Tenant Comments**





SECTION 8(B)(B) AND SECTION 214

- Housing Notice H2014-14
 - Property must have an active Section 8 HAP Contract to transfer (or partially transfer)
 - In compliance with all agreements
 - Tenant notification and comment procedures
 - Could include transfer of the budget authority, with or without the tenant (i.e. TPV)
 - Relocation Plan in accordance with the Uniform Relocation Act
 - Can be used new construction as well
 - Owners can use the approval letter as a conditional commitment for new construction or sub rehab
 - The budget authority cannot be transferred until the units it will assist exist (Certificate of Occupancy issued)
- Section 214 Transfers

HUD Detroit: Alicia Brown, alicia.j.brown@hud.gov, 313-234-7510



Questions?

- Barbara Chiapella, Director, Asset Management / Satellite Office Coordinator
 - 313-234-7490, barbara.chiapella@hud.gov
- Susie Sapilewski, Chief, Asset Resolution Specialist Branch
 - 313-234-7521, susie.sapilewski@hud.gov
- Mark Dominick, Chief, Account Executive Branch
 - 313-234-7513, mark.r.dominick@hud.gov