

2024 Financial Management Conference

A HUD Primer for CFOs

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STRENGTHMATTERS[®]



Continuing Professional Education (CPEs) Requirements for CPAs

- Please find the **SESSION HOST** to **SIGN IN** at the beginning and **SIGN OUT** at the end of every session using the QR code. We use that attendance log to verify your participation for CPE credits.
- Please **submit all conference evaluations**. Evaluation links are emailed to registrants daily. Please see the session host (the person monitoring the sign-in process) if you prefer a paper evaluation.
- For more information on CPE credits, contact Lindsay Wells at consult.lwells@gmail.com.

Poll Question 1

Are you involved in the financing strategy decision and process?

- *Yes or No (show of hands)*

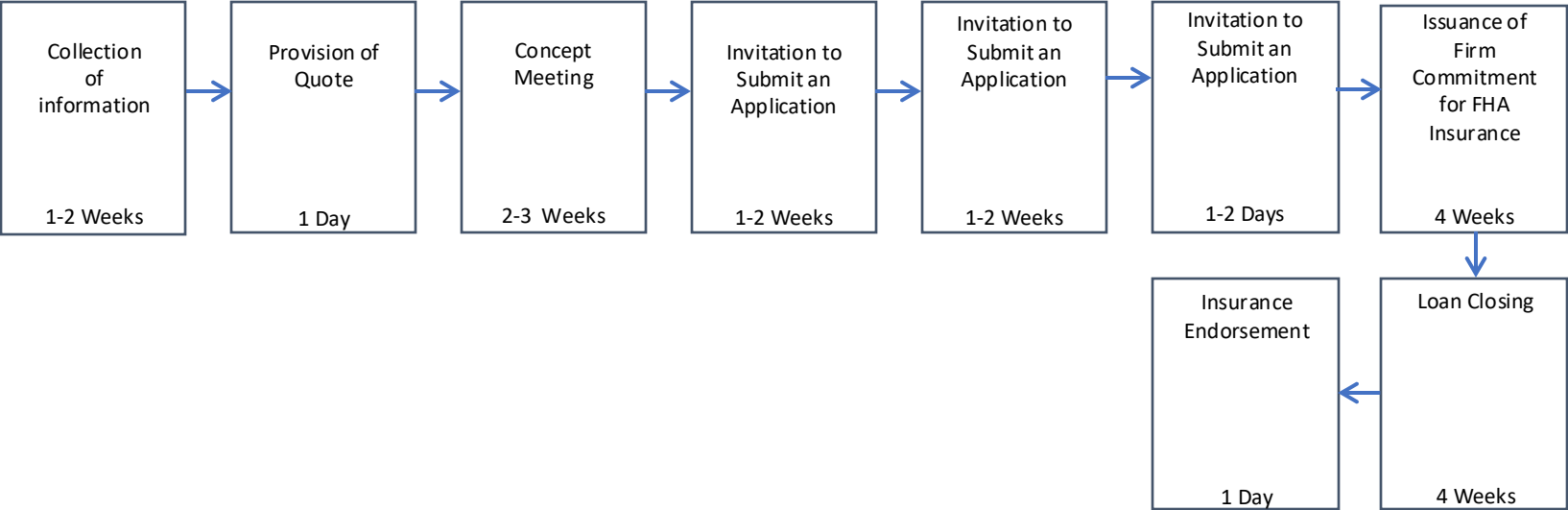
FHA Multifamily Rental Programs

- Acquisition and Refinancing – 223(f)
 - Existing properties
 - Profit motivated or non-profit borrowers
 - NON-RECOURSE
 - UNDERWRITING
 - 35 Year term and amortization
 - 85% LTV – no cash out, 80% LTV with cash out- Market Rate
 - 1.17X Debt Service Coverage – Market Rate
 - LTVs/DSCRs: 87%-90%;1.11x-1.15x - Affordable
 - INTEREST RATES - fixed rate, level-pay for the life of the loan.

- Substantial Rehabilitation and New Construction - 221(d)(4)
 - New construction or substantial rehabilitation (>\$40k per door) and permanent financing.
 - Profit motivated or non-profit borrowers
 - NON-RECOURSE
 - UNDERWRITING
 - 40 Year term and amortization
 - 85% LTV – no cash out, 80% LTV with cash out – Market Rate
 - 1.17X Debt Service Coverage – Market Rate
 - LTVs/DSCRs: 87%-90%;1.11x-1.15x - Affordable
 - INTEREST RATES - fixed rate, level-pay for the life of the loan.

FHA Insured Multifamily Loan Process – 223(f)

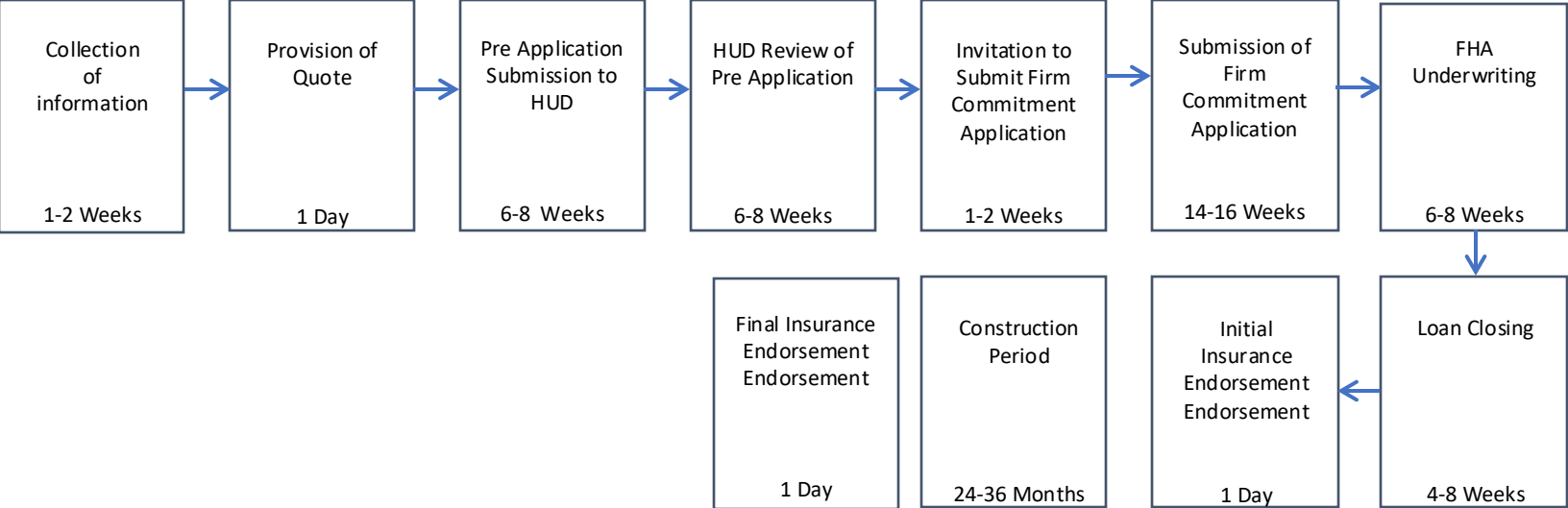
The following are the steps involved and time line for the creation of a FHA insured multifamily loan under the 223(f) Program:



Total Processing Time until Endorsement 20-27 Weeks

FHA Insured Multifamily Loan Process

The following are the steps and timeline involved in the process for the creation of a FHA insured multifamily loan under the 221 (d)(4) Program:



Total Processing Time until Initial Endorsement 40-52 Weeks

Poll Question 2

How much transparency do you require or receive from your lender on their loan pricing parameters and profitability?

FHA Multifamily Lending – Loan Pricing and Profits

- US 10 Yr. Treasury Bond Rates – Trending Downward
 - 10/23 - High of 4.99%
 - 8/24 - Low of 3.77%

- Lender Pricing Considerations
 - Application Fees
 - Financing Fees
 - Interest Rate
 - Mortgage Servicing Revenues

- Lenders Profits and the Black Box
 - Gain on Sale of GinnieMae Security
 - Value of the Mortgage Servicing Revenue

Poll Question 3

Does your companies asset management activity include loan performance and refinancing activities, strategies and opportunities?

- *Yes or No (show of hands)*

HUD Multifamily Updates

- Budget-Based Rent Adjustment for M2M Properties
- NSPIRE
- Green & Resilient Retrofit Program
- Green Mortgage Insurance Premium Reduction

Budget-Based Rent Adjustments for M2M

- Eligible properties can apply to HUD for a BBRA
- Rent adjustment would cover operating expenses or substantial rehab of the property
- Limited to 1 BBRA every 10 years
- Eligibility
 - M2M Property
 - Project income is insufficient to operate and maintain the property and no rehabilitation is currently needed; or BBRA is necessary to support commercially reasonable financing for rehabilitation necessary to ensure the long-term sustainability of the property.
 - Contract rents must be less than comparable market rents
 - All FASS findings resolved or subject to HUD approved action plan
 - MOR review within the last 3 years
 - Good Standing with HUD
 - No outstanding violations of Fair Housing laws with any property owned by the owners

Budget-Based Rent Adjustments for M2M

- Prioritization structure (Group A, B, C and D)
- Eligibility (Group A)
 - REAC Score below 30 (or previous 2 consecutive below 60)
 - Operating cost ratio less than 1.0
 - Owner Contributions in excess of \$3k/unit in most recent FY or \$1.5k/unit in each of 3 prior FYs
 - Vacancy rate is 25% or higher for most recent 24 month period
 - HUD disposition action
- HUD will consider Groups B, C and D at a later date

https://www.hud.gov/program_offices/housing/mfh/presrv/presmfh/aboutm2m/postm2mbbra

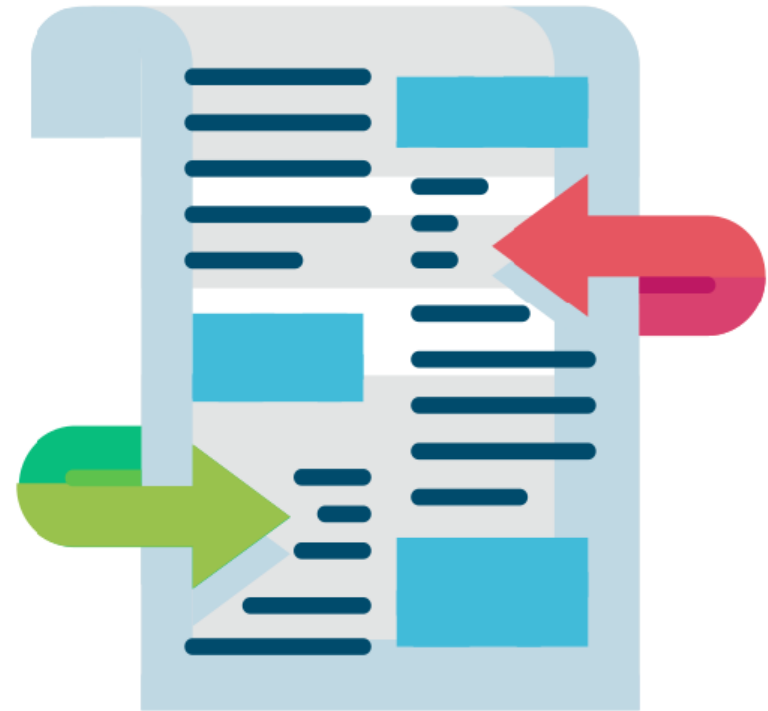
Poll Question 4

How well do you understand the changes related to move from UPCS to NSPIRE?

- *Very Well*
- *Basic Understanding*
- *Limited Understanding*

New Items in the Final Rule

- Standards review process at least every 3 years
- “Affirmatives” in regulation (e.g. GFCI outlets, lighting, HVAC, water safety)
- Removed site and neighborhood requirements for HCV
- New nomenclature for health and safety deficiencies: Life-threatening, Severe, Moderate and Low
- Life-threatening and Severe deficiencies correction requirements
- Self-inspections for Public and Multifamily Housing programs: all units, annually but collected only if score <60
- Administrative referrals to the DEC for scores 30 and below, or two successive scores <60



Changes from UPCS to NSPIRE

More Emphasis:

- Health, safety and functional defects

- Tenant units

Less Emphasis:

- Condition and appearance defects

- Areas outside of units

Objective Deficiency Criteria:

- Criticality levels do not exist within NSPIRE

- Removed subjective deficiency criteria based on feedback



https://www.hud.gov/program_offices/public_indian_housing/reac/nspire

Deficiency Rationales

Standards Notice includes rationales that describes the harm or negative result that could occur if that issue were to be present at a property

Rationales provide a clear and defensible explanation based on sound science

Health & Safety (H&S) make up most of the NSPIRE deficiency rationales because they are focused on the most critical elements that impact resident safety and habitability

Additional NSPIRE rationale examples:

- **Function and Operability**
- **Condition and Appearance**
- **Maintenance**
- **Structural**

H&S Determinations



Life Threatening



Deficiencies that, if evident in the home or on the property, present a high risk of death or severe illness or injury to a resident.

Severe



Deficiencies that, if evident in the home or on the property, present a high risk of permanent disability, or serious injury or illness, to a resident; or the physical security or safety of a resident or their property would be seriously compromised.

Moderate



Deficiencies that, if evident in home or on property, present a moderate risk of an adverse medical event requiring a healthcare visit; cause temporary harm; or if left untreated, cause or worsen a chronic condition that may have long-lasting adverse health effects; or that the physical security or safety of a resident or their property could be compromised.

Low



Deficiencies critical to habitability but not presenting a substantive health or safety risk to residents.

Core Health & Safety Focus



The eight focus areas are critical to the habitability and safety of residents



Poll Question 5

Have you applied for any of the GRP funding?

- *Yes or No (show of hands)*

Green & Resilient Retrofit Program

- Housing Notice 2023-05 – Green and Resilient Retrofit Program for Multifamily Housing
- Housing Notice 2024-1 – GRRP for Multifamily Housing Supplemental Notice
- Primary Goals of the Program:
 - Reduce energy and water use in HUD – assisted properties
 - Make assisted properties more resilient to extreme weather events
 - Reduce greenhouse gas emissions both directly and by using less Embodied Carbon

GRRP Funding Cohorts



Elements Awards

Owner driven
Specified investments



Leading Edge Awards

Owner driven
Ambitious initiatives



Comprehensive Awards

Comprehensive property assessments
Blending Elements and Leading Edge scopes

Element and Leading Edge: Designed to enhance efficiency and climate resilience in owner – driven recapitalization transaction

Comprehensive: Designed to focus on properties with significant need

Award Types

- Grants:
 - Affordability restriction of 25 years
 - No repayment needed if terms are met
- Loans:
 - Affordability restriction of 15 years
 - Payment – 50% of annual surplus cash paid to HUD (25% for elements)
 - Term – longer of the 1st mortgage loan term or 30 years
 - Interest at 1%

General Requirements - GRRP

- Follow all required application and closing deadlines
- Resident notifications, meeting and rights requirement
- Property specific disaster preparedness plan
- Utility consumption benchmarking
- Affordability commitment
- Post-construction cost certification
- Follow Build America Buy America guidelines (unless exempt), Section 3 employment opportunities for low-income persons, Davis Bacon for leading edge and comprehensive awards

<https://www.hud.gov/GRRP>

Green MIP Reduction

- Discounted .25% annual MIP for FHA insured mortgages
- Green Building Accepted Certifications:
 - For new construction and substantial rehabilitation buildings, MAP Guide Chapter 6.3.1.B specifies the following: Enterprise Green Communities Criteria; LEED-Home, LEED Home Midrise and LEED-New Construction; ENERGY STAR® New Construction Single Family (covers 1 and 2 family structures and townhouses); ENERGY STAR® New Construction Multifamily; ENERGY STAR® Multifamily Hi-Rise; EarthCraft House and EarthCraft Multifamily; Earth Advantage New Homes; Greenpoint Rated New Home; National Green Building Standard; Passive Building Certification from Passive House Institute US or International Passive Housing Association; and Living Building Challenge from the International Living Future Institute.
 - For existing buildings, MAP Guide Chapter 6.3.2.A specifies the following: Enterprise Green Communities Criteria; EarthCraft House and EarthCraft Multifamily; Greenpoint Rated Existing Home-Whole Building Label; and National Green Building Standard.

https://www.hud.gov/program_offices/housing/mfh/green#:~:text=All%20Borrowers%20with%20loans%20endorsed,of%20not%20less%20than%2075.

Evaluation Reminder

- Please submit all conference evaluations. Use the electronic evaluation link in your email.
- Contact consult.lwells@gmail.com if you do not receive the link.

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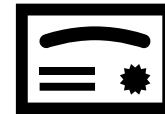
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Questions

- Are you involved in the financing strategy decision and process?
- Does your company's asset management activity include loan performance and refinancing activities, strategies and opportunities?
- How much transparency do you require or receive from your lender on their loan pricing parameters and profitability?
- Other than compliance reporting, how much do you leverage your property management companies for your financing activities/reporting and asset management?
- When do you look for refinancing opportunities:
 - Loan maturity based
 - Interest range changes
 - Material changes in operating performance