

HUD CNA eTool

How to Address Flags

Presenter: Great. As I was saying, welcome to the session and you're muted. You can unmute yourself by clicking on the red microphone with the slash through it. But for the beginning of this session, we'll commence with having everybody muted. We'll go through some slides. We will allow folks to unmute and ask questions about the presentation. And that whole portion of the session will be recorded and at that point, we'll turn the recording off and we'll proceed. I'll say a little bit more about that as we go forward.

As I said before, this is the virtual classroom session on flag notes. There are a series of these, all of them on areas of submissions that HUD has resulted in some returned submission. The four in the series are this one on flag notes, one on attachments and photos, on narratives and comments, and one on EUL, ARUL, and TCO.

Each of these sessions is being delivered four times and so, the total of these 16 sessions is an effort on HUD's behalf to communicate some of the issues and experiences that HUD has had in receiving applications during this early period in the life of the e-CNA.

As I said before, we're going to do this in two sections. There's going to be a recorded portion. This portion of the session is recorded. You're muted on entry, but other than that, you can control muting and unmuting yourselves. There's a chat box that you can use to communicate with me or with everybody. So if you have questions or if you're having technical difficulties, go ahead and post something in the chat box.

Through the recorded portion, we're going to cover some lessons learned and do initial questions and then we're going to turn the recording off and I'm going to unmute everybody so that we can interact in more of a virtual classroom setting. The intention here was to hold a series of webinars on each of four subjects, with smaller audiences, in a bid to facilitate and enable some dialog and communication between HUD and its partners with respect to CNA. So hopefully, we'll get to that point later. One of each of the four sessions will be posted on the HUD webpage for future reference.

You'll notice at the top right-hand of your screen are a couple of buttons that you have control over. One of them is the chat button. So if you don't have a chat window open on the right-hand side, you can click the blue chat button at the upper right-hand side, and that'll give you the ability to send me a note. And you can feel free to do that at any time.

So let's begin with the objectives here. Learning how to use the flag notes to help HUD quickly and efficiently review and accept your CNA is the primary purpose of this mini discussion. I'm also going to go over a couple of pointers about where to access available tools and resources. Many of these, you're familiar with, but I'm always, myself, discovering new tools and resources on the HUD webpage related to the CNA.

And I think, as I go through that section, you'll find some stuff that you might not have otherwise known was there. And then, of course, we're going to discuss problem areas, tools, techniques, tips, best practices, and so on and so forth.

So let's jump into discussion about the CNA e-tool. This is dated through March. HUD publishes this at the end of each month, so I don't have up to date data for April. However, through March, HUD received 367 CNAs, which is pretty substantial volume, as you can imagine, and just as you're getting used to and becoming familiar with how to submit CNAs electronically, so too are your partners at HUD learning how to review and process these. And I think they're having trouble in some areas and they're having good outcomes in others.

The next slide shows some interesting data on the numbers that have been processed. Getting some info that I'm not -- that the voice is not great. I can switch off of headset, if that would be helpful, but it just leaves me one-handed for the show here. So anybody else want to send me a chat or unmute and let me know whether I'm coming across okay? All right. If it persists, let me know and I will switch from headset to handset.

The slide that's up right now shows through March what happened to the CNAs that were submitted. So the big takeaways here are that 30 percent, roughly, are under review. 25 percent, or a quarter, the pink pie slice at the bottom, have been approved. But more problematically, slightly more than a third have been returned, and that's the genesis for this session and the other sessions that I mentioned at the top of the call.

Is to try to communicate from HUD's recent experience with hundreds of recent submissions what it is that they're experiencing in certain areas and what can be done to improve your ability to get in the pink space rather than the blue space on the slide that's in front of you.

I'm going to jump -- before we get into the flag notes discussion, I'm just going to talk a little bit about tools and resources. Obviously, the go-to page for everybody is the URL that you see on your screen there. There's a lot of great tools and resources and, in fact, the way that HUD is managing this sort of nascent world of the e-CNA and sort of be picked apart and understood on this webpage.

So let me just switch to that. All right. I believe everybody is now seeing my Google Chrome version of the HUD webpage for the e-CNA tool. Obviously, the assessment tool, as you see, is now up to version 1.2, version 6. They've been updating to a new version each month. Interestingly, if you click on that, it'll give you a summary of what's changed in version 6 and you can also click through to a document, which shows you exactly what had been changed since version 5. That's a useful point of reference and you might want to do that monthly.

Sometimes, the question is asked if version 6 is out, can I still use version 5? And the answer to that is absolutely, you can. All assessment tool 1.2 versions, 1 through 6, can be used. HUD requests for your own sake as well as theirs that any time a new CNA is started, it's started with the most recent version of the assessment tool that's been posted on this page.

An additional tool and resource that's available here that's super useful and is actually representative of how HUD is managing the evolving world of this system is the known issues and solutions document, which they call the KIS document. And as I scroll through it, you'll note a couple of things.

Sometimes, you'll find text in here that has been scratched out. And the reason that it's been scratched out is because it was a known issue and it's been resolved and is no longer applicable. So this known issues and solutions document is a living, breathing document that is kept current. This particular version is as of February 2018 and it should be updated at least every couple of months and it's a good place to reconcile the issues that you're having or understand the technical nuances of the program or of the e-CNA system.

Let me switch back to our regularly scheduled program. I'm not going to cover everything here. I don't want to focus too heavily on the webpage that you probably know and are familiar with, but I just wanted to point those couple of things out.

The ask a question resource is also accessible through the previously referenced webpage and the thing I'd point out to you about the AAQ, as HUD calls it, is that this is their primary source of feedback about what's working or not working with the assessor tool and the validation and submission engine.

So to the extent that you're having a problem, don't assume it's just you. Send it in and when HUD has a couple of questions on a particular point, that usually is a red flag and that, in fact, is what leads to their effort to address or reconcile the issue through known issues and solutions and then a second foray, a subsequent update to the assessor tool on the webpage.

So some of the issues that I've covered in summary, we're up to assessor tool v1.2 v6 as of April -- it was 4th, perhaps. There's a changes document on the page that I showed you that indicates what has changed since the last version. Various operational bulletins. I showed you the known issues and solutions document.

You can download the RFR financial factors tool. As you're probably familiar, this is no longer required as an attachment to your submission. And then, there is -- just to point out for your own benefit, there is a presentation, a PowerPoint presentation, downloadable from the HUD e-CNA webpage on RAD transactions. And if you're doing RAD transactions, strongly recommend that you go to that and take a look at that presentation.

So let's get into flag notes. Some general notes about flag notes. One is that, obviously, you cannot submit with an S flag. So if your validation is produced S flags, there's something fundamentally wrong that needs to be changed in the e-CNA as it's represented on your assessor tool and you have to fix those until a validation of the assessor tool didn't produce any S flags. I think that's known and understood widely.

Secondly, I'd point out that when it comes to W flags, or warning flags, HUD requests that you try to ameliorate or resolve or eliminate those through changes to the assessor tool. But if that's not necessary because of the particular pattern that you're dealing with, then you will need to, at

a minimum, have a flag note comment in response to the generated flag note in the system for W flags. Comments are not necessary for I, or informational, flags.

You have two choices, but, really, you only have one when it comes to how to submit your flag note responses. Technically, you can submit them into the submission portal, but there were some problems in early versions of the validation process and HUD permitted a workaround for the submission of flag notes. Which is essentially allowing you to export the flag notes as an Excel file and enter your flag notes into the Excel file and then upload that as an attachment with your submission. And I'll say a little bit more about that in detail, but I just wanted to cover it broadly and generally at first.

The flag notes workaround shows up in detail in the known issues and solutions document, and this happened early on. There was a period where some CNAs submitted between December 16th and March 2nd lost the flag notes in the submission process. I think, frankly, most people were managing the flag notes in sort of an ancillary Excel file.

And so, HUD's workaround was to permit people to simply submit that file as an attachment. So let's talk about how to do that. The first step you do is validate the CNA. The second step is you would download the flags notes after you validated and save it as an Excel file.

A couple of key points to make here. Some of the returned CNAs can be traced back to the flag notes that are generated in the system are not matching the Excel file submitted by the lender with the submission of the CNA. And we expect that the reason that this has occurred is that somebody has gotten out of sync and the deal has changed since they prepared their flag notes Excel attachment.

And when they went and submitted their Excel notes flag attachment file, it didn't match the flag notes generated by the system. So HUD is requesting everybody be alert to that and make sure that the flag notes file that you have matches the flag notes that are being generated by the assessor tool that you are uploading as part of your e-CNA submission.

If you're going to use the Excel file, there's absolutely no need to enter your notes into the flags panel of the submission portal. So we said before, lender or owner response should be completed for all W flags. The next point is probably worth the price of admission. There's often questions around whether identical items can be -- the flag note response can simply say see an identical flag note response for identical item.

And the answer to that is yes and no. HUD is happy to accept a reference to another response if it's an identical item from a different building or a different unit. However, if it's a different component, HUD is looking for an individualized response, and I'll show you some examples of that so that you can begin to pick up on the nuance of when a unique flag response is expected by HUD relative to a response that simply refers to another item.

What you're looking at now is a sort of in-process invention by HUD to help manage the flag notes process in a way that wasn't possible in an early iteration of the system. They've added the ability to generate occurrence numbers. They were always flag IDs and each flag ID ties to a

particular item of validation in the system. But the occurrence number allows HUD to track flag notes individually.

So there will be only one flag DA-005 occurrence 1, but there could be multiple DA-005s. So in your responses, it makes it easier for you to reference to a unique ID, and HUD asks that you do that so that if you have a response to an existing -- or if you're referring to an existing response that's elsewhere, you can simply say see DA-005, occurrence 1, if you believe that that is the same issue and can be satisfied that way.

Below, you'll see kind of a screen clip of the exported Excel file in which the lender or owner is responding and you'll see, for instance, DA-005, occurrence 1 and occurrence 2. And in this particular case, the responses are different. You'll note the first response for occurrence 1 says the Fair Housing Act covered unit is not fully compliant. The deficiency has to do with nor with clearance, and it's been cited as a critical repair.

In the next response, it's the same flag ID because it's substantively the same issue, but it has a different fact pattern. And in occurrence 2, there is a unique response in which it says the deficiency has to do with threshold height at shower and has been cited as a critical repair.

This is sort of being pulled up for you by HUD as an example of how they want to see these. And as you can imagine, with hundreds of these submissions, they are all over the place with respect to how they've been constructed in the flag note -- in the owner or lender's flag note responses.

Some sort of general philosophy about flag notes, the flag notes thematically that HUD is having problems with have with deflective answers. And they're asking that the answers be more oriented toward the rationale behind why a particular recommendation is both reasonable and appropriate.

Here's an example. A flag might say that not enough units were sampled in building 2. As you're aware, that's a simple algorithm that the machine language or the software processes. And an inadequate response to the flag note might be that enough total units were sampled.

But HUD finds that that doesn't answer the problem of not enough sampled in building 2. So a better response in that pattern might be to say we picked the right number of units in building 2, but we weren't able to gain entry so we substituted similar units in other buildings.

The difference between those two, probably on a single item basis, might not add up to a returned CNA. But I think commonly, what happens is that it isn't one item, but it's a number of items that are approached in this way, which in the aggregate wind up resulting in a returned CNA.

Here's yet another example. You might have concluded to a 25-year useful life for an alternative, which is different than the EUL for that component ID. And a bad explanation in that case might be to simply say, well, it's different than -- it's a different -- the alternative is different from the component ID. And what HUD would like to see is the rationale about why a longer EUL is appropriate in that particular case.

Some of the same things we already discussed, but in a little bit more detail, this is an actual example that came across, and you saw the slide before talking about this generally. But this is the actual experience of a HUD reviewer in which the flag note said not enough units were inspected for a particular building. And the owner responded -- or the lender responded that we inspected X of Y units at the property, but it doesn't really speak to the units in the building.

And the HUD reviewer went in and said, well, yes. You did inspect a number of units for the property overall, but the MAP guide requires building distribution of that inspection. And on analysis, your building distribution ranges from less than 10 percent to more than 50 percent, and it asks why. And when they ask why, it means they're returning it.

So this was hopefully a good illustration of principle for how to write flag notes so that they don't result in a returned CNA. This is carved out of a larger page. I made the slide larger so that you could see it. I was afraid that there was too much data on a small screen. But in this particular case, this is an example of a needs assessor's well-prepared draft flag note explaining the warning flags that occur when the EUL is entered for an alternative, which differs from the supplied EUL, which is the EUL for the existing component type.

In this particular case, the same flag ID is triggered. I think I have -- the next slide maybe I show the detail. Let me just check. No. All right. So you'll have to trust me on the flag ID generation, which I-- as I said, I took out because it didn't really fit. But the point being here that the occurrences have different explanations. The first three are the alternatives supplied as possible replacements of old existing aluminum frame windows.

All of the alternatives are high-performance vinyl-clad wood windows, but they have differing features and price points. That is, some of them are double insulated. Some are triple insulated, solar shield, et cetera. The first of the three is the recommended alternative and the other two were not recommended. The notes make this clear and explain why the alternative windows have a different longer EUL than the standard EUL for the existing component.

So at this point, I'm going to allow you guys or encourage you to unmute yourselves. I'm not going to unmute everybody for fear that we're going to get some background noise. But I'm going to open it up to questions on the material presented thus far and then, after we've gone through a couple of questions and discussion, we're going to shut the recording off and open it up for sort of a fuller sort of classroom dynamic.

So if there are any questions on what was presented, let me know, and if you'd prefer to be anonymous, you can just chat me privately and I'll read out whatever you send in. I'll give you a second to compose your thoughts and think about whether anything that you've been presented with thus far doesn't make sense or doesn't sort of conform to your experience.

All right. I don't have any questions coming across and so, I'm going to shut off the --